

**Forgotten Lessons
Selected Essays of John T. Flynn**

Edited by Gregory P. Pavlik

**The Foundation for Economic Education, Inc.
Irvington-on-Hudson, New York**

Forgotten Lessons: Selected Essays of John T. Flynn

Copyright © 1996 by the Foundation for Economic Education, Inc.

All rights reserved. No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval systems without permission in writing from the publisher, except by a reviewer, who may quote brief passages in a review.

The Foundation for Economic Education, Inc.
30 South Broadway
Irvington-on-Hudson, NY 10533
(914) 591-7230

Publishers Cataloging in Publication
(Prepared by Quality Books Inc.)

Flynn, John T. (John Thomas), 1882–1964.

Forgotten lessons : selected essays / of John T. Flynn ; edited
by Gregory P. Pavlik. — Irvington, N.Y.: Foundation for Economic
Education, 1995.

p. cm.

Includes index.

ISBN: 1-57246-015-6

1. United States—Politics and government—20th century.

2. United States—Economic Policy. 3. New Deal, 1933–1939.

I. Pavlik, Gregory P. II. Title.

E806.F59 1995

973.917

QBI95-20332

Library of Congress Catalog Card Number: 95-61370

First edition, October 1995

Cover design by Beth Bowlby

Manufactured in the United States of America

Table of Contents

Foreword by Thomas D. Flynn	v
Introduction by Gregory P. Pavlik	1
I. MACHINATIONS AND MANIPULATIONS OF THE STATE	
Whose Child is the NRA?	9
Forgive Us Our Debts	23
Mr. Hopkins and Mr. Roosevelt	37
The Case Against Deficit Spending	47
The New Deal: An Old Racket	54
The Experiment: "Noble in Purpose"	60
The Hand in Your Pocket	66
II. THE MENACE OF MILITARISM	
The War Boom Begins	83
Can Hitler Beat American Business?	98
Our Phoney War on Communism	110
Militarism: The New Slavery for America	115
A Rejected Manuscript	129
III. FREEDOM AND THE FUTURE	
Coming: A Totalitarian America	137
Eggheads through History	144
Communists and the New Deal	151
What is Senator McCarthy Really Trying to Do?	157
The Dark Alliance	161
Two Rackets of the UN	167
The Road Ahead	173
Index	193

Foreword

I am pleased and honored to write a preface for the publication of selected papers of my father, John T. Flynn, which provide us with many "Forgotten Lessons." These essays also tell us much about my father's character and his penetrating understanding of the principles of political economy.

My father was a strong and vocal supporter of the free enterprise system, and equally opposed to government-planned and -controlled economies. Communism and Fascism are the best examples of such economies, but mixed economies have many of the same characteristics.

My father was a true liberal as it was defined prior to World War II. He was also a highly regarded and respected liberal, in the forefront of his profession of journalism. Back at the end of the First World War, I clearly remember standing on the steps of the courthouse in New Haven to help celebrate Armistice Day on November 11, 1918. At the time, my father was Managing Editor of the *New Haven Register*, the principal newspaper in that city. On that day of celebration, as an editor he was truly on top of the news since he was flying overhead in an open cockpit in a small single engine plane. It was a thrill for me to know that he was there.

A few months later, we moved to New York City, and in the early twenties he became Managing Editor of the *New York Globe*, one of the top newspapers in New York City. Not too long after that, he was elected president of the Dutch Treat Club, where the top editors and reporters got together for lunch and to hear politicians, businessmen, and others speak on pertinent subjects and to answer their questions.

At that time, most of those in the newspaper field were staunch supporters of the Constitution as originally adopted; that is, they believed that the role of the federal government was quite limited. And they also believed in the free enterprise system. There were few leftists in their midst.

Since then, the term "liberal" has undergone a radical change in meaning, and now means almost the reverse of what it meant when my father was practicing his profession before World War II. Under the present-day meaning of the word "liberal," my father would now be called a conservative. In addition to his strong views about the

superior qualities of the free enterprise system and the need for a diminished role for the federal government, he was a firm believer in high standards of morality for the family, and for the communities in which the families lived and raised their children. In his later years he was subject to heavy criticism, much of it slanderous, but I never heard anyone questioning his personal integrity. In his search for the truth as a journalist, he had great respect for all obtainable facts and information required for reaching judgmental decisions.

The passage in 1913 of the Constitutional Amendment to tax income greatly increased the power of the federal government to control and regulate the economy, but the exercise of this power was quite modest until the New Deal and World War II. This power, together with the gigantic demands of the war, resulted in an enormous involvement of the federal government in the total economy of the nation. And with it came much more sympathy by the general public and the media for socialistic and planned government programs. Support for these programs also prospered in colleges, universities, and religious groups. The Welfare State was beginning to get a firm foothold on our shores.

Before World War II, my father was much opposed to our entry into that war for the reasons set forth in the second section of the series of selected papers under the heading "The Menace of Militarism." He believed that it was beyond dispute that we need sufficient military preparation and power to defend against any invasion of our country, but he was strongly opposed to sending our military forces to distant places in the world. History had taught him that such wars almost invariably resulted in great damage to the economies of the countries which conducted those wars, that they resulted in inflation of the currency, heavy deficits, and crushing burdens of debt. In the case of Germany after World War I, their debt was eliminated by superinflation. Their postwar marks—the rentenmark—was equal to one trillion prewar marks.

Our present deficits are out of control. Many political leaders talk of reducing our deficits. But they really only plan on reducing the rate of increase—and by very little at that. My father's opposition to the Welfare State was based in part on the use of deficit financing to support our many "humanitarian" programs.

As we all know, the professional study of economies has made considerable and commendable progress but it is still far from an exact science. It is much more complicated than most scientific studies which rely on mathematics to solve their problems. The principal reason is that few of the assumptions for the mathematical formulas are homo-

geneous and complete. Therefore, intelligent and reasonable people can arrive at different answers. However, it seems clear to me, as it did to my father, that the free enterprise system has clearly proved over an adequate period of time its superiority over Communism, Socialism, and other planned economies.

Before you begin the reading of my father's papers, I hope you will read Greg Pavlik's excellent Introduction which gives much needed background information.

THOMAS D. FLYNN

May 8, 1995

Introduction

From the time of the founding of the American republic, a tension has existed between the proponents of centralization and political control and the advocates of freedom and limited public power. This conflict manifested itself during the ratification debates as the Federalists and Anti-Federalists contested over the proper role of the central government. The ratification of the Constitution rested on a compromise that incorporated the Bill of Rights as a formal re-affirmation of the limited authority of the new government. These ten amendments made explicit the limitations on the government's reach. The last two preserved all non-delegated functions to the states and to the people.

In the early decades of our national history, this tension existed within the confines of constitutional authority. The Jeffersonians laid strong emphasis on the restrictive nature of the document that described the limits of national government, conflicting with advocates of a strong central state who followed in the footsteps of Alexander Hamilton. Yet, even proponents of the extreme Hamiltonian position would have been at odds with the arbitrary and unconstitutional edicts issuing from Washington today. The Hamiltonians were conservatives of a staunch stripe who would have scoffed at the notion of a redistributive state. Much less would they have tolerated the destructive social engineering and egalitarianism that is the hallmark of the U.S. federal government today.

This raises an important question: how did this metamorphosis of the role of the federal government come about in a country marked by its legacy of freedom? Perhaps no one incident can rightly be pinpointed as the defining event at which we ceased to understand our relationship to Washington in the manner of our forefathers. Our history of participation in wars of one form or another had accustomed the citizenry to accept political controls, if only for the duration of the conflict. The great and awful War Between the States saw a vast centralization of political power established in the North, complete with the unconstitutional suspension of *habeas corpus*, military trials and executions of civilian critics of the general government, martial law, abolition of representative institutions within the states by executive fiat, and a host of other abuses. Ironically, the war itself originated over the abuse of federal power.

The notion of the United States as an indissoluble union that prevailed after the victory of the troops in blue marked a transition in the understanding of the citizen's relationship with his state and the federal government. The ensuing Reconstruction marked the first large scale effort at social engineering by the newly "united states." In time, much of the hysteria and demagoguery of the war faded. Although a precedent had been struck for a despotic central government to function with legitimacy, the nation thrived in a period marked by the policy of *laissez faire*. The years between 1868 and 1898 were, for the most part, free of U.S. involvement in international conflict. Despite the lurch into imperialism during the Spanish-American war, the country entered the new century with the energy and vibrancy characteristic of a society in which the individual with initiative and entrepreneurial talent was free to make what he could of the world.

At the same time, intellectual and political voices began to rise in complaint against the insecurities of the free market. Socialism and socialistic ideals spread to these shores, carried by waves of restless energy from the beaches of Europe. The often bitter struggles between labor and capital increased sympathy for federal intervention in such matters to defuse what some feared might be a situation rife with revolutionary potential. Whether through commitment to the delusions of socialism or a kind of expediency that attempted to placate an envious and discontent proletariat, measures aimed at the well-to-do were passed by the Congress. The Constitution was amended in 1913 to accommodate a tax on the income of the wealthy. In point of fact, these measures were first steps down the slippery slope of statism. As Ludwig von Mises showed, intervention perpetuates itself.

Collectivism and regimentation accompanied the Great War. And although much of the regulatory apparatus of the war was dismantled, the antipathy and hostility toward an activist central government was steadily diminishing. The sympathy for the use of political force to confront economic problems climaxed in the face of the Great Depression. Herbert Hoover has been portrayed in establishment history as an immobile champion of *laissez faire* in the face of the collapse of the market from the weight of its own failings. Contrary to this legend, Hoover responded vigorously with interventionist measures to combat the national economic down-turn, inevitably confounding the problem further. The stage was set for the ascendancy of Franklin Delano Roosevelt and that most audacious peacetime leap into statism, known as the New Deal.

It was against this giant step into interventionism, planning, and

collectivism that an amalgam of writers, politicians, and public figures reacted with a fury. These figures, a diverse lot, consisted of conservative Democrats, Midwestern populists, moderate Republicans, libertarian journalists, and many others of varying hues of political character. As the second war in a generation loomed large on the horizon in Europe, they appealed for an American policy of neutrality, non-intervention, and peace. This confederation—based on opposition to the policies of the Roosevelt regime—formed the nucleus of the Old Right. Among its ranks it counted such luminaries as the literary giant H.L. Mencken and the distinguished Senator from Ohio, Robert Taft. The Old Right battled the encroaching power of the state on the twin fronts of domestic and foreign policy. The movement lost on both counts, and was eventually driven out of the public square by the Cold War consensus, which required the advocacy of a powerful and intrusive central government.

Although personalities like Albert J. Nock still receive lip service from the conservative movement of today, most of the Old Right sages are forgotten. Among the most prolific and influential of the Old Right stalwarts was John T. Flynn (1882–1964). Flynn was a libertarian and isolationist, an arch-opponent of FDR, and a nationally known journalist of wide influence. An iconoclast, he provided withering criticism and trenchant commentary on a range of issues.

Flynn began his prolific career as the author of a plethora of books and articles on topics related to finance. He was a political liberal, and even had a regular column in the *New Republic*, the flagship publication of the left-leaning political creed. At the *New Republic*, he was the leading expert on finance capitalism. He was an assistant to Senator Gerald P. Nye in his famous investigations of the armaments and munitions industry. Flynn was a lecturer at the liberal New School for Social Research and he also served on the Board of Higher Education in New York City. In short, his liberal credentials were impeccable.

Yet, the liberalism of John Flynn was an older liberalism that traced its roots to the classical liberal thought of the seventeenth and eighteenth centuries. Flynn believed in competition and in freedom. So, when the liberals of the thirties began to fall in line behind Roosevelt's New Deal, with its monstrous spending policies, its mountains of bureaucratic agencies, and its drum-beating for U.S. belligerency abroad, Flynn revolted from the pack. His consistent opposition to the machinations of the Roosevelt presidency lost him his job with the *New Republic*. Flynn devoted himself full time to leading the New York City chapter of the America First Committee, the leading non-interventionist group in the country before the Pearl Harbor attack.

As the progressive historian and champion of World War II revisionism Harry Elmer Barnes explained, "Probably the most extreme job of smearing ever turned in on a liberal who attacked the foreign policy of Roosevelt was done on John T. Flynn. . . .

[W]hen Flynn became a leading member of the America First movement and began to oppose President Roosevelt's war policy, his erstwhile liberal admirers, who had taken to war-mongering, turned on him savagely. Their animus increased when Flynn revealed the fascist trends in our war policy in his book, *As We Go Marching*, and when he told the truth about Pearl Harbor in two trenchant brochures. Since that time he has been the victim of incessant smearing by the totalitarian liberals and the interventionist crowd. They have done their best to drive him into penury and obscurity.

After the war, Flynn never lost the principles that made him a hero among the partisans of the Old Right. Staunchly anti-Communist, he nevertheless opposed the U.S. arms build-up and military posturing of the Cold War as adamantly as he had opposed intervention in World War II. Instead, Flynn attacked the domestic socialism that he saw as a "creeping revolution" right here at home. His consistent isolationism won Flynn little admiration among the global anti-Communists at *National Review* where he was refused an outlet for his criticism of militarism. When William F. Buckley Jr. returned a solicited article (reprinted in this volume for the first time as "A Rejected Manuscript"), he commented in his letter, "This piece just isn't what I had in mind," and enclosed a check for \$100.00. Flynn returned the check, and the incident effectively severed his relationship with the young *National Review*.

When Flynn died in 1964 he was an outcast from both the then-fashionable varieties of liberalism and conservatism. His life was a testament to his character—he refused to compromise his deepest convictions for the affection of trendy demagogues of any political stripe.

This collection of essays and articles provides a small sampling of Flynn's work, as well as a look at some of the great themes that animated the Old Right. The articles and essays in this volume were chosen to highlight Flynn's advocacy of limitations on the intrusive, interventionist state, and the disastrous consequences of allowing those limitations to relax. Many of his warnings revolve around the dangers of economic planning and political manipulation of the mar-

ket, debt financing of government spending, militarism, and war. Flynn regarded each of these evils as interrelated. In his view, interventionism on the domestic front leads inexorably to intervention in foreign affairs. Thus, Flynn regarded U.S. intervention in World War II as the inevitable consequence of Roosevelt's New Deal policies. In many ways, Flynn was the first to outline the true nature of the twentieth-century welfare-warfare state.

This is troubling stuff for a generation of conservatives raised on the military Keynesianism known as Reaganism. But the Cold War is over, and the conservatism of the welfare-warfare state has little to offer to a new era. The wisdom of an older generation beckons. If we have the good sense to pay heed to the lessons offered by Flynn and his Old Right cohorts, we may summon the courage and moral authority to harness the Leviathan let loose by the Roosevelt revolution. We can then bequeath the next generation a nation dedicated to the forgotten principles of peace and freedom.

This project could not have gotten off the ground without the enthusiasm and encouragement of Dr. Hans Sennholz, President of The Foundation for Economic Education. In addition, I would like to thank Mary Ann Murphy, Kyle Swan, Bill Watkins, Beth Hoffman, and Bettina Bien Greaves, members of the Foundation staff, for their assistance in the various stages of the preparation of this book. Any criticisms of this collection reflect upon me alone.

GREGORY P. PAVLIK
January 1, 1995

I. MACHINATIONS AND MANIPULATIONS OF THE STATE

Whose Child is the NRA?

That which follows will serve as notes for the future historian who looks back upon this confused decade buried under a mass of labels and false names. We shall, if you please, not trouble ourselves with the virtues or vices of the National Recovery Act (NRA). We shall concern ourselves wholly with the somewhat befogged problem of its parentage. We shall, in short, follow the movements of all the gentlemen who were known to have been hanging about or frequenting the birth-place within the significant period preceding the parturition.

There is a notion that NRA is the monster child of the Brain Trust. Whenever NRA bares its teeth and puts some little tailor in jail for pressing pants at a discount, the enemies of the Administration point their fingers in scorn and hatred at that flaming red rascal, Tugwell¹, who is supposed to have sovietized the good old U. S. A. through the NRA. Mr. Ogden Mills² denounces the Administration for its un-American conspiracy to "regiment" American business and life, and Mr. Mark Sullivan³ explains at least once a week that this is the prime objective of the Brain Trust, which plots remorselessly for the Russification of the land of the free.

Now, as a matter of simple fact, did the Brain Trust hatch out the NRA? Or did the American Federation of Labor do it or assist in doing it? Or can it be that it was the work of persons who have for years been contributors to the Republican campaign funds?

The NRA has been called the Charter of Labor. It has been called the Magna Charta of American business. It has been called some other things. But if it is really a charter of anything at all, perhaps we can settle the point by laying our finger upon the gentlemen who inspired and drew up the charter.

Important social events always get shrouded in a maze of contradictory yarns. The historian who tries to unravel, for instance (as I

This chapter originally appeared in the September 1934 issue of *Harper's Magazine*.

¹Rexford Tugwell (1891–1979) was an economist who taught at Columbia University from 1920 to 1937, served as an advisor to FDR from 1933 to 1945, served as Undersecretary of Agriculture from 1934 to 1947, and served as Chairman of New York City Planning Commission from 1939 to 1941.

²Ogden Mills (1884–1937) served as U.S. Secretary of Treasury from 1932 to 1933.

³Mark Sullivan (1874–1952) was a journalist, columnist, and political commentator.

once attempted), the origin of the Sherman anti-trust law discovers that very little is extant in the way of records from the principal actors at the time of the event. I have, therefore, undertaken to speak, if not with all, at least with a large number of the persons who took part in the first stages of the formation of the NRA. What follows, therefore, is based upon a number of personal interviews and no little correspondence with many of the chief actors and many who sat about in the role of front-row observers.

II

The actual business of putting together the NRA began in March, 1933, after Roosevelt took office. But one must look far beyond the throb and pothor of those feverish days to understand the swift succession of moves and the cast of characters behind them.

Regimentation of American life means forming society into regiments, subjecting it to orders, drill, commanders. Employers divided into numerous small units, employees unorganized, consumers acting as countless unattached persons—this is the picture of an unregulated society. Regimentation of business means, in the minds of those who use the term, forming businessmen into regiments, bringing business under regulation, controlling production, prices, trade practices, the rules of the game. For seventy years at least business men have been, in varying degrees, in favor of this. The government has been against it.

Later on the Chamber of Commerce of the United States raised the slogan of "Self-Rule in Industry." This was not a struggle to shift the control of industry from the government to industry itself. Industry wanted not freedom from regulation but the right to enjoy regulation. It clamored for the modification of the Sherman and Clayton anti-trust acts so that employers might unite to fabricate and enforce regimentation of industry through trade associations.

Now to be fair we must look at the business man for what he is. He is not an economist or social reformer, but just a city boy trying to get along. Getting along means profits. Profits, he imagines, mean prosperity. The continuous functioning of the industrial machine with employment for all depends on profitable business. He sees his enterprise threatened by a glut of goods which society cannot buy. He sees new inventions, ruthless and unscrupulous competition, rivals paying starvation wages, menaces to his solvency. He sees his business, everybody's business, made profitless by trade practices which are the fruit of desperation and dishonesty and greed. He thinks the face of com-

mercial society could be changed by compelling men to be, first, honest and, second, sensible.

He wants trade associations, therefore, to be empowered and implemented:

First, to give the industry the benefits of scientific research;

Second, to bring to each competitor the fruits of economic research—the light which statistical data can give the intelligent enterpriser;

Third, to restrain over-production. Unsaleable surpluses lead to price-cutting, shut-downs, unemployment, and, at intervals, depressions. By limiting production, restraining capital extensions, assigning production quotas and territorial concessions, the curves in the business cycle can be smoothed away, every producer can be made safe and strong and—alas for the frailty of mathematics!—an industrial society made up of solvent and prosperous units will be itself solvent and prosperous. That the whole is not equal to the sum of the parts, as has been suggested in these pages by Mr. Henry Pratt Fairchild⁴, does not enter this business man's head.

Fourth, to check all unfair practices—false advertising, false labelling, trade-mark and style marauders, personnel raiding, quality pinching, bad credit practices, excessive service accessories and—worst of all—price cutting, and all the other desperate devices which mark the mad scramble for business. Surely these are evils. What objection can the healthy mind invent to oppose these worthy objectives? And there is but one way to deal with them—to permit trade associations to unite, to make rules governing the trade and to enforce these rules with proper penalties. To do this the business man asks us to modify the Sherman anti-trust law, which makes it a crime for business men to deal with these difficulties.

This, of course, is putting the matter in its best colors. There can be no objection to establishing ethical standards in trades to make business more civilized. But, unhappily, making rules of decent competition to protect the honest dealer and safeguard the customer and the worker is one thing; while making agreements to resist the worker and strip the customer through high prices in order to swell profits is quite another. And experience has shown that it is this, rather than the nobler ethical objectives stated above, which self-rule is designed to make possible.

⁴Henry Pratt Fairchild (1880–1956) was a social scientist and professor at New York University.

One footnote should be added here. Raising prices in a society where the vast majority have not the means of buying at low prices, and limiting production in a population which falls so far short of possessing even the simple necessities of life, can scarcely be termed socially constructive statesmanship. The heart of our problem lies in the inequalities of the system in distributing the fruits of its labor, and behind that lie the as yet unexplored mysteries of the profit system itself. Those who insist that the profit motive is still essential in a society like ours may yet admit that excessive profits make the smooth functioning of the system impossible; that, while great profits are permissible, our economic machine cannot run without capital debts, and that these capital debts in the end produce depressions with appalling inevitability; that control of our economic machine without controlling profits is utterly impossible; and that you cannot possibly control profits so long as you lodge control in the hands of the one class which is interested in keeping profits up—namely the enterpriser or employer.

I do not wish to argue these points but merely to state the other side of the question. However, there is one thing we may all concede here. It is that, whether the Chamber of Commerce is right or wrong, the objective it holds in view—self-rule in industry to control prices, production, and trade practices in order to safeguard solvency and profits—is not a revolutionary one and, by no stretch of the imagination can it be said to have originated in Moscow. What is more, the whole idea was fully developed before the members of the Brain Trust had reached swaddling clothes and before the phrase Brain Trust itself was coined.

In 1925 the Trade Relations Committee of the Chamber of Commerce of the United States was formed to stimulate interest in what were called trade-practice conferences under the auspices of the Federal Trade Commission. Trade associations adopted codes of practice (a term President Roosevelt in his latest book intimates was invented under the NRA). Assistant Attorney-General William J. Donovan ruled that such codes might be submitted to the Trade Commission and the Department of Justice for scrutiny before adoption. If they were confined to eliminating objectionable trade practices they were approved. Price fixing and control of production were banned because illegal. Over forty such codes were adopted. When Mr. Hoover became President he promptly ended the practice because, while the codes themselves were innocent enough, the trustees or directors of the trade associations, under the shield of the code, sanctioned agreements about price and production and competition which were illegal

and, as Mr. Hoover's attorney-general said, no government authority could possibly police these codes.

Then came the crash of 1929. Unemployment grew at an alarming rate. In February, 1931, the Chamber named a group called the Committee on Continuity of Business and Employment, with H. I. Harri-man as chairman. In October, 1931, that committee made its report. After examining the causes of the depression the committee put forward a long-term program. That program it prefaced by the following statement:

A freedom of action which might have been justified in the relatively simple life of the last century cannot be tolerated today, because the unwise action of one individual may adversely affect the lives of thousands. We have left the period of extreme individualism and are living in a period in which national economy must be recognized as a controlling factor.

This was not Berle⁵ or Tugwell or Moley⁶ talking, but the Chamber of Commerce. It then proposed:

1. Control of production to balance consumption.
2. Modification of the Sherman anti-trust law to permit business units to enter agreements to control production under government supervision and with full publicity.
3. A national economic council made up of leaders in all walks of society and the Department of Commerce, under the auspices of the Chamber of Commerce.
4. Unemployment insurance, old-age pensions, and unemployment exchanges.
5. Shorter hours in industry.

About the same time Mr. Gerard Swope⁷ announced his Swope Plan, which proposed the recognition of trade associations under a modification of the anti-trust laws, with power to outline trade practices, "stabilize" production, regulate prices, set up methods of accounting, and establish workmen's compensation, unemployment in-

⁵Adolf Berle (1895–1971) was a lawyer who served as Assistant Secretary of State from 1938 to 1944.

⁶Raymond Moley (1886–1975) was a journalist who served as Assistant Secretary of State in 1933. He was a member of FDR's "Brain Trust."

⁷Gerard Swope (1872–1957) was an electrical engineer who served as President of General Electric (1922–39; 42–44), member of the first National Labor Board in 1933, on the Advisory Council on Economic Security in 1934, and as an advisor to the Council on Social Security in 1938.

surance, disability, and old-age insurance and employee representation.

One other movement was on the fire. The Chamber named another group called the Committee on Work Periods in Industry, under the chairmanship of Mr. P. W. Litchfield, president of the Goodyear Tire and Rubber Company. It set to work in the summer of 1932 and in September made a preliminary report endorsing the Share-The-Work movement. This had been launched by a committee under the auspices of the National Conference of Federal Reserve Business and Industrial Committees, and was headed, I believe, by Mr. Walter Teagle of the Standard Oil Company of New Jersey. Private relief was running out. State and local funds were being exhausted. Higher income taxes loomed. The only other alternative was to shift the burden of relief to the backs of those workers who still held jobs, by getting them to share their work and pay with their unemployed brothers. Moreover, the committee concluded that employers should be permitted to unite to make agreements to shorten hours and adopt minimum wage scales to protect workers as well as employers from the demoralizing effect of sweatshop competitors. The notion that the shorter hours and minimum-wage agreements of the Codes were forced on business is a pure fiction. Business wanted the opportunity, by agreement, to force it on the unwilling ten percent.

Thus, then, the matter stood at the end of 1932 as Hoover prepared to move out of the White House. The Chamber of Commerce and what is called Big Business had a program which included (1) modification of the Sherman anti-trust law; (2) self-rule by trade associations under codes of practice to regulate production, prices, and trade practices; (3) authority to shorten hours and establish minimum wages; (4) a long-term plan for setting up unemployment, disability, and old-age insurance.

And then came March, 1933, the end of the Hoover era and the inauguration of Franklin D. Roosevelt and the New Deal. We may now gather round the cradle of the NRA.

III

The beginnings of this adventure are to be found in that vast circular disorder, that frantic succession of collapses and confusions which accompanied Mr. Roosevelt into the White House. The banks were closed. The whole shattered structure of business came down. The President was busy chiefly with getting the banks open and money again in circulation. Washington was aflame with rumors of

vast plans, bold proposals of every color from dark blue to flaming red. The Brain Trust was supposed to be established in power, riding the whirlwind and directing the storm. And when the NRA emerged it was this mysterious Brain Trust which was given credit for the job. As a matter of fact the Brain Trust had nothing to do with it. The idea got its start, not in or near the White House at all, but in several separate groups, with several separate ideals, acting swiftly, frantically under the imperious dominion of crowding events.

We pause for definitions. By Brain Trust is meant a vague group of radical young professors who advised the President. They were supposed to have over-sized brain-pans equipped with excessive cerebral capacity; were experts in economics, government, and law, and, above all, symbolized a break with the Coolidgean and Hooverian past and its bookless, nescient business men. That they seldom saw one another after Roosevelt's inauguration and did not join in advocating any rounded program is well established; by Brain Trust we thus simply mean these scattered men and the general influence which they represented. By NRA we mean, not the New Deal, but only one part of it—that part which is now organized under the command of Brigadier General Hugh S. Johnson⁸—the administrative agency which has brought into existence the Codes of Practice and the agreements for shorter hours and minimum wages, and which has up to now handled the labor relations of the President. Now we may resume our history.

It all began in a bill introduced by Senator Black of Alabama. That bill provided that employers operating in interstate commerce could not work their employees for more than thirty hours a week.

Senator Black's bill, without any presidential approval, passed the Senate with amazing swiftness by a vote of 53 to 30 on April 8th, or just a little over a month after the session began. That surprising event set in motion many powerful currents.

About the same time Mr. Litchfield's Committee on Work Periods in Industry had its report ready. It recommended (1) that Congress should authorize trade associations to enter agreements on minimum wages and maximum hours; (2) that all industry should adopt the share-the-work principles; (3) that the maximum forty-hour week should be adopted; (4) that the weekly quota of hours, within that limit, should be flexible.

When the Black bill passed it was held up by a vote to reconsider. Mr. H. I. Harriman, president of the Chamber of Commerce, went to

⁸Hugh S. Johnson (1882–1942) was a lawyer and army officer who served as NRA administrator from 1933 to 1944 and as Works Progress Administrator in New York City in 1935.

Senator Black. He explained that they were not so far apart. They agreed on shortening hours. Black wanted thirty; the Chamber wanted forty. They differed on the means of attaining the objective. Black was for an inflexible statute. The Chamber wanted a grant of power to industry to deal with the problem. Harriman had a bill all prepared and asked Black to introduce it as a substitute for his own. Black refused. Harriman then went to other quarters.

Meanwhile another group had become active. Senator Robert Wagner, of New York, introduced a bill to remove the limitation on RFC loans to "self-liquidating projects" (Senate Bill 509). He favored large government loans for public works. In the latter half of March in the midst of all the confusion, former Congressman Meyer Jacobstein of Rochester, New York, called on Wagner to interest him in government guarantees for inventories and pay-rolls of business enterprises. At Wagner's suggestion, Jacobstein and Harold Moulton of the Brookings Institution explored the idea and made a report recommending government aid by means of credit to the lighter industries. The Senator put this proposal with his Senate Bill 509 and went to the President with it. The idea of organizing industry had not yet come up. The President, without approving, suggested that the Senator call a conference of those interested. This was done, and immediately the first group met in Wagner's office.

It included an odd assortment—Meyer Jacobstein; Virgil Jordan, then with the McGraw-Hill business papers; Congressman Clyde Kelly of Pennsylvania; Harold Moulton; Fred I. Kent, vice-president of the Bankers Trust Company; David Podell, a New York lawyer; Simon Rifkind, Wagner's secretary; Colonel Rorty, Jett Lauck of the Railway Brotherhoods, and James Rand, president of the Remington Rand Company, the man who introduced Dr. Wirt to immortality. This group was as full of plans as the capital itself. Kent wanted government guarantee of profits; Rorty urged his real estate premium auction plan; Moulton and Jacobstein were for credits to business; Wagner wanted public works; Podell was for modification of the anti-trust law and permission to trade associations to organize for self-rule. The group seemed pretty hopeless. But after a report on its discussions drawn by Harold Moulton, Jacobstein and Podell and Moulton were named to draw a tentative bill. This they did. The bill was printed but discarded. I have seen a copy of that bill, however, and it contains the germ of nearly everything save the licensing clause, which is in the final act.

It began with a provision for credits to industry. The second section provided large grants for public works. The third section recog-

nized trade associations, permitted regulation of production, and rules for trade practices. The fourth section provided for agreements between employers in trade associations to shorten hours of labor. The fifth section outlawed price-cutting. The sixth provided for agreements between business groups. The bill went to the Labor Department for scrutiny and came back with the clause guaranteeing the right of collective bargaining. It was in much the same language as in the final bill. With the emphasis put on public works and loans to industry, it was styled "A bill to create employment and purchasing power through industrial recovery." Kent and Rorty exploded because their proposals were ignored. Wagner was full of doubts about the whole draft. He decided to do nothing about this bill but to have further conferences.

All this time another group was at work. It began partly in the Agricultural and partly in the Commerce Department. Jerome Frank, general counsel for the Agricultural Department, and others like him were interested in national planning along the models proposed by George Soule⁹, Stuart Chase¹⁰, Charles Beard¹¹. They wanted to weave a pattern for our economic society, and include the regulation of profits and uneconomic corporate practices, minimum wages, and hours of labor. The Department of Commerce, under Mr. Daniel Roper, the most reactionary agency in the administration, squeezing in on every move to press its conservative business view, had also been busy on this subject. Mr. John Dickinson, lawyer, closely identified with Wall Street law interests, and the usual agent for these forays by the Commerce Department, had a collection of proposals which closely paralleled the Chamber of Commerce self-rule in industry plans. Dickinson and Frank somehow got together, and at the next meeting of the Wagner group were asked in. Thereafter the work of producing an acceptable bill was carried on by Dickinson, Podell, Jerome Frank, and Simon Rifkind. They worked every night, turning out half a dozen drafts in a week or two.

By this time Black had got his bill passed again under the motion to reconsider and by a large vote. In the House a similar measure—the Connery bill—was reported favorably. It had a minimum-wage provision urged by Secretary Perkins. Connery insisted on a clause keeping out foreign goods manufactured under less favorable wage and labor

⁹George Henry Soule (1887–1970) was editor of *The New Republic*.

¹⁰Stuart Chase (1888–1971) was an American progressive associated with Labor Bureau, Inc.

¹¹Charles Beard (1874–1948) was a progressive historian who wrote widely on American history.

conditions. Miss Perkins warned the committee the President could not approve the bill in its present form. But the bill was reported out favorably. House and Senate leaders warned that the President did not approve it. There is no doubt that the President did not want these bills passed. Yet one tremendously important fact stands out now. The question of protecting labor from starvation wages and long hours was now no longer a doubtful issue. The Senate had passed one bill. The House was ready to pass a more comprehensive one. The President could have had these bills altered in any way he wished. He could have had a thirty-hour, thirty-six-hour, or forty-hour week, a flexible work week, a minimum wage, or any other emergency safeguard he desired. Or he could have had a simple bill permitting industries to organize to limit work hours and fix minimum wages by agreement, as suggested by the Litchfield committee of the Chamber. It was not necessary at this point to invent any substitute to protect labor. What was wanted now was a substitute that would protect employers from these statutory limitations on work periods and wages. The next move was to save the employers. When, therefore, the NRA act was brought forward, it was to defeat the Black and Connery bills, to turn the subject over to employers and to give them, besides, something they had wanted for years but dared not now insist on—the modification of the antitrust laws and the privilege of self-rule in industry.

IV

Just before this another figure had stepped upon the scene. To the office of Raymond Moley, then Assistant Secretary of State and closest man to the President, flowed an endless stream of plans for salvation. Among them demands for the regulation of industry held first place. Moley had asked James Warburg, a Wall Street banker, to look into the matter. Warburg did and made a report in the form of a suggested message to Congress. In it he made the President say in effect that the time had come for the regimentation of business. Warburg is now off the reservation. He is criticizing the Administration for regimenting business. Perhaps someone can dig up that document to confound him. At all events Warburg's report interested Moley. At the time General Hugh S. Johnson was wandering round Washington from conference to conference. Johnson had been employed by Bernard Baruch¹² for a number of years in Wall Street studying industrial and

¹²Bernard Baruch (1870–1965) was a businessman appointed by FDR in 1934 to recommend legislation for the removal of profit from war. He served as chairman of a special wartime commission on the production of rubber in 1942.

market movements. He was called Baruch's "economic adviser." Baruch used to refer to him as "my man Johnson." Baruch opposed Roosevelt for the nomination, but after the latter's success, Baruch contributed Johnson to the campaign. Johnson soon found himself close to the candidate, who liked him. He spent much time on Roosevelt's campaign train, wrote several speeches for him, which were pretty good after the wild words were taken out of them. He was, I am told, useful, well-liked, and—strangest of all—self-effacing. Now he was in Washington with no particular commission. Moley, meeting him, suggested that he take a desk in Moley's office and prepare a report and plan on this business of organizing industry.

It was not a new subject to Johnson. He had talked about it during the campaign. Indeed, when Baruch tendered Johnson to Roosevelt, through Moley and Tugwell, the subject was discussed then. That perhaps is why Moley selected him for the job. At all events, he accepted Moley's offer with breathless alacrity and proceeded to tear into the business with his usual ferocity. Early in May he had a bill. It covered a single sheet of paper. He threw it into the ring by presenting it to a member of Senator Wagner's group, who expressed astonishment at its brevity. It was an outright grant of power to the President to organize industry, to give to trade associations authority to regulate prices, production, trade practices, wages, and hours. It provided for suspending the Sherman anti-trust law. It contained the authority to the President to license industry. *But it had not a single word about collective bargaining for labor.* A day or two later he joined the Wagner group and after that he began to take a more and more dominating part in drawing up the final bill. It is the simple truth that the liberals in that group became less and less influential and the business-minded persons, who were for self-rule in industry, took the lead. Jerome Frank, Simon Rifkind, John Dickinson, David Podell, and General Johnson, and later Donald Richberg continued to labor at the proposed bill, with Johnson and Dickinson gradually pushing the others out and finally Johnson taking over the job with Richberg. The credits-to-business clauses were taken out. The plan to organize industry through the trade associations was put first and the public-works section subordinated. The President never whole-heartedly assented to that section and he has ever since been the chief obstacle to a public-works program.

Johnson drew a second bill, longer than his first. It was like the first, but more detailed in its directions. He kept in his licensing provisions and added another—a most amazing section which it is difficult to credit. I have, however, seen it, and this provision helps to place the

General in his social and economic sympathies. He wanted on every kind of shop and store and factory a *sales tax of ten percent. Both these provisions were opposed by the group and were actually taken out. But the licensing provision mysteriously reappeared in the bill again after it left the hands of the group and came back from the President.*

The labor section—which as you will recall had been interpolated by the Department of Labor—had a troubled career. It is interesting to note that the first draft provided for national and regional labor boards representing labor, employers, and public. This was stricken out.

Two serious perils, however, beset Section 7a. They came from the man who was supposed to be the friend of labor, Mr. Donald Richberg. The clause as originally prepared by the committee read:

No employee or no one seeking employment shall be required as a condition of employment to refrain from joining a labor union of his own choosing.

As recast by Richberg, it read:

No employee or no one seeking employment shall be required as a condition of employment *to join any organization or refrain from joining a labor organization of his own choosing.*

The italicized clause turned up in the bill when it was introduced. Of course, it completely changed the meaning and actually guaranteed the open shop. Richberg excused the change as the fruit of unhappy composition. Later, in the Senate, at the end of Section 7a, the following provision was offered as an amendment:

Nothing in this title shall be construed to compel a change in the existing satisfactory relations between employees and employers of any particular plant, firm or corporation, *except that the employees of any particular plant, firm, or corporation shall have the right to organize for collective bargaining with their employers as to wages, hours of labor, and other conditions of employment.*

Senators Wheeler, Wagner, LaFollette, Costigan, and Norris were promptly on their feet to resist it. Senator Clark explained that "Mr. Richberg not only accepted the amendment but thought it was very beneficial to the bill." This was a complete charter for the company union. But it was defeated. However, the defeat was unimportant. For

General Johnson and Mr. Richberg later announced that the words "closed shop" and "open shop" were eliminated from the dictionary of the NRA. And having said this, Johnson warned the American Federation of Labor that the strike could not be tolerated.

One more incident. Senator Black, who had really started all the shooting with his thirty-hour bill, offered several amendments. They are unimportant now but what he said was important. He warned that the power of making laws, so far as control of industry was concerned, was being transferred from Congress to the trade associations, and that unless profits were controlled along with wages and hours, nothing would be accomplished save to see prices rise. He then voted against the bill.

If now we keep all this in mind it will be easy to understand all that has happened since NRA became a law. I am reliably informed that Mr. Harriman told his directors that it was a complete victory for the Chamber. They got more than they hoped—modification of the anti-trust laws, self-rule in industry, defeat of the Black and Connery bills, the right to regulate hours and minimum wages transferred to the trade associations under NRA supervision instead of by statute.

In short, with the exception of the collective bargaining provision—which as we have seen was subsequently robbed of much of its original strength—the NRA plan represented almost entirely the influence and ideal of Big Business Men. The share of the Brain Trust in its paternity was microscopic; the share of the Chamber of Commerce and other business interests was predominant.

V

There is little in the present outcry about government's regulating industry. The government has merely given up its long fight against the attempt of industry to regulate itself. It now says to industry: "Very well. You want to govern yourself. Go ahead. We will step aside. We will watch you while you are doing it and keep an eye on you later." That is all. As to the government eye that will be kept busy, General Johnson lost no time in announcing that he would expect the trades to police themselves.

If this is all true, then why is business now denouncing the NRA? That is a fair question. Big business is afraid of the labor sections about collective bargaining. They are harmless now. But under a proper administration or under a strengthened law they might become dangerous. Business, therefore, wants to "save what is good in the NRA" and get rid of the rest. Of course we know what is good from the

business point of view. That is the principle of self-rule—price fixing, control of production, and trade practices. In November the Industrial Advisory Council of the Department of Commerce, made up wholly of Big Business Men, recommended that NRA be turned over to the Chamber of Commerce and that the government withdraw. Johnson gave a swift approval of that scheme. The President said he thought the time was not yet ripe for business to take it over. When will the time be ripe? In the middle of June the same group renewed the suggestion that the entire machinery of the NRA be turned over to business. There can be little doubt that, unless we get down to calling things by their right names and stop using high-flown euphemistic words to conceal very serious and questionable proceedings, and unless liberals maintain a more effective vigilance than they have in the past, this is precisely what will be done.

Forgive Us Our Debts

Before we say another word about all this let's be sure that you know what a billion dollars is.

Because we're not going to waste our valuable time talking about chicken feed. No chattering about such pitiful little pocket change as a million dollars. We're going to talk about billions and we might just as well know what a billion is.

To begin with, it's a lot of money. Someone has calculated that if you were to lay one dollar bills out close together it would take just about a billion of them to cover the area of a good-sized city completely. I have made the following calculation: If you were to save a dollar a day every day and had been doing this every day since Adam was created in the Garden of Eden, you wouldn't have a billion dollars. In fact, to have a billion dollars you would have had to start saving 2,735,726 years before Adam was born.

It's a tidy sum indeed. You must get it out of your mind that it is just a one and nine naughts, just a collection of three syllables, just a casual common-place amount which, in our modern way, we are accustomed to toss off the tongue as if it were nothing. This still doesn't tell us what a billion dollars is—a thousand million dollars—but it helps to give us a general idea.

And now, having settled this point, we may proceed to talk about our beloved old Uncle Samuel, who has gone into the loan business. In accordance with the good American custom, he started out with nothing—just a shoestring—or, better still, just a couple of expert engravers, and he has run it up to a warehouse full of bales of promissory notes and mortgage notes and IOU's that make the average big Wall Street financial Gibraltar look like the village bank after an old-fashioned 1932 run.

A Creditor Nation Plus

To put the matter down in just plain dollars and cents—Uncle Sam, banker, has been lending money to farmers, poultrymen, stock raisers, banks, mortgage companies, railroads, industrial concerns,

This chapter originally appeared in the September 25, 1937 issue of *Collier's*.

home owners, insurance companies, filling stations, share croppers, and similar enterprises until now he has due him on their IOU's in round figures—hold your breath—*eleven billion three hundred million dollars.*

The outstanding loans of all the banks in the Federal Reserve System is around eleven billion dollars. That's how much all the millions of corporations, businessmen, home owners, farmers in every state in the Union owe all of the banks in the Federal Reserve System. It's just about the same as the loan business carried on by the government of the United States.

So the next time you hear some Fourth of July orator swell with pride on how we were once a debtor nation but are now "the greatest creditor nation in the world" you can clap you hands, yell with pride and shout—"And how!"

As a result of the World War Europe owes us eleven billion dollars.

As a result of the depression several millions of people in the United States who are handy on the touch owe us another eleven billion dollars.

Europe, of course, has no intention of ever paying us any serious part of her bill.

What about the hardy patriots at home? Will they lay it on the line when the bill comes due? Or will they make their humble contribution to the legend that our dear old Uncle is the greatest sucker of all times. The old boy has had the bee put on him to date for twenty-two billions. Half of that is just so much old paper to be given to the Salvation Army paper man when he comes around. How much of the balance will the paper man get?

As a private citizen you have probably discovered that it is not very easy to keep from lending \$11. But it is really not so easy to lend \$11,000,000,000. You have got to hire a lot of people, spend a lot of money on typewriters and adding machines, stationery, and railroad fare. And this, all by itself, before you have lent a dime or collected one back, runs into money. In fact it takes right now 47,000 employees and costs over a hundred million dollars a year to run this monster government lending plant.

We've Got to Borrow to Lend

As a matter of fact, before you can lend eleven thousand million you have got to get it somewhere. And has it occurred to you that the government hasn't got eleven thousand million to lend? It hasn't got

even a pitiful billion. It hasn't, to tell the honest truth, got a red cent. So the first thing the government has to do is to find someone willing to advance it the necessary billions. That is, before the government can lend money it must borrow it.

Of course there's another way. It could gather the money together by taxing us—by taking it out of our collective hides. But that's not so easy. We taxpayers are a tough lot and we set up an awful squawk when you try to wring a few hundred thousand out of us, to say nothing of a few billions. So the easiest way is to borrow it.

But even that is not easy. The government can't borrow it from the loyal citizens for the very good reason that they won't lend it. So Uncle Sam borrows it from the banks. And you simply will not understand anything about this government lending business unless you get a clear idea of the precious invention by which this is accomplished. This is the greatest of all financial rabbits. This is a magic scheme by which you can borrow money from a man who hasn't got it to start with and leave him richer when you are through. Here's the way this trick is done.

Your bank has a million dollars in deposits. You want to borrow ten thousand dollars. You go to the cashier, tell him your needs and arrange the loan. You write out a note for \$10,000 and hand over your collateral. But what does the cashier do? Does he give you \$10,000 in cash? He most certainly does not. He asks for your bankbook and in that he writes: "Sept. 25, 1937—Deposit, \$10,000." You put the book in your pocket and walk out of the bank. You know that you have \$10,000 in that bank which you can draw against. But just consider what has happened. You didn't have \$10,000 deposited in the bank when you went in. But you have it when you walk out. But you didn't put \$10,000 in the bank. When the cashier wrote down that deposit receipt in your book, he made a similar entry in the bank's book. In other words he made an entry on your ledger page that you had \$10,000 deposited there. Push this one step farther. When you walked in that bank it had one million dollars in deposits. You borrowed \$10,000 from it and walked out, and when you did the bank had \$10,000 in deposits more than when you walked in. Thus by the very act of making a loan you increased the deposits of the bank by \$10,000.

Uncle Samuel Shylock in Action

Now suppose the government goes into the bank and borrows, not \$10,000 but a billion. Of course when the government does that it goes not into one bank but into many thousands of banks. By the

process of borrowing a billion it does not deprive the banks of any money they have. Instead it increases their deposits by a billion. And with a billion increase in deposits the banks can make more loans—to the government if asked—and still further increase their deposits. In short the government by the very process of borrowing from the banks creates bank deposits—or bank money—money that did not exist before the government made the loan.

Now that's how the government has been getting the money it has been lending to me, to Tom, Dick, Harry, to the county supervisors, and the Consolidated Cats and Dogs Security Corporation.

And so, with a clear idea of what a billion dollars is and hence what eleven billions are and how those eleven billions were created, let's have a look at our dear old Uncle Samuel Shylock, money-lender, in action.

Our blessed old Uncle's open-fisted agents have made loans all the way from \$27 to a blacksmith in Tennessee to fix up his forge to a hundred million to a big banking system to keep its doors open.

It's not all done by one bureau or one department or one commission. There are a whole mess of corporations, banks, bureaus. If you examine it all closely you will find, for instance, one big master institution or holding company in the farm field, which owns and controls four or five large holding companies, and these in turn control smaller subsidiaries. There are several of these great master holding companies. If you make a chart of the entire outfit, putting down all the corporations and banks and associations and insurance concerns, what you will see will remind you of a picture of one of those great utility companies or railroad empires like Samuel Insull's or the late Van Sweringen brothers.

A Job for a Philadelphia Lawyer

There is Class A stock and Class B stock and bonds and debentures, and the various corporations and banks—and belonging to and owned by the government—borrow and lend money from and to one another, own one another's stock, own one another's bonds and U.S. government bonds besides. The whole thing makes a rather intricate and bewildering structure which only a Philadelphia lawyer or a Wall Street investment banker could unravel.

This complexity is due, of course, in large part to the haste with which some of these institutions were brought into existence. But it is due to something else. This is part of the system which has grown up in which Congress has abdicated the function of appropriating money.

Congress merely makes a vast lump-sum appropriation to the executive. Also it authorizes the President and various corporations to borrow in vast sums. Thereafter the function of appropriating money has passed to the President and these great bureaus. So that we find the Reconstruction Finance Corporation (RFC), one government bureau, borrowing money from the banks and appropriating to other government bureaus. Of course this practice brings to an end the "power of the purse" by which parliaments in free democracies control executives.

And so you find these bureaus supplying one another with money as part of this new system of eliminating Congress from its historic role of controlling the purse strings. The Home Owners Loan Corporation (HOLC) is created. The Treasury is directed to buy \$200,000,000 of stock in the HOLC. The Treasury borrows the money from the RFC and buys the stock of the HOLC. The Farm Mortgage Corporation issues nearly a billion and a half in bonds. It turns these over to the Federal Land Banks and the Federal Land Banks pay for them by turning over to the Farm Mortgage Corporation its bonds. It is an exchange of bonds between two government corporations. Then the Federal Land Banks sell the Farm Mortgage bonds and use the money to finance their operations. Kind of complicated, I know. But I can't help it. If it happened that way it's because they planned it that way.

There are a number of spigots, or shall we say corporations, through which the government's huge loans have been made—the Federal Farm Credit Administration, the Home Loan Banks and, of course, the Reconstruction Finance Corporation and various lesser ones.

Of course in any operation in which government funds are being tapped the farmer would inevitably be on the job. The farmer has always been an industrious candidate for government cash. It didn't begin even with Herbert Hoover and the Farm Board. It goes even beyond Woodrow Wilson and the Land Banks. As far as I can trace it, it was flourishing as early as Peisistratus, the Greek tyrant who was a sort of combination of Huey Long, Mussolini, Dr. Townsend¹, and Wright Patman.² He started buying cows for the Attic farmers and they never got over it. At various times and in various states we have made various kinds of benefits available to the farmer to encourage him to raise crops. In our day we developed this to the fine point

¹Dr. Francis E. Townsend of Long Beach, California, proposed the Old Age Revolving Pension scheme in 1935. The plan called for payments of \$200 a month to elderly persons, to be financed by a national 2 percent tax on commercial transactions.

²Wright Patman (1893–1976) served in the House of Representatives.

where we would give or lend him money either to raise crops or not to raise them.

Out in the farming country the farmer in need of funds will find the Federal Land Banks ready to lend him money to buy a farm or improve it or if he is in distress the Federal Farm Mortgage Corporation will take over the mortgage that weights him down. He can get funds from the Production Loan Corporations to raise his crop or from the Co-operative Farm Banks to help him to market it, or from the Commodity Credit Corporation or the Regional Farm Administration and various other agencies for various other purposes. The offices and agents of all these organizations reach into every county.

But from every county the roads all lead to Washington where all of these agencies are gathered under the wing of one central bureau—the Federal Farm Credit Administration.

The Farmer's Billion and a Half

The Federal Farm Credit Administration, administered by a board headed by W. I. Myers as governor, controls, like a large holding company, a group of immense agencies—the Federal Land Banks, the Federal Farm Mortgage Corporation, the Production Loan Corporation, the Intermediate Credit Banks, the Emergency Crop and Seed Loan offices, the Regional Agricultural Credit Corporation, and the Agricultural Marketing Act.

Here is a group of corporations in which the government has invested a billion and a half dollars in capital. And in addition they have borrowed three and a half billions on bonds and debentures. In addition there are the surpluses and various other kinds of borrowings so that the actual assets of these corporations are over five and a half billion dollars. Remember we tried to get some idea of what a billion dollars is.

All this began a good while ago—back in 1917 when the Federal Land Banks were formed. Their business is to lend money to farmers to buy farms, to put in capital improvements. These banks seek to operate on sound business principles. But in 1932, when things generally were going to pot, they were not doing much business. Nobody wanted to buy a farm. The farmers were more interested in buying ropes to hang money-lenders who were threatening to foreclose on their farms. In a few places they had even invested in a rope or two to hang judges who dared to sign foreclosure warrants. In at least one place they had the hemp around His Honor's neck.

So in 1933 the Federal Farm Mortgage Corporation was formed.

It is an emergency agency. Its business is to help the distressed farmer who could not take care of his mortgage and who faced foreclosure or was in default.

Just a Twist of the Wrist

In 1934 over three hundred thousand farmers got loans. At this moment the Farm Mortgage Corporation has outstanding \$836,778,000 in mortgage loans, most of them second mortgages.

About the same time the Land Banks found they could get no more money to do business with. They could not sell their bonds. No one wanted to buy bonds secured by mortgages on farms. The Land Bank bonds are not guaranteed by the United States. But the Federal Farm Mortgage bonds are. So the Federal Farm Mortgage Corporation issued an additional batch of its own bonds—about seven hundred million—and swapped them with the Land Banks for their bonds. Then the Land Banks sold the Mortgage Corporation bonds and thus got money to go their way rejoicing.

There are several points worth pausing on here. The first is that the Land Banks offer an object lesson of how the government gets drawn into holding the bag. The Land Banks were semi-private institutions at first. All the stock was owned by farm associations. Then the depression peeped around the corner. So the United States had to subscribe for 124 millions of stock in the Land Banks to supply money. Then it put in an additional 128 millions as a surplus. Then later it supplied 731 millions through this exchange of bonds with the Mortgage Corporation.

These two banks between them—the Land Banks and the Federal Mortgage Corporation—hold mortgages on a million farms or more, valued at nearly three billion dollars.

Where did these banks get all these three billion dollars to lend?

Well, you recall our description at the beginning of this story of how money—bank money—is created by the simple process of making loans. The Land Banks and the Mortgage Corporation made loans. That is, the Land Banks borrowed from the Mortgage Corporation and the Mortgage Corporation borrowed from the banks—issued its bonds, which are just IOU's, and placed them with the banks. Some of it came from the Reconstruction Finance Corporation, which borrowed the money from the banks and loaned it to the Mortgage Corporation. There is a childlike notion among many honest souls that the government took all this money from the rich and gave it or loaned it to the poor—the poor farmer and the poor home owner. No, the

government hasn't taken it from anyone yet—just borrowed it. It may get around to taking it from the rich and the poor a bit later.

The net result of all this is that the farmer has kept his farm. Also he continues to owe the mortgage on his farm. The mortgage has not been wiped out. It has merely been shifted. The farmer owes the money to the government now instead of to the private money-lender. The matter is now one between Uncle Sam and the farmer. They'll have to work it out or fight it out between them. The money-lender is out of it. He has been paid off.

But There's a Silver Lining

On the other hand, much good has come of it. Many thousands of deserving farmers have been saved from foreclosure and complete loss. In the shift from the private to the government lender, about a hundred million, perhaps much more, has been shaved away from the farm indebtedness. The farmer's interest rate was reduced to his great advantage. And a plan has been installed to enable him to pay off his principal over the years.

Incidentally, others were helped. The farmers owed their mortgage notes to various institutions. Hence assumption of the mortgages by the government enabled these lenders to get their money back. About 12 percent of the money went to life-insurance companies and about 10 percent to commercial banks. The largest part, apparently, went to private lenders. It was this which led some critics of the plan to suggest that it was inspired by a movement to bail out the note-holders.

The next great agency for lending money on behalf of the government is the Home Owners Loan Corporation, better known as the HOLC. This is a subsidiary of the Home Loan Banks. It did in the town what the Farm Mortgage Corporation did in the country. It took over the mortgages of a million home owners who couldn't keep up their payments. In April of this year the HOLC held mortgage notes valued at \$2,621,000,000. In addition it had brought a hundred millions in stock of a government savings insurance corporation and nearly two hundred millions of various savings and loan associations.

The corporation got its billions just as the Farm Mortgage Corporation got its billions—by selling its bonds to the banks.

The HOLC was born in the travail of 1933. It appeared at a time when millions of Americans who had answered the siren call of the land developer to "buy a home" were afraid to open the door for fear the sheriff would come in with his trained wolves.

There was a good deal of genuine headache under the roof-tree those days. But there was also a good deal of highly flavored hog-wash dished up by congressional orators and professional saviors about the wicked money-lender driving the distracted father and his wife and children from the old homestead. The fact is that a lot of these houses which were holding up the mortgages were not old homesteads. A lot of the "home owners," hadn't been in their "little homes" for more than a year or two. They were good people who had bought little "first- and second-mortgage manors" from speculative real estate developers, many at highly inflated prices—for something or other down and something else a month. The mortgages on many of these houses were a good deal more than the houses were worth then or are worth now. It really wasn't a terrible favor to the "wretched victim" to save him and keep him tied for a life-time to a mortgage that is, to say the least, a little heavy.

There were a lot of insurance companies and mortgage companies and banks and plain private mortgage money-lenders who were stuck with great bales of mortgage paper on these new homes. And I recall well the spring of 1933 when a gentleman representing large financial interests in New York's suburbs took me to lunch and tried to induce me to shed some propagandist tears in an attempt to get the government to buy up these mortgages. All this must be borne in mind in order to keep the picture properly compounded of the good and bad elements.

One result of it, of course, is that the government today holds twice as many home mortgages as all the commercial banks in the country put together, more than all the life-insurance companies or more than all the savings banks and more, even, than the 8,000 building and loan associations combined.

When the HOLC was organized in certain counties the home owners literally swarmed into its offices. In Cook County, Illinois, the government holds a mortgage on 13 percent of all the homes in the county. In DeKalb, Georgia, the government holds the paper on 20 percent of the home owners. In Detroit, or rather Wayne County, the government holds 25 percent—one fourth—of all the owned homes in the county. In Tulsa County, Oklahoma, it's 30 percent. In Finney County, Kansas, it's 32 percent. The palm, I think, must go to Bennett, South Dakota, a small settlement with 42 houses. Thirty-seven of the owners rushed to the HOLC. Fourteen were taken on. That, however, is 33.3 percent. You find the percentage of loans highest in places like the Detroit suburbs, Cleveland, Queens county and Brooklyn in New York, where the "developer" and speculative builder were busiest

before the depression. In New York City as a whole the government has taken over mortgages on 11 percent of the homes.

A Record-Breaking Lender

I suppose the biggest and most sensational of all the government lending plants has been the good old Reconstruction Finance Corporation, invented and set going by Herbert Hoover, roundly criticized by Candidate Roosevelt, and then adopted and enlarged by him. It's still going and it has more money owed to it than any other single institution in all the history of the world.

It never had so many borrowers as the HOLC, but they were whoppers. There were only 20,000 who could qualify for RFC cash, but one of them—a railroad—got \$61,000,000 to electrify its lines and another one—a bank—got \$90,000,000 to keep alive—and then died.

The RFC loaned money to banks, insurance companies, mortgage companies, railroads, deep-sea fisheries, building and loan associations, states and cities and to a private business enterprises of various kinds in every state in the Union. It owns stock in thousands of banks.

Where did it get its money? It got half a billion from the government in Hoover's day. Since then, under Roosevelt, it got several billions by selling its notes to the banks. And in addition to buying stocks and making loans to innumerable private concerns to keep them afloat, it has loaned great gobs of millions to many government agencies to keep them afloat.

There are, of course, other agencies lending money. There is the PWA³, the Commodity Credit Corporation, the Export-Import Bank, the United States Maritime Commission, the Rural Electrification Administration, the old War Finance Corporation and, of course, in its small way, the Resettlement Administration. Each has loaned out its share of millions. And all together they have piled up the impressive total of IOU's due to the government of eleven billion, three hundred million dollars.

How Big Will Our Losses Be?

And now the question pops us—will the government be able to collect this money? Of course we know it won't collect it all. There will be losses and those who defend the lending policies assure us that the losses will be a small price to pay for the extensive salvage

³The Public Works Administration, established in 1933, spent a total of more than \$4 billion on over 30,000 public projects.

work accomplished by these great outlays. But how much may we lose before the price becomes too high?

You cannot talk to the men who head the farm and home loan agencies without realizing that they are able and earnest and that they are making a great effort to operate these agencies at the present time along humane, yet sound lines. Also you cannot escape the feeling that there are forces loose in our society which may baffle the good intentions of the best of men.

There never was an abler businessman or a more honest citizen than the late Alexander Legge, who headed Herbert Hoover's Farm Board. Yet it is not so long ago that Senator McNary, who was chairman of the Agricultural Committee when that experiment was launched, was compelled to rise in his seat and admit a little remorsefully that the entire half billion dollars committed to the Farm Board was gone. It was not absolutely necessary for that half billion to have vanished. The Farm Board, had it stuck to strictly sound business, might have saved a great part of it. But sound business at times implies very realistic courses. It entails stepping on many toes. And the government cannot stand on too many toes, particularly farmers' toes. In the very nature of our political and partisan social machine it is impossible to escape the suspicion that the government may turn out not to be a good lending agency. The whole thing comes down, in fact, to the question—how good a lender can the government be? It certainly can do a swell job of passing out the funds. But a good lender must be a good collector. The government can collect, of course, from a few delinquents here and there. But how it will thrive when it has to proceed en masse against its army of farmers and home owners who are also voters, no one can say.

I do not get up a fever over the possibility of the government taking over various functions now performed by private enterprise. But any fair-minded observer will have to concede that if the government plans to do this it ought to rearrange its structure to perform such functions. And, for that matter, there is no business function which so cries out for complete protection from the influences of political forces as this matter of credit.

Take, for instance, the HOLC. Here was an organization brought together in frantic haste to handle billions of dollars of public cash and credit and to assume billions of Grade D mortgages. At the head of it was placed a lame-duck congressman known to fame as "Seaboard Bill" Stevenson of South Carolina. He knew as much about the mortgage business as one of his native boll weevils knows about the Constitution. The board had to select three men in each of 3,000 counties.

These 9,000 men were selected by Stevenson on the recommendation of congressmen, which means their appointment was at the tender mercies of the Democratic machines in the congressional districts.

In New York the state manager was Mr. Vincent Dailey, Mr. Jim Farley's⁴ lieutenant on the home grounds. In Maryland it was David I. Stiefel, prominent Democratic leader. In Ohio it was Harry G. Brunner, the Ohio State chairman. It is not necessary to impugn the honesty of these politicians. One need consider merely the innumerable pressures which control their habits of thought. It is also not necessary to observe that this organization ran into plenty of trouble. The President had the good fortune at this time to make one of his excellent appointments—John Fahey, a Boston businessman and publisher of liberal views and fine social vision. He has done a fine job of organizing, but it took a long time to get all of those early agents out of the organization. It will take a longer time to get out of it the fruits of that ministry.

The truth is that an operation like this is subject to many hazards which do not arise from mere maladministration at all, but from the whimsical and unpredictable thing called human nature. A glance at the HOLC's accounts reveals this important fact. On June 30, 1937, there were 904,500 mortgages outstanding. Of these 466,500, or a little over half, were current, as they say; that is, fully paid to date. The balance—438,000—were delinquent.

This is putting it very baldly. It does not mean that all of these accounts are in default. Out of the number, 137,000 are in the 90-day class—that is, behind in payments 90 days or less. The rest are over 90 days delinquent—some six months, some a year or more. The greater part, however, are making payments of some kind, struggling to catch up. About 87,000 are in bad shape.

This is certainly not a healthy condition. These are all comparatively new accounts, some only a year old. Hence this is a pretty heavy delinquency to have developed already. If it is remembered that this has occurred in a period of recovery, we may well ask what will the picture look like when another depression develops? And, of course, no one is so naive as to suppose that the age of depressions is over.

Why Play Favorites?

Of course, as the months go by the situation does improve in one respect; more and more home owners pay more and more on their

⁴James Farley (1888–1976) served as Chairman of the Democratic National Committee from 1932 to 1940 and as Postmaster General from 1933 to 1940.

principal. But also delinquencies become more acute. What the foreclosure program will be no one can tell yet. Mr. Fahey suggested that from 160,000 to 200,000 might be eligible for foreclosure in a year. As time goes on the demand for leniency, for moratoria, even for cancellation of these debts, will be sure to develop. Already there is a Copeland-Curley bill to extend these delinquent home owners a moratorium. And I have heard more than one influential member of Congress say the time would come when we would have to think about cancellation. "We have in effect submitted to a cancellation of their debts to us by foreign nations," one senator told me. "Why should we be less lenient with our own farmers and home owners?"

From another source comes another peril. Banks and financial agencies have urged several times and with great vehemence that the emergency having passed, the HOLC and the Farm Mortgage Corporation should turn over the sound mortgages to the banks and private lending agencies. Consider that for an instant. The government's only chance to hold down its losses is by averaging the good and bad loans. The financiers now suggest that they will take the good ones and leave the government holding the bag—a bag full of bad mortgages.

You would do well to keep your eyes on this situation. Because the government cannot cancel these obligations. It can merely shift them. At first the bag was held by the money-lenders. They were permitted to withdraw and the government took over the debt. But the government, having no money, was forced to borrow it. If the government cancels all or any part of these debts, it will still owe on its own bonds issued to pay off these mortgages. And you know who owes the government bonds—who must pay the interest and principal of them. You, Mr. Reader and Citizen and Taxpayer. Hence, if the mortgages are canceled in whole or part, to whatever extent they are canceled, the burden will be shifted to you.

The Federal Farm Mortgage Corporation mortgages are delinquent in the same way, but to the extent of about 20 percent. However, it must be remembered that these mortgages call for payments on principal and interest, and principal payments, under the mortgage contracts, do not begin to fall due until three years after the mortgage is assumed by the government. Principal payments, therefore, are only coming due now. It remains to be seen what effect this will have on the whole account. But apparently these farm mortgages are in somewhat better shape than the home mortgages and, of course, for obvious reasons. The home loans were from the beginning a greater risk.

Some Figures Do Lie

So far as the Reconstruction Finance Corporation is concerned it is difficult, if not impossible, to tell how things stand. Mr. Jesse Jones, head of the RFC, recently made a very rosy estimate of its affairs. He said its loans were of two kinds—to private enterprises and to public bodies. The latter were more or less imposed on it by Congress. The former were made on its own discretion. And these discretionary loans, he said, had been 71 percent repaid. Now, that is subject to a good deal of modification. I once knew a city editor who had as chronic borrowers three reporters. So he put \$25 in the top drawer of his desk and used that as a revolving fund to finance his loans to these three scribblers. Each Monday one would borrow \$5 and the other two would borrow \$10 apiece. They would repay the loans on Saturday. Some years later he said he had made out pretty well on those loans. He said that in a year he had made loans to those three fellows aggregating \$1,300 (\$25 a week for 52 weeks) and that he had gotten back \$1,275. All he had lost was \$25—which, by the way, was his entire capital. Mr. Jones has collected 71 percent of the loans he has made and re-made. But almost all of his capital is still outstanding. How much he will ever get back remains to be seen.

The banks still owe the RFC over 800 million dollars. The mortgage companies owe it about 121 millions. The railroads borrowed over 500 millions and still owe well over 300 millions. The self-liquidating projects owe about 78 percent of their loans while private business concerns which borrowed 87 millions still owe 68 millions. In addition to this the billions loaned or allocated to other great government lending agencies may, for the most part, be counted as gone. What will be the fate of the RFC belongs to the future.

This business of government lending on so vast a scale is a new thing. The test of this experiment will come when delinquencies increase on a vast scale and the government is called upon to play the role of realistic collector. Two and a half million debtors of benevolent old Uncle Sam will form a larger bloc than that of the veterans and one as powerful. And when he assume the role of Shylock and comes around to collect his eleven billion pounds of flesh he may find that all he will get will be a couple of pounds of hamburger.

Mr. Hopkins and Mr. Roosevelt

No one, I am sure, will begrudge to the bewildered observer the privilege of lifting his eyebrows and opening wide his eyes at the appointment of Mr. Harry Hopkins to be Secretary of Commerce. I can suggest at least four reasons for being surprised.

First, the whole philosophy of government spending is—with or without reason—under challenge. The gay vision of an inexhaustible Santa Claus, shaking with happy laughter and choking the chimneys with gifts, has been succeeded in part of the public mind by the picture of an insouciant and puzzled spendthrift. Mr. Roosevelt has, indeed, given until it hurts. And Congress was on the eve of setting up a sort of spendthrift trust for its once gay Messiah. This moment Mr. Roosevelt chose to exalt to Cabinet rank the luckless symbol of his spending.

Second, the very agency of spending itself—the WPA—and the very giver of gifts himself—Mr. Hopkins—are under attack for having used the sacred funds to play politics against Mr. Roosevelt's Democratic critics. At that moment the President asked the indignant Senate to join in boosting Mr. Hopkins to a higher seat.

Third, business at this time is full of problems. The business index once again has curled up like a dog's tail between Mr. Roosevelt's legs and is tripping him. The Administration which began by slaughtering little pigs has got around to killing off its little rabbits. The day of abundance has stoutly refused to dawn. The bedeviled business man, trapped in the heartless machinery of the economic system and in his own ignorance, has opened a flood of abuse against Mr. Roosevelt's spending program as the chief source of all his recent troubles. In 1932, people looking around for an anthropomorphic devil settled on the banker. In 1939, business looking for a new devil has settled on the Spender. That moment Mr. Roosevelt selected to give to the business man as his new Moses the great Spender No. One himself.

Fourth, Mr. Hopkins has spent his life spending money provided for him by other people. He has had no contact whatever with the intricate and now thoroughly ravelled fabric of producing money. Mr.

This chapter originally appeared in the June 1939 issue of *The Yale Review*. The article prompted President Roosevelt to write a letter to the editor demanding the blacklisting of Flynn from all "presentable" journals.

Roosevelt selected the moment when Mr. Hopkins was under attack for his conduct of an office within the sphere of his experience to translate him into one which is supposed to lead a field of human activity upon which he has never expended a day. It is as if one who had never sung even so much as a strain of "Sweet Adeline" were suddenly cast for the role of Siegfried at the Metropolitan. It is as if, in the midst of a war which was not going so well, the President were to transfer Admiral Leahy to the command of the army and General Craig to be admiral of the fleet. It is as if he had suddenly shifted Santa Claus to the business of building chimneys.

For all these reasons, the transaction may be justly referred to as the Strange Case of Harry Hopkins. The answer to the enigma, however, may well be styled the Strange Case of Franklin D. Roosevelt.

It is only fair to keep this point clear—that there is nothing strange about Harry Hopkins himself. He is an able administrator deeply devoted to the cause of human welfare, who, in all the circumstances, has done a good job in a most difficult role under the most trying auspices. What is strange is the alley up which circumstances have led him. He is now just an able welfare worker wandering in a couple of strange jungles—a babe lost in two woods—business and politics. He is a good citizen who has up to this point trod a useful path, but who has now been cursed by having dangled before his wandering eyes that glittering bauble of the Presidency the trinket which turns men's minds and astigmatizes their vision.

He was born forty-nine years ago in Iowa and reared in the home of a pious Methodist mother and a father steeped in the political religion of William J. Bryan. He went through Grinnell College, a small Midwestern institution of the higher learning, where he milled around feverishly in the social and economic struggles of the campus. And he went almost from college to New York, into the service of a private charitable welfare institution. He rose through various levels to be head of Mayor Mitchel's¹ welfare board, then to management of the Association for the Improvement of the Condition of the Poor, and then to be Director of the New York Tuberculosis Association at \$10,000 a year. With the arrival of the depression, he went into public relief and then to the most colossal project for improving the condition of the poor that the world has ever known—the WPA.

Thus Hopkins grew up in the welfare movement of New York. The radical sophisticates of this day love to sneer at the old welfare movement. They look upon it as a feeble effort to pour a continuous

¹John Parroy Mitchel (1879–1918) was Mayor of New York City from 1913 to 1917.

stream of ointment upon the wounds of the casuals of the capitalist system. They think of it as going to war with only a Red Cross unit and no soldiers. But the welfare movement was a good movement. It began with mere contributions to relieve human distress—hunger, sickness, want—with hospitals, milk stations, neighborhood nurses, boys' clubs. Then it moved on to more vigorous stratagems. At first, it proceeded on the theory that the rich must be good to the poor. Then it took the more advanced stand that the recalcitrant rich must be made to be good to the poor. It went on to crusades for factory inspection laws, war upon the sweatshops, battles for compensation insurance, mothers' pensions. It never got quite to the point of insisting that society must be changed so that the rich might not be able to be so good to themselves and that the poor might help themselves rather than depend upon the philanthropy of the rich. But it did an immense amount of good. It rose out of the urge of many fine men and women, most of them wealthy, to mitigate the sufferings of their less fortunate brothers. It sheltered, to be sure, many cranks and fuss-budgets. But, on the whole, it left all over our big cities the evidences of its generosity and sympathy for the poor.

Harry Hopkins grew up in this movement. And in its later phases Al Smith² was its great political leader. He was the darling of the welfare workers. Indeed, it was in the campaign of 1928 to elect Smith President that Hopkins met Roosevelt. The latter was a candidate for Governor of New York. He took a fancy to Hopkins. And Mrs. Roosevelt, who milled about furiously on the edges of this welfare movement, especially spotted him. When Smith was defeated, Roosevelt made Governor, and Hoover President, and the great war against the poorhouse was won by the poorhouse, Roosevelt made Hopkins head of the Temporary Emergency Relief Administration in New York.

Oddly, a good many people in this movement were called radicals. They were not, of course. Al Smith was called a socialist because he advocated mothers' pensions. "He will be demanding pensions for mothers-in-law soon," an indignant Republican legislator sneered at him. They were, for the most part, conservatives who acted on the principle of *noblesse oblige*. Harry Hopkins is now branded by most economic royalists as a Red. But this amazes some of Hopkins's old associates in New York. They recall that they had always looked upon

²Alfred Smith (1873–1944) was a Democratic politician who served as Governor of New York from 1919 to 1920 and from 1923 to 1928. He was the Democratic Party candidate for President in 1928.

him as a rather conservative person, an able administrator who was moving up through the welfare movement and who would one day go into some juicy administrative job in business.

This career inevitably brought Hopkins into constant touch with the well-to-do who supplied the sinews of war. It was part of his job to get money—ever more money. And this means wheedling it out of the rich. It means playing up to them. And Hopkins did this with such excellent success that he took a fancy to them. He is said to have a weakness for the good life and for basking in the luxury of Long Island country estates. The welfare movement was always faced with tasks beyond its financial resources. It was a constant struggle to get money to cope with ever-growing needs. So it is easy to see how the WPA must have seemed to Harry Hopkins like a welfare worker's paradise—money to spend beyond the dreams of the most ambitious improver of the conditions of the poor. It is easy to understand, therefore, how he could think, even if he did not say: "Spend and spend, tax and tax, elect and elect." It is easy to understand also how he could make the mistake of supposing that he was spending tax money when he was not. We have not yet begun to tax for the money Harry Hopkins has spent. Had he had a Department of Commerce consciousness, he would have phrased this idea more truly: "Spend and spend, borrow and borrow, elect and elect."

But what a wide gap between the world of Harry Hopkins, which he knew thoroughly as head of WPA, and the world of business, to which he has now been transferred. It is the difference between the worlds of young John D. and old John D.—the world of unrestrained giving and the world of unrestrained getting. The processes of making money, of producing money income, of getting together wealth in the form of money are quite mysterious to most people. And they are all cluttered up with the most stubborn problems—problems in which the line between the business man's yearnings for profit and the public interest is much obscured. Around the Department of Commerce the lobbyists for innumerable interests buzz like the flies around an Egyptian temple. Within is an army of civil servants whose training and history have ranged them unconsciously on the side of business. In this crowd Mr. Hopkins must find himself a veritable babe.

To assay justly this odd appointment, however, one must look at a character who, unlike Mr. Hopkins, is indeed strange. That is Mr. Roosevelt. It is a little difficult to lay the pieces of Mr. Roosevelt out for inspection. After all, the Presidents we see through the luminous fog which surrounds the throne are more or less fictitious characters. They are the joint product of the party shirt-stuffers and of the creative

processes of the mass mind. Roosevelt has not yet emerged completely from the glamorous red smoke-filled atmosphere of 1933. He came upon the scene in a welter of circumstances which the most extraordinary showman of modern times could hardly have duplicated for an entrance. The public since has been looking at a large, luminous, and tenuous figure. But slowly the gorgeous and vaporous vision has been dissolving, and the hero has been assuming his normal proportions.

Circumstances, the times, events, the vast disorder, generated a powerful light which, shining through the life-sized man, as through a film, cast his image upon the night clouds as a huge, heroic figure. The lights have been going out behind that film, and what we see now is just an ordinary, pleasant, kindly disposed but bewildered and hesitant man, in place of the shining giant with the blazing sword, defying with supernatural sapience the elements and Fate.

People have not yet rid themselves of the habit of interpreting passing phenomena in terms of the first impressions of the New Deal. But few actually saw the New Deal in its first phase. Spectators around a prize ring seldom see more than half the fight. They look at their own man. The liberals saw the many jabs the President struck with his left; the conservatives looked with delight at the hooks he delivered with his right.

Mr. Roosevelt was faced in 1933 with one of the great economic disasters of history. He elected to deal with it cleverly. He set out to outwit it. He determined to solve it to the satisfaction of everybody—to command the applause of the inflationist Mr. Patman and the sound-money man Mr. Glass³; to please both the Federation of Labor and the Chamber of Commerce; to fill the prescription of the spenders and the budget-balancers; to take sides with the nationalist Mr. Moley, Assistant Secretary of State, while also running along with Mr. Moley's chief, the internationalist Mr. Hull⁴. For a brief and happy moment, he succeeded. In one morning, a liberal leader assured me that Roosevelt was the greatest statesman since Jefferson, and a New York wool manufacturer told me he was the greatest man since Christ. He had provoked the huzzahs of the *Journal of Commerce* and the *New Republic*. The liberals thought his conservative measures were merely sops to the devil; the conservatives thought his Left-wing policies were nothing more than surrenders to necessity. A radical assured

³Carter Glass (1858–1946) served as Secretary of Treasury from 1918 to 1920, and Senator from 1920 to 1946.

⁴Cordell Hull (1871–1955) served as Secretary of State from 1933 to 1944.

me that the President was just leading the rats into the trap; a Chamber of Commerce governor told his colleagues the President had laid everything in their laps.

Looked at now, it makes a confusing picture. It was a hodgepodge of good intentions, of bold promises and glittering hopes—a desire to produce recovery, to create abundance while at the same time causing scarcity to get prices up; to help labor, to help the little business men and to help the big business men—all save a few who behaved badly to Mr. Roosevelt personally; to spend as much as possible and to tax as little as possible; to boost prices but not to diminish purchasing power; to raise wages and profits, too; to save the farmer, to save the railroads, to save anybody who could be saved with a subsidy; to make everybody happy and win everyone's good opinion and, in the process of doing this, to adopt any idea which was presented by anybody with a friendly face and which seemed at a glance to have a chance to work.

Behind this tinselled screen it is now possible to see that Mr. Roosevelt was ready to do as much good as he could by the welfare route, to correct and adjust surface defects, but not to cut very deep towards the core or make any organic changes in the society. Almost all the things he did might have been approved by a perfectly sound conservative. Only once did he really seek to make an organic change. That was in the NRA, and that was the most reactionary movement in my lifetime. That was our first real abdication of the democratic principle, since it was a plan to put the control of our economic life into the hands of code authorities named by and controlled by the employers in the various provinces of trade. It was a surrender to the demand which big and little business had been making for twenty years. Business was called to Washington and told to write its own ticket. This was what was called the Roosevelt revolution. It was a counterrevolution concealed behind the cheers of the deluded liberals. The only other organic change, perhaps, was the Supreme Court attack, and that, too, was thoroughly reactionary despite the support of impatient liberals who were willing to throw away a fundamental principle of democracy to hurry up a few unimportant reforms.

The significance of this lies in its bearing on the highly misunderstood attitude of Mr. Roosevelt to business. It is not in any sense a difficult thing for Mr. Roosevelt to turn to the Right. The whole confusion arises out of the volume of clamor which the royalist press has set up whenever Mr. Roosevelt has named some progressive or liberal.

It has wholly obscured the fact that for every liberal appointment he has named a dozen conservatives. One has but to run over the record. Mr. Roosevelt's two major moves in the period of the "revolution" were the Triple A and the NRA. The AAA was led by Mr. George Peek, a lifelong Republican, who before he got through cleared out the "radicals," including Mr. Jerome Frank. The NRA was headed first by General Johnson and next by Mr. S. Clay Williams, representative of the tobacco interests. Mr. Williams went to Washington to fight the labor features of the NRA, announced that he would battle this cause to the Supreme Court, and ended by heading the NRA. Mr. W. Averell Harriman, Wall Street banker and chairman of the board of the Union Pacific Railroad, was next in command. Into the Treasury went Mr. William Woodin, chairman of the American Car and Foundry Company. Among his assistants was Mr. Tom K. Smith, who last year was president of the American Bankers Association. Later, when Mr. Morgenthau arrived, Mr. Roosevelt brought in as chief fiscal adviser of the Treasury Mr. Earl Bailie of Seligman and Company, the Wall Street banking house which had been so bitterly denounced even under the Hoover regime, for its South American financing. The SEC was a wise measure, many of the teeth of which had been extracted by Mr. Tom Smith of the Treasury. And when the Commission was organized, it was into a Wall Street brokerage office headed by Mr. Harry Sinclair's old partner that Mr. Roosevelt went for its chairman. That office was dominated by Mason Day, who had served a sentence for contempt of the Senate growing out of the investigation of Sinclair which led to his conviction. Thus Mr. Roosevelt fished up Mr. Joseph P. Kennedy. The Navy Department was and is still headed by a medieval conservative, Mr. Swanson, and the War Department now by two ripsnorting jingoes, Mr. Woodring and Mr. Johnson. Mr. Jesse Jones, Houston banker and real estate magnate, was continued as head of the RFC, while Mr. Roper went into the Department of Commerce, where he surrounded himself by a group of reactionary subordinates. No one gave any attention to any of these facts because Mr. Roosevelt was ladling out money by the billions and making speeches about the coming abundance. The public has refused to give the slightest heed to the fact that the famous Industrial Advisory Council in the Department of Commerce, organized to "chart the future course of our industrial life" was made up of such men as H. I. Harriman of the Chamber of Commerce, and Mr. Myron Taylor of U.S. Steel, both of whom were among Mr. Roosevelt's advisers in the early days, and Mr. Taylor

remains so. The presence of Tugwell in Agriculture and of Tom Corcoran⁵ and Ben Cohen⁶ in the capacity of messenger boys completely outweighed all this. We need say nothing of the various commissions, such as the Communications Commission and the Coal Commission, both of which might have fitted beautifully into the Coolidge Administration.

Obviously, it would be very easy to create a false impression by this emphasis on these reactionary tendencies of the President. He approved and supported a number of excellent measures which were widely, even uproariously, approved by the liberals. It would be manifestly unfair to omit these from any appraisal of the man. Such things are the SEC, the Social Security Act, the support of collective bargaining, and the TVA. It would be equally unfair to stress too much Mr. Roosevelt's part in some of these things or the shape he gave them. Thus the SEC Act was seriously weakened by his interference on the side of the financial interests, and the Social Security Act was made the excuse for laying upon the workers under the guise of creating a vast reserve a pay-roll tax to support the ordinary expenses of the government—a fact which has now been confessed by Mr. Morgenthau. But, on the whole, the Administration has been more conservative than anything else, though it would be difficult as yet to get men to admit that fact. With a few unimportant exceptions, the President's reforms were such as any sound conservative might and did support. The whole confusion has come from the fact that Mr. Roosevelt himself was confused, that he indulged in an enormous amount of incendiary oratory, and that the conservatives jumped on him for his turns to the Left while the Left accepted with a benign tolerance his turns to the Right.

This arises out of the fundamental difference between the Left and the Right. The liberal has an inexhaustible talent for self-delusion, while the conservative has an immense reliance upon arithmetic. The conservatives are satisfied with nothing less than one hundred percent from their politicians, while liberals are apt to look upon a modest fraction as a gift from heaven. Now the New Deal has run into a stubborn depression. No man in his senses can doubt that. Nor can any man, whatever his favorite business-cycle theory, doubt that the New Deal is at the end of its rainbow.

⁵Thomas Corcoran (1900–) was a close friend and advisor to Franklin Roosevelt. He assisted in drafting New Deal legislation.

⁶Benjamin Cohen (1894–) was an American lawyer who assisted in drafting New Deal legislation.

What is more, there is not much Mr. Roosevelt can do about it. He has delivered to the country in a whirl of radio oratory his various stratagems for ending depressions and summoning abundance. All of these have had their day and run their course. Arithmetic has caught up with him. He is now being relentlessly pursued by the multiplication table. He was touted as a man of action, who proceeded upon the theory that it is better to do something—anything—than nothing, upon the principle that action is essentially better than idleness. He cannot act now because there is nothing he can do. He is trapped. There is but one rabbit left, and its name is Deficit. And that unhappy bunny finds its ears burning with the maledictions of a growing army of critics. But whatever can be done, certainly Roosevelt cannot do it.

Ahead lies 1940. There is a choice of roads. The President must go to the Left, to the Right, or he must, like the much discredited Hoover, do nothing.

He cannot go to the Left, because doing that now involves not proclaiming pious wishes for the things the Left promises, but actually cutting deeply beneath the cuticle of society and making some drastic rearrangements of its mechanisms. And this Roosevelt will never do. He dare not remain inactive after all the scorn heaped upon the inactive Mr. Hoover. He can move, if he moves at all, only to the Right. And that he has plainly indicated his intention to do.

But to do this he must move behind a disguise or forfeit the loyalty of his liberal and progressive legions. And Mr. Harry Hopkins is his disguise. He has surrendered on a number of points—the old-age reserve, the undistributed profits taxes. He has announced that he has no more reforms to inflict on business. He wants Congress to go home. He has named Mr. Hanes, a stockbroker, first to the SEC and then to be Under Secretary of the Treasury. He has made a truce with the utilities. But there must not be too much of this sort of thing. It must be managed a little subtly. And if there is anything Mr. Roosevelt likes, it is being subtle. He could hardly name to the Department of Commerce a reactionary more vigorous than the discredited Mr. Roper⁷. Behind the screen of Mr. Hopkins, Mr. Roosevelt sees the possibilities of doing things for business which he could never dare do through a confirmed ally of business. And so the first thing that Mr. Hopkins did was to resuscitate the disintegrating Industrial Advisory Council with a list of members that looks like a Republican finance committee. Moreover, Mr. Hopkins is an artist at placating economic royalists. He has palled around with them. He has wheedled money out of them

⁷Daniel S. Roper (1867–1943) served as Secretary of Commerce, 1933–38.

for good causes. He managed to silence more than one critic of WPA when he could get at him. This is a talent Mr. Roosevelt thinks he can use. Mr. Roosevelt is one of those statesmen who think that a public question is a controversy or argument between two individuals. The way to settle the argument and the problem is to bring the two arguing individuals together and get them to drop the argument. Then he supposes the problem is settled. Mr. Hopkins, with his smooth and plausible manner, may thus be able to solve many problems.

Mr. Hopkins has been fatally infected by the bite of the Presidential bug. Perhaps no man in America, unless it is General James Farley, supposed himself eight years ago more perfectly immune from this infection than Mr. Hopkins. But the President, with his singular ineptness for casting his characters has put that dangerous idea in his head. One of the explanations of the translation of Mr. Hopkins from WPA to the Commerce Department is that he was to be taken out of the line of fire as enemies of spending loaded their weapons for shooting at the WPA. Mr. Hopkins was to appear in the role of constructive statesman. Once again, this is the fruit of the President's dominating passion for settling all problems and attaining all objectives by cleverness. As so often happens with his strategy, this one will probably turn upon its beneficiary. For it is a fair guess that Mr. Hopkins will not lose much time in revealing his innocence and helplessness in this unaccustomed world. Indeed, Washington is already being entertained with stories to this effect. The strange case of Mr. Hopkins is really no stranger than this.

The Case Against Deficit Spending

In the article by Mr. James Roosevelt we can hear, I suggest, the rumble of the guns that will roar two years hence when the battle rages for possession of the American Treasury and the Bureau of Printing and Engraving. Crises, it seems, parade through our age in dependable succession. And with each goes its ancient sidekick, the Deficit. First came the depression crisis, then the recession crisis, then the war crisis and now the cold-war crisis. Each provoked its own healing deficit. After the cold war we must hunt another crisis. Mr. Roosevelt more than hints it may be a hot-war crisis. But in any event he assures us: "Make no mistake, we are in for deficits for a long time."

The crisis of the moment, we are informed, may be precipitated by the wicked demand of Republicans and businessmen for a balanced budget. This will not only breed a depression at home but will hasten "the utter collapse of every country friendly to us," will throw Germany "to the wolves" and push us "straight into another war." Of course it will bring with it another series of deficits which will probably lift our debt into the trillions.

The modest deficit spending which we must endure to avert these calamities is resisted, and, of course, by the criminal rich and the greedy businessman, who is willing to surrender Europe to the Russians to get a little cut in taxes. This is the preface to Mr. Roosevelt's thesis in the course of which he gives us a little lecture on the gentle art of deficit financing.

The world in the last half-century has been a great laboratory for those who find diversion in watching the vagaries of finance ministers who toy with the explosive components of deficit financing. We have seen some excessively curious versions of these experiments. But I must confess to no little surprise at the new slant on this philosophy in Mr. Roosevelt's article; It is that Calvin Coolidge, whose nasal chirp of the word "economy" became a vaudeville item, was in fact a prodigal, while the true exemplar of economy was President Roosevelt, who used deficit financing as the only sound system of holding down gov-

This chapter originally appeared in the December 1949 issue of *The American Mercury* as a response to an article in favor of deficit spending that preceded Flynn's piece.

ernment expenses. This is not thrown into his article for comic relief but is set down in all sobriety as a sound principle of public finance.

At this point we should pause to examine this unique slant on the great problem of public debt. It is not abstruse. It is just a matter of arithmetic and economics. Deficit spending means, for man or State, going into debt. Men, corporations, and governments have been doing it time out of mind, sometimes for good and oft times for bad reasons. It is normally a dismal subject. But against the fiery background of revolution, world chaos, and war, it takes on interest.

A man may go into debt for three reasons: (1) As a sacrifice for some desired good and without any hope of gain, or (2) to obtain a benefit at once which he will pay for while he is enjoying it, or (3) for the purpose of profit.

The man with the \$3,000 income referred to by Mr. Roosevelt, whose wife's illness forced him to borrow \$600 for her recovery, did not incur the debt for profit. Paying for it meant a sacrifice. This was a defensible use of debt. But it meant two or three years during which the family would have to do without many material things, in order to repay the loan. The operation has nothing to do with business.

Another man buys an automobile on the instalment plan. That is deficit financing. He might save for two years and then buy the car. Instead he buys the car, then saves and enjoys the car while he saves. Both these debts must be paid out of income earned in a way wholly unconnected with the debt. But there is another man—a farmer—whose farm implements are antiquated and inefficient. He incurs a \$2,000 debt to buy a tractor and a group of modern tools. With these he can cultivate twice as much land, treble his product, and treble his income. The debt results in an increase of wealth production and money income out of which he can pay the debt and increase his income. In this case the machines "pay for themselves," as we say. They create the money income out of which the cost is liquidated. The debt is self-liquidating. This is not so in the case of the sacrifice debt or the family car debt. All are proper uses of deficit spending.

But it is this last type of debt or deficit spending upon which the capitalist system has expanded so greatly. A corporation borrows \$10 million and builds a factory to make farm machines. Farm machines are wealth. The debt incurred helps build a wealth-creating mechanism. The corporation can sell these machines and with the proceeds repeat the process of production, pay the interest on the debt and ultimately pay-off the principal. This debt pays for itself. A government can do the same thing if it builds a plant to create material wealth which it can sell. But the government cannot well do this under our

system. It cannot go into production of goods. That is a function of the socialist State, for which our people are not yet prepared. Hence in its spendings it is limited to a collection of mere services. It may borrow \$50 million and build a battleship. This is proper, indeed essential. But whatever the usefulness of the battleship may be, it produces nothing the government can take to market and sell. It gives us national protection, but it creates no money income. It is not self-liquidating. The government must tax the owners and workers in other, wealth-producing, industries to service the debt incurred for the battleship.

II

Now in all these types of debt-making there is a limit—for man and the State. The individual or corporation dare not impose upon his enterprise a debt so large that it will eat up his profits. Wise use of debt has built the vast producing installations of modern society. But unwise use of it has strewn our industrial history with the wrecks of railroads, factories, shops, and farms. Government dare not go into debt beyond its power to levy taxes. And there is a limit to its power to tax. National economic principles fix one limit. But the people themselves will always fix another. While government is borrowing and spending, it produces an exhilaration in the economic system. When it begins to tax to pay interest and principal, the effect is debilitating. Money borrowed to pay workmen for building public buildings creates an invigorating effect. Taxes taken from workmen to pay back the interest and loans to bondholders produce precisely the reverse effect. And if it is too great, the result can be disastrous. This is the reason why governments which are inveterate borrowers never pay their debts. No European government in seventy years has paid any debts. They may pay one bond issue, but only by issuing another. We still owe \$16 billion of the \$22 billion World War I debt. Last April we owed \$235 billion of the depression debt and World War II debt. In the last six months, we have increased it by \$5 billion. The favorite means of liquidating government debt is by inflation, with an accompanying convulsion of the social system.

There are several schools among social reformers built on State deficit financing. One of these advocates government action during periods of depression. Depressions grow out of a halt in the flow of savings into investment. This should be met by government borrowing of those idle savings to be used in public works. This is a completely sound device. There is, however, another school which holds that the capitalist system is permanently disabled. The disappearance

of the frontier, the check on immigration and the slowing down of technological development make it impossible, they contend, for private business to absorb all the savings of the people. To counter this, the government should pursue a continuous policy of borrowing these savings and using them in various national enterprises such as power, transport, communication, and even in basic-metal production and, of course, in numerous cultural, recreational and welfare services. This, of course, would result in a considerable expansion of the national debt. But this, they hold would be unimportant because government debt is not an economic burden. It is owed by the people as taxpayers to themselves as bond-holders.

With this plan I am in complete disagreement. I do not concede the theory of our technological decay upon which it is based. I do not concede that public debt is not a public burden with grave economic defects. And I insist that the whole theory is incomplete without the other half which consists in the nationalization of our basic industries and the socialist control on the British model which is inherent in the plan. It is an immense stride toward national socialism. But at least it is a theory which has been supported by some degree of intelligent research. Our government adopted this theory in 1938. It seemed plausible then when the debt was \$36 billion. Now it is \$256 billion. We have had nearly nineteen years of deficit financing. It has buried us under a load of debt. The interest alone was \$5.5 billion last year. It will be \$6 billion this year; and soon \$7 billion as short-term low interest notes are replaced by bonds. The interest cost alone is now nearly twice the cost of government in 1933. We are paying nothing on it. We are increasing it. Meantime the debt produces, like a corrosive chemical, its effect on the economy. And more deficits are unthinkable.

However, I find no indication of any awareness of these theories in Mr. Roosevelt's article. There are instead a few paragraphs which are called "thinking through" the "internal aspects of deficit financing." They have something of the flavor of those giddy theories which blossomed in Germany after World War I when the poets, the philosophers, and the ballet dancers took up economics in a serious way. The core of Mr. Roosevelt's philosophy is that there is something immoral in a government surplus. Whenever a government spends less than it collects in taxes, there is an unbalanced budget. This kind of unbalance, we are told, is evil. If, however, the government spends more than it collects in taxes, creating a deficit, this is also an unbalanced budget. But this is the beneficent type. As a matter of fact, it is claimed,

a surplus is unconstitutional in this country but a deficit is lawful because it is specifically permitted by the Constitution. And since it is impossible to arrive at an exact balance, the wise course is to have a deficit. When taxes are high the citizen will always prefer the deficit. And "historically it is the cheaper course." All this ends with the assurance that "The deficit is the taxpayer's best guarantee of economical government."

III

This is the score on which the luckless shade of Calvin Coolidge is hauled before the bar of history for one of its greatest crimes. In 1928 he is charged with collecting revenues \$900 million in excess of his spendings. He was thus *guilty* of violating an economic law of which he had never heard and of which I had never heard until I read it in Mr. Roosevelt's paper. "When a government has a surplus," we are told, "it has taxed its citizens too much. If it continues to do this it is operating on an unbalanced fiscal policy. . . . The prospect of a surplus is inevitably a temptation to government extravagance." This, however, was only a small part of Coolidge's crime. "He balanced our budget," reads the indictment, "but he threw every budget in Europe out of balance."

Now we might as well have the facts straight. In the fiscal year 1928, Coolidge collected \$3,657 million in taxes. He spent \$3,103 million. The surplus was \$554 million—not \$900 million. With this he paid off \$540 million of the World War I debt. There was an additional \$385 million received from the sale of public land. But this was a capital asset, not a part of current revenue. This was just one of the many surpluses used to cut the World War I debt nearly 33 percent.

But as a result of Coolidge's budget balancing there is listed a group of disasters directly traceable to his insane prudence. "He balanced the budget but threw every budget out of balance" . . . "Hitler had never been heard of" . . . "The next year came the stock market crash" . . . "England left the gold standard" . . . "The German mark was destroyed" . . . "The franc became worthless" . . . "Spain resorted to civil war" . . . "Italy and Portugal adopted the new-fashioned dictatorship" . . . It all originated in the struggle of European countries to balance their budgets, "a policy foisted upon them by the front-office-psychosis in America." This horrendous indictment ends with the question: "Would Black Friday [our stock market crash] have come at

all if we had not disrupted Europe's economy? . . . Was it really worth all that to balance our budget?"

Here is a collection of European incidents thrown together as a consequence of Coolidge's 1928 budget balancing. There was no such thing as a balanced budget in continental Europe to unbalance. It is curious history to say that Hitler had not been heard of by 1928—the year he achieved his triumphant acceptance by the Ruhr industrialists. The American stock market crash was not the fruit of a balanced government budget but of the shocking unbalance of countless private business budgets. The German mark was destroyed five years before 1928. The franc never became worthless. It reached its lowest point in 1926 and by 1928 had been completely reconstructed. The Spanish civil war broke from causes strictly internal and unrelated to these events. The Portuguese revolution came in 1933. And as for Italy, Mussolini rose to power in 1922 and to absolute power in 1925. There is a kind of irresponsible lumping together of these events, many dated long before or after 1928 and all the evil fruits of the crazy budget policies of Europe which we are asked to imitate.

Europe has supplied us for 70 years with horrible examples of deficit financing. This has ruined every country on the Continent at least once. In Italy the budget was out of balance 46 years out of 66. Mussolini balanced his budget only once in 23 years. And the historian Ferrero¹ denounced him for imitating the deficit financing of France. The practice began in Germany under Bismarck to pay welfare and military expenses. After World War I, the German deficits ranged from 5 to 7 billion marks until 1923, when the presses went to work and shot the debt up to 7 trillions. The inflation having wiped out the debts, the people resumed their clamor for more services and less taxes. Then for fifteen years we heard in music, in poetry and in the light fantastic all the arguments for deficit financing that have been fished out of the economic ragbag of Europe—all but one, namely Mr. Roosevelt's theory that it is the mother of economy.

Some years ago we were warned that "Revenues must cover expenses by one means or another. Any government, like any family, can spend a little more than it earns. But you and I know that a continuance of that habit means the poorhouse." The same voice warned us: "High sounding, newly invented phrases cannot sugar-coat the pill. Let us have the courage to stop borrowing to meet the mounting deficits. STOP THE DEFICITS." That was Franklin D.

¹Guglielmo Ferrero (1871–1942) was an Italian historian exiled by Mussolini. He was Professor of History at the University of Geneva.

Roosevelt talking in 1932 when the debt was only \$20 billion. What shall we say now when it is \$256 billion? This is all I ask for now. Stop the deficits. This is what Mr. Doughton² and Senator George, Democratic chairmen of the House and Senate Finance Committees are saying. And this is what President Truman has just said in demanding an additional \$5 billion in taxes to end the deficit.

Here I do not discuss whether we should continue helping Europe or not. I simply say that whatever we do must be done without increasing our national debt. If we cannot raise by taxes enough for all the domestic social schemes now afoot, we must weigh the relative importance of our European aid and American programs. If we cannot cut on European plans, then it must be on our domestic plans.

²Robert Doughton (1863–1954) served in the House of Representatives from 1911 to 1953 and was Chairman of the House Ways and Means Committee from 1933 to 1953.

The New Deal: An Old Racket

There were, as all now admit—even its sponsors—several things wrong with that strange explosion of political and revolutionary energy known as the “New Deal.” So far as I know, the term, borrowed from the gambling table, was used here as a label for that eruption of alphabetical agencies that crowded into our national life with the inauguration of President Franklin D. Roosevelt in 1933.

There were more than a score of NRA’s and WPA’s and AAA’s and other hastily improvised engines of economic power armed with borrowed billions to plan, police, and generally manage our society. To call it Socialism or Communism or Fascism would be to compliment it with the inference that there was some sort of order or logic at its core. Socialism and Communism, as we define them today, are comparatively new.

But the “New Deal” of Mr. Roosevelt and Mr. Truman, and its somewhat revised edition under General Eisenhower, cannot by any stretch of semantics be called new. It is, indeed, one of the oldest things in history. It does provide the Socialist and Communist revolutionaries with a magnificent weapon with which to wreck the system of private enterprise and free society, but at its core it consists in nothing more than the following three energies: (1) spending money by the government to create jobs and win votes; (2) raising large parts of the money by borrowing; and (3) a final resort to war as the ultimate boondoggle when the other two palliatives have failed.

It continues among us at present, with a new name provided by General Eisenhower’s brain trusters. It is called “moderate progressivism.” But it is, in essence, the misnamed New Deal of Messrs. Roosevelt and Truman.

However, before dealing with the subject of its age, it ought to be recalled that it did not produce recovery. When Mr. Roosevelt was elected for his third term in 1940, there were still 16,908,000 people on relief in over four million households. The great weapon forged to slay the Dragon of Depression was government spending. But in 1940, as the European war marched ahead, our national debt had been boosted from \$22.5 billions to \$49 billions. Yet there were still ten

This chapter originally appeared in the May 1955 issue of *The American Mercury*.

million unemployed as against 12 million when Mr. Roosevelt began producing rabbits out of his hat.

Then, for the politicians, as if by a merciful visitation from the clouds, came the attack on Pearl Harbor and our entry into World War II. Of course, I need produce no statistics to describe the fantastic extravagance of the boom that finally sprang up out of the war expenditures—millions of men in the armies, even more millions in the war industries, all paid for with \$104 billions in taxes and \$216 billions in war loans—a total of \$320 billions. These few paragraphs are written as a preface to blueprint the essential outlines of that thing that was offered to the American people as something fresh and new in human society. Now let us see just how new the New Deal is.

I am not prepared to say precisely when this sort of thing began. But here are the facts about a perfectly authentic "New Deal" in Athens 400 years before Christ. About that time, Athens—perhaps, with some limitations, the first instance of an authentic republic—was overtaken by a depression. Great numbers of workers were unemployed. They flocked into the Agora demanding aid. The farmers had clamored for help and had gotten it. Now the workmen wanted their share.

It is clear from Plutarch's account that Pericles, the political ruler of Athens, and others, understood the cause of the trouble. Plutarch describes the character of the workers who thronged into Athens clamoring for relief. They were, he tells us, brass workers, wood workers, carpenters, smiths, moulders, founders, stonecutters, goldsmiths, ivory workers, and painters. It was perfectly obvious that Athens was in a depression because of the collapse of the building industry and particularly the extensive shipbuilding industry at Piraeus, the port of Athens. In other words, the capital goods industry was in a slump.

Its effects spread to others—to farmers, who were the first to get attention in the form of grants-in-aid through the munificence of the great man, Pericles. This encouraged the idle workmen to demand attention and they were given a dole amounting to six cents a day.

Pericles tried to lessen the effects of the depression by settling the unemployed in distant colonies. He sent 500 to the Isle of Naxos, 250 to Andros, a thousand to Thrace, and others to various colonies of Attica. And Plutarch observes that he did this "to discharge the city of the idle" who were, by reason of their idleness, "a busy and meddlesome crowd of people." Thousands were sent each year to man the galleys. All this brought down the scorn of the wealthy conservative, Thucydides (not the historian), who estimated that some 20,000 citi-

zens one way or another were on the government payroll—which was something of an exaggeration.

In the end, Pericles decided to deal with the depression by a huge program of public works. There in Athens we can behold that diminutive empire caught in the grip of those merciless economic laws which torment the far mightier empires of today.

Thus trapped in an economic crisis, he turned to the second remedy of a sick society—borrowing. However, like the brilliant, able, and slick politician he was, he refused to recognize his action for what it was. As the dominant democratic ruler of Attica, Pericles had organized the Delian League—an alliance of small inland and island countries who shared with Athens the fear of Sparta and her confederate states. All the members of the Delian League were required, in proportion to their size and means, to make yearly contributions of gold to this fund. It had grown to some 9,000 talents (about \$11,250,000)—an enormous accumulation in that early period. It was supposed to be kept intact in the temple on the Acropolis, guarded in the sacred treasury behind the image of Athena, against the day of war. Pericles decided to “borrow” these funds to set in motion a big building program.

Conservative leaders like Nicias protested against this act, saying the fund belonged to the League and was dedicated to a single purpose. Pericles, the arch politician, insisted that it was in the hands of Athens to be used as it saw fit. He prevailed, and these funds were used to erect that magnificent collection of buildings on the Acropolis, including the great pillared temple which still stands and remains the most beautiful architectural spectacle in the world.

This big WPA program, around 441 B.C., financed with borrowed money, produced a great effect on the economic condition of Athens. But, in the end, Pericles turned to the third and most destructive and evil of the elements of his Athenian New Deal—war. The war with Sparta and her allies lasted for many years and ended in the downfall and humiliation of Athens and provided the tragic climax of this earliest of New Deals. Depression, caused by collapse of the heavy industries; then government doles paid for with taxes; great building and military enterprises to create work paid for with borrowed funds—in this case, misused money—and finally, war. Thus ended the New Deal in Athens.

There remains one other weapon of the modern New Deal which was not forged until the early part of the eighteenth century in the France of Louis XV.

John Law escaped from London to avoid prosecution for murder

committed in a duel—dueling then being outlawed in England. He proceeded to operate on the pedestrian model of the professional gambler in various European cities, accumulating a fortune in the process. However, having a flair for government, he discovered a plan with extraordinary explosive power.

In Amsterdam, he saw in operation what I believe is the first instance of the modern bank. Amsterdam was at a crossroad of the numerous journeymen traders of Europe, who did business in all the numerous little countries and used all their innumerable currencies. The Bank of Amsterdam became a place of deposit for these multitudinous currencies. The trader turned over his sack of coins and received what was equivalent to a certificate of deposit in terms of a single currency.

In time, these traders got into the habit of borrowing money from the bank. But the bank did not lend them money. It loaned them a *deposit*. *The borrower gave the bank a promissory note. The bank gave him what would be the equivalent of a certificate of deposit.*

This is precisely what happens in an American bank today. A business man wants to borrow \$10,000. The bank takes his note. But it does not give him \$10,000. *It gives him a deposit. It writes in his deposit book a statement that he has \$10,000 deposited in the bank. By this simple process, the deposits of the bank are increased by \$10,000—though no additional money has actually been deposited.*

That is why today, for instance, our American banks have “deposits” of \$186 billions, but only \$45 billions in cash. The depositor who makes the loan and gets the “deposit” can, of course, draw out money against it. There is nothing wrong or fraudulent about this. But it is dangerous if banks are not in the hands of wise officials and are not carefully supervised by the government.

This principle is what captivated the imagination of John Law. When Louis XIV died, Law hurried to Paris. The Minister of Finance was depressed by the state of the royal treasury and the general economic condition of France after the lavish extravagance of the late king. Law tired the minister’s imagination with the prospect of an institution where money could be created by the mere act of borrowing. He pictured for him the gaudy prospect of wealth and power for France.

Law established his bank where the king could create floods of money by borrowing at the bank. The king took over the bank. Vast enterprises of public works were planned and carried out with these funds. The colonial empire of France was exploited. The famous Mississippi scheme was blown into a huge bubble. Stocks of new corpora-

tions flooded the market. The shares of the India Company inundated the offices of the brokers in the Rue Quincampoix. Someone said that for a brief and dizzy moment Law had actually taught ordinarily sensible men to prefer his paper *livres* to the traditional silver and gold.

But the moment came when France was a raging sea of paper money becoming daily more valueless. The now frantic populace ran madly around trying to exchange Law's paper francs for old chairs, cutlery, carpets—anything rather than this money growing more worthless by the hour. The end was the crash of The System, as it was called, and France plunged into a vast national bankruptcy.

This is what happened on a somewhat different scale in the United States in 1929. The banking system as organized in America is a perfectly sound and rational system. But it is susceptible of abuse. And the abuses multiplied from 1927 to 1929 when our banks began to turn all sorts of property values into bank money by means of bank loans. But these were private loans, many of them solid enough, but a huge mass of them were made by gamblers in American stocks. It was this abuse of the system which made for the great severity of the depression of 1929.

I have explained this system because this is what is now at the bottom of our so-called prosperity based on war. Our war prosperity was built on government borrowing at the banks secured by government bonds, the money being used to manufacture munitions of war. Thus vast streams of bank money, created by government borrowing, flowed like a wild rapids through the factories and foundries and mines and farms and business places of America. In 1930, before Mr. Roosevelt took office, our American banks held the securities of the United States Government and other concerns to the extent of about \$18 billions. Today the amount is over \$105 billions.

Here, then, we behold, in the most powerful and richest nation in the world resorting to the same evil device to which the ancient Athenian, Pericles, turned 400 years before Christ: (1) government spending to produce jobs; (2) borrowing money for that purpose; and (3) finally the resort to war to create the mental and moral atmosphere within which a free people will tolerate the continued use of these fatal powers. And following these expedients, our "new dealers" turn to the example of the gambler, John Law, for the model of their borrowing.

There is nothing else to the New Deal of Roosevelt, Truman, or Eisenhower but these four fatal measures—three of them 2,350 years old and the fourth 250 years old—all of them used over and over in

history. So far as I know, no one thought of labeling these dangerous and ancient expedients as "new." This is the oldest, most dangerous, and most costly "deal" of history.

The Experiment: "Noble in Purpose"

During the last twenty-three years we have been moving through an experiment that has been called "noble in purpose"—namely, to guarantee prosperity to a nation through government action. It may be divided into two sectors—the First New Deal of President Roosevelt and the War Deal of Presidents Roosevelt, Truman, and Eisenhower.

Looked at superficially, the experiment seems to have been successful. In 1929 there were 31,000,000 non-agricultural workers employed. In 1953 there were 49,660,000. In 1929 the national income was \$87,355,000,000. In 1940 it was \$132 billion and in 1953 it was something over \$307 billion.

It would be a shocking travesty on truth to leave the matter with this statement. In the first place, the increase in income is not accurately revealed in these bald figures. The income in 1929 was in very different dollars from the income of 1953 or 1954. Our dollars are only fifty-cent dollars compared with the 1929 dollars. What is more, the population has increased. The per capita income of the nation in 1929 was \$700. In 1953 it was \$1,900. But these 1953 dollars had a very different purchasing power. In other words, the per capita income of the nation was \$700 in 1929; it was \$600 in actual purchasing power in 1940 after Mr. Roosevelt had been in office for eight years. By 1945, when the war ended, it was \$1,300—that is, 1,300 fifty-cent dollars or \$650 in actual purchasing power, the dollar having been cut in half as a buying dollar by the vast borrowing of the war and its inevitable inflation. By 1950 the per capita income was 1,500 fifty-cent dollars, or \$750 in actual purchasing power. By 1954 it was \$1,900 in fifty-cent dollars, or \$950 compared with prewar purchasing power.

This small rise of \$250 in average per capita purchasing power was accomplished by fantastic borrowing by the federal government. The income of the nation was increased from roughly 87 billion to 300 billion. But it took two dollars to buy what one would buy in 1929. And this income of 300 billion fifty-cent dollars was not all clear. After the citizen got this income, the government proceeded to share it with him, taking a heavy bite in taxes. I have been using a figure based on

This chapter originally appeared in the May 1955 issue of *The Freeman*.

per capita income merely to compare the actual meaning of these figures. But in practice the government did not tax its citizens on the basis of per capita income. It taxed them on the basis of actual individual income, with taxes which began at 20 percent for the lowest taxable income and rose to 91 percent of incomes in excess of \$300,000.

The results obtained seem great when stated in terms of dollars, but not in terms of purchasing power—first because the dollar had shrunk to half its value in the market place and, second, because the government confiscated vast billions in taxes and other billions in loans. One thing, however, was accomplished—unemployment was practically extinguished. This was not done until the United States entered the war at the end of 1941.

Failure of New Deal Planning

From March 1933 to December 1941—a period of eight and a half years—Mr. Roosevelt and his New Deal had ample time in which to demonstrate the thesis that the government could take over the planning and direction and financing of the economic system and produce prosperity. His failure in those first eight and a half years was complete. He admitted it. Confronted with this disaster he cried out: "Nobody tells me what to do." In his four-year term President Hoover had spent an average of \$3,700,000,000 a year. In his eight years (1933 to 1941) Roosevelt spent an average of \$7,500,000,000 a year, almost half of it borrowed money.

In 1932, when Roosevelt was elected, there were on relief 4,155,000 households, containing 16,620,000 persons. In 1940, eight years later, there were 4,227,000 households on relief, containing 16,908,000 persons. In this period farm employment fell off and has never recovered.

There were 11,586,000 unemployed in 1932 when Roosevelt was elected. In 1939, in spite of all the spending and borrowing, there were still 11,369,000 unemployed. In the next year, as the European war got under way and Roosevelt began to turn to war measures, there were still 10,656,000 unemployed. These are the figures of the American Federation of Labor, at that time the most reliable survey available.

Roosevelt's tragic failure was his inability to note that the task before him was to restore and improve the conditions within which the system of private enterprise could function at its highest efficiency. Its health had been greatly impaired in the years preceding the crash. Mr. Hoover had pointed out these defects. But in 1931, two years after he entered the White House, a Democratic Congress was installed in power, ablaze with eagerness to exploit the depression—which came

as a present from Fate to the Democrats to open the way for their control of the government in 1932. Mr. Hoover's warnings, given cautiously to business leaders, about the wild stock speculation, easy credit, bad banking practices, abuses of the corporate system went unheeded. When the Democrats got control of Congress, the great problem of the economic safety of the nation became a mere football for politicians who saw an opportunity to discredit their political enemies and a vision of return to power.

Politicians Prolonged the Depression

No student of government can afford to lose sight of the sobering fact that the powers of government, however small or great, will always be wielded by politicians whose supreme business is to attain office and use it to promote themselves and their party. From the moment Hoover lost control of the House, his ability to accomplish anything constructive against the depression was gone. There is not the slightest doubt that the depression of 1929 could have been kept within narrow bounds but for the unhappy mischance that put the powers of Congress into the hands of a group of politicians interested not in curing the depression but in riding the whirlwind into power. They attained this end just as the disorder was rising to a dramatic climax, as President Roosevelt was being ushered into the White House.

No honest student of this episode can blind himself to the fact that, as already outlined, President Roosevelt made no headway against the depression in his first two terms. An incredible array of alphabetical bureaus was turned loose on almost every sector of the social, economic, and political system. Yet no serious impression was made on the depression. None was made until Hitler launched his attack on Poland and thus brought Europe once again into war—the second World War. Out of that war Mr. Roosevelt got his magic rabbit which would produce a wild, disorderly brood of something called “recovery.” If it has had any value whatever, it is in making available to our generation the knowledge of the one kind of government action that can create a boom. When, therefore, we are asked if government can assume the obligation of creating and sustaining a high degree of prosperity for everybody “from the cradle to the grave,” the answer must be in the affirmative. But the means is one which any civilized citizen must contemplate with terror. There is only one magic government rabbit—and that is war.

But out of this experience we have learned what wiser men have

known for centuries; that wars launched not for defense but to produce economic booms actually produce only disasters—endless disasters and, among them, when the fever abates, deeper and more terrible depressions. The onset of this disease and its tragic consequences are easily traceable in our own experience—which has not yet come to its end, though the end is discernible through the fog. The problem, of course, of the bedeviled politician caught in a depression is to create jobs and widely dispersed income. This he usually does by two of the oldest instrumentalities in history—putting great masses of men into the armed services, putting other millions into the war factories, and paying the bills with confiscatory taxes and government borrowing. The borrowing is absolutely essential to the whole monstrous trick. Now let us see how it has worked for us and where it has left us. The figures are eloquent.

In 1929, 31,296,000 persons were employed in non-agricultural pursuits. In 1940 this was little improved. But by 1941 we became entangled in the European war. Mr. Roosevelt, who had complained that "no one tells me what to do," now needed no further advice. Non-agricultural employment rose rapidly. By 1942 it had risen to 44,500,000. More than 13 million additional people had been put to work—3,555,791 of them in the armed services, at sixty dollars a month and keep. At the peak of the war employment, there were 45,000,000 employed. Over 12 million of these were in the armed services.

The government had found work for the idle in the war effort—civil and military. In 1929 the government employed 851,233 persons in the civilian and armed services. In 1945, when the war ended, the number employed by the government in civilian and armed services stood at 15,692,000.

The War Economy

General employment rose rapidly because of the great numbers working in the defense industries. But in addition to these, the great streams of income in the hands of workers created a market for all sorts of civilian goods. Whether our government flung itself into the arms of war in flight from the Old Devil Depression or not is of no consequence here. What is relevant is that eleven years after the crash of 1929 private employment had not increased. In fact, in 1940 total employment, including government civil and military, had risen only slightly. No important impression was made on the depression in the eleven years preceding Pearl Harbor, notwithstanding the expenditure

of \$29,500,000,000 in borrowed money in addition to the taxes collected. The boom came with the war in Europe. It cost a staggering sum in taxes and an increase in the debt from 48 billion to 258 billion as of the end of the war, and 278 billion as I write.

What we have done is to create an increase in the per capita national income from \$700 in 1929 to \$1,900 in 1953, but actually \$950 in real purchasing power compared with 1929 because these are really fifty-cent dollars. To do this we had to take an estimated fifteen million young men and women from their jobs and schools into the armed services. We had to pile on the backs of the American people a debt of 278 billion dollars, with a continuing interest charge of six or seven billion dollars a year as far ahead as we can see an interest charge twice as great as the total cost of government in 1930. The costliest price we paid was 407,000 men killed and 670,000 wounded in World War II, and another 33,000 dead and 103,000 wounded in the Korean War. And tragic almost beyond understanding is the appalling fact that communist Russia got one-half of Europe and two-thirds of Asia as the prize, while we remain trapped in a series of foreign complications with war clouds still drifting over us from every continent.

An Ancient Gimmick

Of course, the reckless war spending created a boom here, but a thoroughly unhealthy boom. The immense prosperity created during and after the war was not due to government taxation or even to government borrowing from citizens. Had the government limited itself to taxing and spending there would have been no war boom. It was due to government *borrowing at the banks*. The secret of this ancient gimmick has been known since John Law created the first deposit bank under Louis XV. Nation after nation has blown up booms by wars fought on bank loans. And in every case they have paid the penalty in depressions and even extinction in the end.

Certainly government can aid the private enterprise system by creating a hospitable environment within which it can function at its highest efficiency. But all we have seen here has been an angry and disordered war on the free economic system, first by taxing it to feebleness and then reviving it with huge drafts of inflationary money gas. The war boom we have witnessed was created, not by taxation, but by the immense confiscation of private incomes under the guise of loans and by borrowing at the banks. When Mr. Roosevelt was elected, the national debt was \$19,400,000,000. He had increased it to \$48,961,000,000 by the time we entered the war. In the years from 1941

to 1946, the government borrowed from 11 to 65 billion dollars a year for a total of 226 billion in five years.

Taxes, of course, figure in this, in that the government went back to the vast streams of income thus created to tax them again and spend them again. This policy has been continued to date by President Eisenhower. In 1953, the federal government employed 6,047,000 persons in the civil and military establishments, as compared with only 851,233 in 1929. As a matter of fact, there are as many or more people employed in the civil and military establishments as there were in 1946, the year after the war ended. In the meantime the nation is saddled with a debt of 278 billion dollars. And the interest on this alone—\$6,475,000,000 for this year—is more than the total cost of all the federal government activities, including the Army and Navy, two years after Mr. Roosevelt took office.

There is no sign of an end to this desperate policy. In 1953 and 1954 the federal budgets were almost twice as great as in 1947, two years after World War Two. This is likely to be true also for the year 1955, when all reports are in. But the problem is that the one great scarecrow that has been used throughout history to make people submit to taxes and debt is now missing. That is actual war—though it is clear our government flirts dangerously with that grim boondoggle. War scares and fantastic invasions of the economic system are used as substitutes for actual war itself. How will it all end? It will end precisely as the orgy of private debt, including bank loans, ended in 1929. How long will it last? Who can tell? Will it end in the collapse of the system of free enterprise—which has already withstood the shock of one dreadful depression and a great and terrible war? Does any leader or any group have a program for the restoration of the free system within the American Republic? The time grows short. Or are we, like England, France, Italy, Spain, and almost every country in Europe, to sink down into the prison of a socialist State?

The Hand in Your Pocket

Perhaps one of the most monumental frauds in our history is the politicians' trick of making the ordinary American citizen believe that the *income tax is a scheme to soak the rich*. The harsh fact is that the so-called "little man" or common man on whom the politicians lavish so much affection, is the lad who pays the great mass of the income taxes—not the rich. I do not wish to infer that the unconscionable raid carried on by the government on these citizens who enjoy very large incomes can be defended under any philosophy save that of Karl Marx. I condemn the confiscation of incomes regardless of size. I merely wish to make it clear at the outset that the overwhelming portion of federal income taxes is taken by the federal government from the earnings of citizens in the lower brackets.

Another oily illusion fostered by the politicians is that the "government needs the money." You will do well to keep in mind that the "government" is merely a collection of rules and regulations and authorizations. It is not a human, living thing you can see or touch with your fingers. In itself it is something you can describe as a tremendous authority—a group of powers. But this authority and these powers are all in the hands of men—*politicians*. The government is a vast army of politicians equipped by the Constitution with great and dangerous powers. Among these powers the most dangerous is the power of these politicians to put their hands in your pocket or your bank account or your pay check and take away a very sizeable chunk of your dollars.

This dangerous grant of powers to the politicians may be said—as I shall show—to be at the bottom of all our troubles—our entanglement in the brawls of other nations all over the globe, our own oppressive national debt, the swarms of political hirelings consuming our substance in every part of the country and—most serious of all—the slow but quickening creep of this great free nation into the toils of something called the Collectivist State, which is a pretty name for socialism. It may be well to remind the reader that Karl Marx, the

This chapter is an expansion of a broadcast made by John T. Flynn over the Mutual Broadcasting System on January 22, 1956. It was originally published by America's Future, Inc., in 1956.

father of modern socialism, put the income tax high up on his blueprint for destroying private enterprise and building the socialist State.

Before the 16th Amendment

At the very beginning we must recall the nature and the shape of our government. The men who built it were students of government—not just students of politics. They had learned the hard way how dangerous government can be. Remember, government is nothing more nor less than an immense collection of powers over the people. The Founders were not opposed to strong government. But they saw that the only way a free people could risk the oppression inherent in strong government was to break down its powers and put each set of powers into different hands. The greater part of the powers of governing our people was left in the states. The federal government had no powers save those delegated to it by the Constitution. It did not have the authority to just make any law or do anything which the politicians at any given moment might fancy. Its powers were listed clearly:

It could borrow money;

Regulate *interstate commerce*;

Make laws regulating bankruptcy and naturalization;

Coin money and regulate weights and measures;

Punish counterfeiting;

Establish post office and post roads;

Provide for copyrights and patents;

Establish inferior federal courts;

Define and punish offenses on the high seas;

Declare war;

Raise and support armies;

Provide a navy;

Make rules to govern the armed services;

Provide for calling out the state militia;

Create and govern a small territory which would be the seat of the national government;

Make all laws to carry out the *foregoing functions*. All the other great powers of government—save the small number delegated in the Constitution—were left in the states, and each state was a sovereign republic. Over all was the federal republic set up to perform a very few functions, very sharply defined, but chiefly to guard and ensure the sovereignty of the 13 little free republics and their citizens. Over the course of years 22 amendments were made to the Constitution. The first ten were added when the Constitution was adopted to nail down

the fact beyond dispute that the *federal republic had no powers save those clearly delegated to it*. Various other amendments were made, some of them to clarify powers, others to improve the method of electing the President and Vice-President; one to conserve the rights of all citizens (following the abolition of slavery); a change in the method of electing senators; the Prohibition Amendment and another repealing it; equal political rights for women; changing the dates for inaugurating the President and Vice-President. But you will see from this that no serious alteration was made in the structure of the government save to broaden and equalize the political rights of its citizens. One amendment—and one alone—conferred on the federal government a greatly enlarged power. This was the 16th Amendment which provided that:

The Congress shall have the power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration.

This amendment was ratified by federal government and the states February 25, 1913.

The Fear of Big Government

To understand the grave and revolutionary deformities inflicted on our republic, it is necessary for the student and citizen to have a clear idea of the nature and enactment of this Income Tax Amendment. The authority of the federal government to levy and collect taxes is set out in Article I, Section 8 of the Constitution. It reads:

The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States; but all duties, imposts, and excises shall be uniform throughout the United States.

This provision, however, was severely limited by another section in the Constitution, in the following Section 9. It read:

No capitation or other direct tax shall be laid, *unless in proportion to census or enumeration herein before directed to be taken*.

This last sentence was a severe limitation of the power to levy income or other direct taxes, because it required the government to first make a census of the population and then apportion the tax in each state on the basis of population. The process was made difficult advisedly. It was part of the general understanding that the services rendered by government would be provided by the states. The federal government would provide the expenses of Congress and the President, the cost of maintaining the armed forces, operating the armed forces, operating the postal service, the support of our international relations, and engaging in a limited number of activities that could be identified as interstate.

The purpose behind all these arrangements was the universal fear of the people in the states lest they unwittingly set up a powerful central government which could oppress them or unduly interfere in their affairs. All the services rendered by government were rendered to the people in the states by the state governments—the making of laws governing the relationship of the citizens, the policing of the communities, the building and support of schools and education, the building of roads and streets, the protection from the hazards of fire and disease, the establishment of libraries, hospitals, agricultural assistance within the state, the organization of police and of courts to determine principles of justice among the citizens in the state, the creation and staffing of penal institutions. In fact, practically every service except the delivery of the mails was and continued to be for over a century a function of the many small republics known as the states.

It must never be forgotten that our forefathers feared government—Big Government. Freedom—human freedom—became a dearly prized possession of these hardy citizens who took over this great wilderness and built here the freest government and the richest citizenship in history.

The evidence of the great part played by the state and local governments and the highly limited part played by the federal government may be seen from the monies expended by both groups. In 1914—that is, 125 years after the founding of the republic—the monies spent by the federal government and by all of the state and local governments were as follows:

Federal government	\$735,000,000
State & local governments	\$1,602,000,000

The funds expended by the federal government were for the army and navy, veterans pensions, postal deficit, the foreign diplomatic service, the Indians, and the interest on the national debt. There was a general understanding that the federal government had no power to interfere in any other activities. And I repeat that this well-understood structure of our government survived for 125 years and was never seriously challenged. What is more, it commanded the admiration of the world.

Protected by the Constitution

We may now have a look at the beginnings of that fatal adventure in taxation which resulted in the 16th Amendment to the Constitution giving the federal government unlimited authority to tax the incomes of all citizens. For 72 years no effort was made by the federal government to impose an income tax. But during the Civil War, the government, acting under the harsh necessities of that dreadful struggle, did impose and collect income taxes. This was not done, however, until the third year of the war. The first of these taxes was imposed in 1863 and, following the war and its terrible dislocations, the tax was continued despite its questionable legality, until 1873 when it was dropped. Despite the need, these taxes were small and actually accounted for less than one-fourth of all the taxes of the federal government. Actually the greater part of the war cost was paid with borrowed funds. The income tax was imposed only on incomes of \$5,000 and up—when \$5,000 had a buying power of more than \$15,000 or even \$20,000 of present-day money. The lowest rate was 5 percent, with 7½ percent on incomes of \$7,000 and 10 percent on incomes over \$10,000. No assault was made on the constitutionality of this levy, doubtless on the humane principle that if it was right to conscript human beings it was justified also to conscript income as a war measure. But it will be noted—as a point of great importance—that no part of the income levy was imposed on the great mass of the people with incomes under \$5,000—an amount which, as I have indicated, represented the income of people of wealth at that time.

The subject of income taxes disappeared out of our political history until the 1890s. The nation suffered from a variety of ills stemming from its own growing pains and the arrival of the age of machinery and the institution of corporate finance. The theory got around that the country suffered from a lack of money. A period of depression added to the energy of the spirit of revolt—particularly of the farmers. Out of this came an almost riotous crusade that found its voice in the

Populist movement. New and violent gospels were being preached from soapboxes, political platforms, and even church pulpits. The government couldn't balance its budget and in the midst of all these violent passions and divisions, Benton McMillin of Tennessee introduced in the House an income tax bill imposing a tax of 2 percent on incomes of \$4,000 and over when the purchasing power of \$4,000 was equal to \$10,000 today. I lay stress on this history because, even in the angry clashes of that disturbed time, this was a tax not to touch the working man or the farmer or the little business man, but only those with large incomes.

It had a powerful appeal to the appetites of the farmers in particular, and to great numbers of people of moderate incomes who could contemplate "soaking the rich" with perfect equanimity. One Southern congressman said:

We are all for it down in our part of the country because none of us has \$4,000 in income and somebody else will have to pay.

When the bill passed the House, one eminent congressman, DeArmond from Missouri, one of the foremost spellbinders of the day, broke into the following burst of nineteenth-century eloquence:

The passage of this bill would mark the dawn of a brighter day, with more of sunshine, more of the songs of birds, the laughter of children well-fed, well-clothed, well housed. Can we doubt that in the brighter, happier days to come, good, even-handed, wholesome democracy shall be triumphant? God hasten the era of equality in taxation and in opportunity!

God, however, for his own reasons, withheld his hand, taking no part in the struggle. The birds continued to sing, the sun shone, and the little children continued to laugh, utterly unaware of the action of Congress. Actually the main speech for the income tax was delivered by William J. Bryan and the leading address against it by Bourke Cockran¹, two of the most extraordinary practitioners of the perfervid oratory of that era. The measure actually passed Congress but was defeated by the Supreme Court in a five-to-four decision. One incident in the struggle before the Court is worth recording. An array of emi-

¹William Bourke Cockran (1854–1923) served in the House of Representatives from 1887 to 1889, 1891 to 1895, 1904 to 1909, and 1921 to 1923. He was an outspoken supporter of organized labor.

nent counsel appeared to argue the proposition that the income tax was illegal because it was in violation of the Constitution. The leader of this array of counsel warned the Court in sepulchral tones that a day might come when perhaps men would be asked to pay as high as 20 percent of their incomes in taxes. Had he suggested that one day the rates might rise, not to 20 percent on the millionaires, but on the working man, and as high as 90 percent on the top-bracket incomes, he might have been committed to a mental institution.

The income tax is no longer an assault upon the rich only. It is no longer a war of the poor against the rich. It is a war of the politicians against poor and rich alike—with the working man getting much the worst of it. The 20 percent tax on the rich has now turned into a 20 percent tax on the lowest income.

First the 16th Amendment

The battle for an income tax did not end with the decision. It rose again, this time under the auspices of the most conservative elements. President Taft fostered the notion that an income tax could be found useful in a "period of great national need." It must be presumed he meant by this a period of war or of some great economic disaster. But he had to face the fact that a practicable income tax was obviously unconstitutional and there was no way to bring it into being save by an amendment to the Constitution. And this President Taft did. The proposed amendment was introduced in the House and Senate, passed and submitted to the states for ratification. It was adopted and promulgated as part of the Constitution on February 25, 1913. The amendment was, of course, a mistake, *but the most appalling blunder was the failure to put a severe limitation on possible income taxes.* The explanation is that the men who proposed the amendment felt that its use would be necessarily restricted by the obvious limitations on the powers of the federal government. The politicians all knew that most of the taxes paid by the people were paid to the state governments; that these were paid to enable the states and cities to deliver the wide variety of services which fell within their authority, while the authority of the federal government was severely limited.

But no one seemed to suspect that at some future time some demagogue would arise in a moment of economic distress who would seize this dangerous and unlimited grant of power to wreck the whole fabric of the American political and economic system as charted in the Constitution. It was, of course, a perfect device for the demagogue "to soak the rich"—that is, to raid the incomes of wealthy businessmen in order to spend the

confiscated proceeds on all sorts of services, favors and boondoggles for the lower income groups.

The evidence of this is clear in the first income taxes imposed. No income tax was levied against persons who had taxable incomes under \$5,000. It must be remembered that \$5,000 in 1913 was worth in purchasing power somewhere around \$12,500. A man with an income of \$5,000 was a comparatively well-to-do citizen. And all he had to pay in income taxes was \$20, if he was a single person with no dependents. The tax rate imposed on him was four-tenths of one percent or \$20. If he had an income of \$10,000 his income tax was only \$70. On an income of \$100,000 the tax was $2\frac{1}{2}$ percent or \$2,500. And on \$500,000 the tax was \$25,000 or 5 percent.

The rates rose when the United States became entangled in the First World War in 1917. The tax was still low but increased in the last year of the war. A war income of \$2,000 paid \$60 or 3 percent. An income of \$5,000 paid \$240 or 4.8 percent; an income of \$10,000 paid \$950 or $9\frac{1}{2}$ percent. An income of \$500,000 paid \$323,000 or 64.6 percent. The nation was at war, yet the income taxes on what may be called the "little man" were slight—slighter even than they seem considering the great purchasing power of a thousand dollars then compared with now. I cite these taxes as evidence of my contention that even during that war the tax imposed on the small-income citizen was very slight. The rich were fair game for soaking, but the little man—who had all the votes—was let off as gently as possible.

When World War I ended, the government began cutting down the income tax rates and the taxes. By 1929 the income tax on \$2,000-incomes was back to one-tenth of one percent or just \$2.00. The tax on a \$3,000-income was \$6.00. On \$5,000 it was \$13; and on \$10,000 it was \$90. The taxes, of course, were much less for married persons and still less for married persons with children. In 1929 a married person with two children and an income of \$5,000 paid only \$3.00. A married person with two children and an income of \$10,000 paid only \$40. It is interesting to recall that even these small rates were denounced by President Franklin D. Roosevelt when he was running for the presidency. He denounced Hoover as a "spender." At Sioux City in September, 1932, he declared he "proposed to discuss up and down the country . . . the duty of reducing taxes . . . I accuse the present administration of being the greatest spender in history." Then he declared: "I ask you very simply to assign to me the task of reducing the annual expense of the government." It will not do to say this became impossible when the depression struck. When he said that the depression had been raging for three years and there were 13,100,000 idle work-

ers. It is also relevant to record that four years later when he was running for his second term there were still 12,646,000 unemployed and that as late as 1940, as he prepared to take us into war, there were over 10,000,000 jobless. The small reduction which occurred was due to the outbreak of the European War in 1939, and the rush of arms orders from our so-called allies. In spite of FDR's attacks on Hoover's deficits, he borrowed 14 billion in his first and 11 billion dollars in his second term—before we were in war.

Then the Politicians

It was at this point that President Roosevelt yielded to the siren song of a strangely assorted left-wing group who sold him the policy which he adopted and which both President Truman and President Eisenhower follow to this day. It brings us to the fundamental evil in income taxes and the still greater evil in that three-pronged weapon for making a boom—income taxes, government debt, and war. Here is how it works.

The first trick is to create money—money out of the air. You think of money as a handful of small change or a lot of dollar or five-, ten-, or twenty-dollar bills. There is only a small amount of such money. But the government can create money with just paper and ink. Instead of printing a \$5,000 bill, it prints a \$5,000 bond—a promise to pay that much in five or ten years or more. The government gives this bond to a bank. The bank gives the government a deposit of \$5,000. No money passes. But the total of bank deposit money increases by \$5,000. A curious kind of money is created. It is sound enough if not carried to extremes. This kind of bank deposit money created by business is what caused the boom and then the crash of 1929. Now the federal government is doing the same thing. It has gorged the banks with its bonds—*63 billion dollars' worth of them*. It has gotten 63 billion dollars in deposits which it has been spending. It is this "money" that has kept the boom going.

The second tool in this black art of creating a government boom is the income tax. The vast borrowing, of course, is spent by the government and goes into the hands of government workers, soldiers, munitions manufacturers and boondoggles of all kinds, such as buying up and storing the products of the dairy and wheat and corn farmers to keep them off the market and raise prices. This little racket alone enabled the government to spend something like *eight billion dollars*—to create a scarcity of food for the rest of us while putting eight billion dollars in the hands of the farmers who have numerous

votes. This is only one such operation invented to pour into the hands of people the billions created by borrowing at the banks. But of course the prize racket of all is militarism under which the government keeps millions of men in the armies and twice as many more in the armament industries. The vast sums of deposit money created by government borrowing finds its way into almost every economic area.

The next stage then is to tax them—tax these immense streams of money in the hands of manufacturers and distributors—tax their profits and then tax the millions of workers who receive the wages this money created. Having taxed them, the government can spend the money again; and as these funds flow into the stream of government spending a second time they can be taxed again. But having embarked upon this desperate measure to keep the boom afloat, the government has to have an enemy of some sort as an excuse for this frantic and dangerous adventure. And, as the pressure of taxation and inflation begins to rob the masses of their shrinking dollars, the moment comes when the bedeviled politician can excite himself into such a shocking adventure as saving something called the “free world”—a world which in our madness and frustration we saved from the Hitlers and Mussolinis and Tojos and handed over to Communist Russia.

Most amazing is that this thing which we called the New Deal—borrowing and taxing and war—is the oldest deal in history. Almost every nation has used it. The curtain goes down throughout history in a riot of bankruptcy. Then the curtain goes up again with a different cast, different flag, different set of grievances, and a new name, communism, socialism, fascism, New Dealism.

Sky High Taxes for Everyone

This brings our story to its final theme. That means to take a look at that darling of the politicians—the “little man.” This includes not only the working man, but the little business man who works behind his counter and labors for anything less than \$10,000 a year. After all, \$10,000 is not what it used to be. It is customary to assume that the buying power of our dollar has now shrunk to fifty cents. This is a false estimate. It is true to say that almost everything that once cost fifty cents now costs at least a dollar. But an immense array of goods and services have now risen to three and even four times their former prices. To take a homely example, when you ride in the subway in New York which once cost a nickel, you now pay *fifteen cents*—and there is agitation now for another boost. This means that when you ride in the subway your dollar is worth only 33 cents. The pair of shoes

I have on as I write this cost three times what I paid for the same shoes before Roosevelt. A ride from my village into town used to cost 20 cents. It now costs 77 cents and the company is agitating for a raise—and with justice, because it cannot exist on the income from these phony dollars.

And what of the cost of government? Just take a look at one taxpayer—with a net income of \$5,000. In 1929 he paid \$13 in income taxes. In 1934 he paid \$140. Today the unmarried worker with an income of \$5,200—\$100 a week—must pay \$876. And what he has left is worth less than 50 cents on the dollar. It is worth only 33 cents in the bakery. If he is a small executive with an income of \$10,000—and married—the government which formerly knicked him for \$415 now demands \$1,880 in taxes.

And what of the married worker who manages on a taxable income of \$3,000 a year—\$60 a week? Before Roosevelt he paid an income tax of \$8.00. Today the \$3,000-a-year man pays \$360 in income taxes. The \$40-a-week married man, with no other dependents, who up to 1941 paid no income taxes, now pays four times as much taxes as the \$8,000-a-year man did when the income tax first went into effect.

Of course the plight of that \$5,200-a-year man is not reflected accurately in the figures given above. The assault on his wages is not confined to a single enemy. A citizen who is married but has no children receives \$100 a week or \$5,200 for the year.

The federal income tax collector takes the first bite—\$760. This leaves \$4,440. Uncle Sam insists on spending that part of his wages. But there are other taxes. Here is the record:

Federal Income Tax	\$760.00
Social security	120.00
Tax on city rent	200.00
State income tax	70.00
	<hr/>
	\$1,150.00

Out of his \$5,200, the working man gets \$4,050 and the governments get \$1,150. Back in the days of the old angry Populist radicals, they were screaming for a small tax of two percent on the \$50,000-a-year man. That was called soaking the rich. Now the governments take more than that out of a \$5,200-a-year laborer or clerk. But that is not the end of the carnage. The vast borrowings of the government at the banks has produced an inflation so that this working man who thinks he is getting \$5,200—and talks about his \$100-a-week wage—is

actually getting in the once well-understood purchasing power of the American dollar only about \$2,000 after taxes. This is the point to which the great crusade that began so gently in 1890 with a two percent tax "to soak the rich" has come.

There are, of course, some very small incomes which escape taxes, but taking all the incomes in the nation together the people of this country pay in taxes not only the federal grab but the taxes of the states, counties, and local communities. The total amount is well over a *hundred billion dollars*. Who gets these hundred billion dollars? The governments, to be sure. But the governments, I repeat, are only a collection of powers. These hundred billion dollars go into the hands of officeholders—the politicians—who now have the most fantastic reservoir of billions to spend in order to stay in power in the history of the world. Remember, never was an American president permitted to seek a third term until Franklin Roosevelt—armed with these dazzling billions—succeeded in getting elected four times.

But the Poor Man Pays Most

It remains now to produce the evidence of the assertion with which we began—that the income tax, which was first sneaked over on the American people, with the philosophy that its purpose was to soak the rich to pay the costs of government, actually soaks the "little man."

In 1925—a period of prosperity—persons with incomes of \$5,000 and under paid in income taxes \$13,908,000—that's 13 *million*, not billion.

In 1955—the latest authentic figure available—persons with incomes of \$5,000 and under paid \$7,597,798,00—7½ *billion* dollars. Who is getting soaked now? Incomes of \$5,000 and under in 1925 paid not quite 14 *million* dollars; in 1951 they paid 7½ *billion*. Their income tax was over 500 times greater than in 1925. As a matter of fact, it is unfair to compare the \$5,000-and-under incomes of 1925 with the same incomes today. Today the \$5,000-a-year man is paid in fifty cent dollars, or less. The only just comparison should be between the \$5,000 incomes of 1925 and the \$10,000 incomes of 1955. These \$10,000 incomes had the same purchasing power as the \$5,000 incomes had in 1925. Let us see what this comparison yields.

Let's compare the taxpayers of 1925 with the taxpayers of 1955 who had the same purchasing power. The citizen in 1955, to buy as much as his predecessor in 1925, would have to have twice as many dollars. His income tax would have to be expressed in twice as many

dollars. Let us compare, therefore, the income taxes of all taxpayers with incomes under \$5,000 in 1925 and all taxpayers with incomes under \$10,000 in 1955:

In 1925 all incomes under \$5,000 paid taxes totaling \$13,908,000.

In 1955 all incomes under \$10,000 paid taxes totaling \$18,083,000,000.

In 1955 all of the big incomes—from \$20,000 up to the millions—paid in income taxes \$7,530,000,000. I am indebted to my friend Lawrence Fertig, who writes on finance for the Scripps-Howard newspapers, for a somewhat later estimate of these same tax comparisons. *The taxpayers with taxable incomes of \$6,000 and under paid more income taxes than all the other brackets put together, including all the incomes of \$50,000, \$100,000, \$1,000,000 and more.*

Incomes of \$6,000 and under paid over 22 billion dollars. Incomes from \$6,000 up to a million and over paid something near seven billion in spite of the fact that taxes on higher incomes are confiscatory.

I do not, of course, mean to infer that it is justifiable or good policy to "soak the rich"—to soak those citizens with larger incomes and leave the little man out. If government must be supported, *all should pay*. But the government, in all justice, should not possess the right to soak anybody—rich or poor.

The soaking of the citizen of large income can be defended only on the theory that he makes a bad use of his savings. This, of course, is a preposterous falsehood promoted since Karl Marx wrote his famous *Communist Manifesto*, and has been used ever since by Communist and Socialist elements. The creation of that great, even majestic, institution of production and distribution—the American system of private enterprise—could have been brought about by no force save the earnings and profits of the American businessman. Our growth has come from the man with the capacity to plan, to dream, to visualize the shape of the future, and who has had the money savings and the credit to risk on his dream—to lose his money if he fails, and to keep the profits when he succeeds. It must never be forgotten that men have worked at their visions and their plans for years, building, experimenting, until the losses end and the profits appear.

After all is said and done, who makes the best use of his income? Is it the business man who has dreamed and fretted and sweated to produce it and to create more industries and more jobs? Or is it the politician who, under the license of the Income Tax Amendment, grabs the profits of the producer and squanders them on political adventures to keep himself in power? This sets up not merely a heavy charge on productive industry, but puts money in the hands of the politicians to

buy great groups of voters, to reward their friends, and as one top-flight politician puts it boldly: "To tax and tax, borrow and borrow, elect and elect."

A moment's reflection will reveal to you that the politician by his spending creates no institutions or machinery for creating wealth. By this I mean that the accumulation of resources, processes, productive machinery by private industry creates all the products and practically all the services a prosperous society needs. The politician who now takes shocking billions out of the pay envelopes of the workers and out of the profits of industry uses them to keep himself in power.

Let me repeat the warning that while civilized man must have government, nevertheless Big Government has always been his greatest enemy. Always kings and their ministers have been able to oppress the people by loading them with vast taxes and debts. This—the oldest of rackets—is now palmed off on us as something new. The element to be feared in government is the politician. Behind the White House and the Congress and the government bureaus are the political bosses who call the shots. The biggest weapon they have is taxes. And the worst of these is the income tax—those billions squeezed out of the politician's beloved charge—the Little Man.

II. THE MENACE OF MILITARISM

The War Boom Begins

The next war may turn out to be a shocking affair, but for the time being the world is enjoying it hugely. It is, at least in places, luxuriating in that pleasant by-product of war—a war-trade boom—without the war; a sort of bloodless war prosperity. The blood will come later. Some countries are like a small town into which a millionaire maniac has escaped with all his money, rolling up and down Main Street, flinging his cash about among the happy merchants. Broken, half-bankrupt Europe now finds in her midst a shopper of infinite and reckless means—the War God—maddest of all spendthrifts tossing his borrowed money about for ships and planes and tanks and machine guns and gas masks and poisons of many sorts. This grim fellow may end up by blowing the world to bits; but no one can deny that, pending the catastrophe, he is making business wherever he goes.

And so while we argue about the next war and what it may do to us, already it is doing its work upon us. War of course has many consequences, social, cultural, physical. Among these are its economic consequences. And these differ from the other fruits of war in this, that they do not wait for the war itself to come down on us. The slaughter will not begin until the armies take the field. We shall not brutalize ourselves wholly by the murders and cruelties of war until the slaughter gets under way. But already, long before the first gun sounds, the war, still undeclared and unfought, has begun its economic effects.

You cannot produce a machine gun or a hand grenade by a mere act of ambition or hate. You must set up a factory, put men to work, buy steel and copper and leather. Soon wages flow out to workers. Make up your mind to have a great air armada, and presently thousands of men will be employed in plane factories, coal mines, iron mines, steel plants, and a score of other industries. But this is not all. The men in these war industries will get wages and they will take them to the grocer and haberdasher, the movie theater, and the automobile salesman, and soon you will see the wages which began in a war-time factory roosting in the cash register of the merchants and flowing thence to jobber and manufacturer and mine and farm, send-

This chapter originally appeared in the July 1937 issue of *Harper's Magazine*.

ing a little thrill of life through all the economic anatomy. And so a little flush of prosperity follows your plan for air defense.

But suppose, instead of merely setting out to make a few hundred or a thousand planes, you decide to arm the nation to the teeth. Suppose your vainglorious or desperate or merely bewildered dictator goes in for producing battleships and machine guns and tanks and explosives and armaments of every description. Into the armament factories, the steel mines, the coal and oil industries, the machine-tool industries, the shipyards, the plane plants, the textile mills, the metal industries, and a hundred other centers of economic activity, orders will flow for hundreds of millions—billions—of dollars of production. These armament and semi-armament and auxiliary enterprises will hale men to work by the hundreds of thousands. This is the first phase. Then, as the wages and material costs flow into the war industries in this first wave, the next wave will take all the money out into the peacetime industries. The wages of the gunmaker will buy cloth and shoes and food. And soon the peacetime industries, under the stimulation of these vast new floods of purchasing power, will be summoning other hundreds of thousands of workers to the peacetime factories. Prices will rise much. Wages will rise a little. Profits will soar greatly. And then one day you will pick up your newspaper and read in the financial column the naive assurance of some half-informed financial reporter that Germany has shown "marked recovery"; that "Japan leads all countries in her ascent from the depression." And some traveler, returning from his summer jaunt to Naples and Milan and Rome, will tell you that "under Mussolini Italy has enjoyed a remarkable resurgence and that there is little or no unemployment there."

But—and here is the rub—the prosperity is all based on the war effort. It begins with the making of war apparatus and will end when that ends. The war effort is so great that in the very act of expanding the war machine the peace machine is at first expanded and then crowded out. The energies of the nation are focused more and more on war production. There is not enough steel for guns and children's toys too. And so the making of toys ceases and the dictator calls upon the "little patriots" to turn into the "Motherland" the toys they already have to make guns for their grown-up brothers to play with. There are not enough credits abroad to buy copper and iron and coal and also wheat and butter which the people need, and so the credits are used to buy the more essential war supplies. And they have indeed become essential. For now the one industry which has become the basis of the economic prosperity of the nation is the war industry. War may be the ultimate curse, but the preparation for war has now become necessary

to the stability of the whole country. And thus a nation at peace becomes hopelessly dependent on the war effort to support the nation in peace.

This is the tragic mess into which the advocates of armament as the guardian and guarantee of peace have at last drawn unhappy Europe. They began by provoking arms production to protect their societies from war. They end by making the war industry essential to protect the society from a more terrible enemy—industrial collapse. Europe cannot live without her arms plants and cannot live with them. She will probably resolve the difficulty in the end by hurling herself into the arms of both war and depression. And now the wide-circling waves of this mad current have touched our own shores and flooded into our own country.

II

The American busy with his own affairs has little conception of the vastness of the effort which goes on in Europe in preparation for the next war to save the world for something or other. The war news which fills the newspapers depicts gesturing dictators, marching troopers, saluting children, ship launchings, and other war scenes conforming to the photographer's conception of war. But the war now is being fought in the industrial plants and the banking houses of Europe. This phase of the struggle does not make good material for the March of Time. Hence the average reader sees little of it.

But the immense effort which is going on in the world today may be seen at a glance in the following simple table. It reveals the "defense expenditures" of six major nations in 1931 and 1936:

	1931	1936
Great Britain	\$449,000,000	\$846,000,000
France	695,000,000	715,000,000
Italy	272,000,000	871,000,000
Germany	247,000,000	2,600,000,000
Russia	281,000,000	2,965,000,000
Japan	132,000,000	307,000,000

The leading nations of the world, excluding the United States and South and Central America, spent \$4,232,000,000 in 1931 on "national defense." Last year they spent \$9,552,000,000.

Here is an increase of over five billion dollars. This is nearly twice the amount spent by this country on recovery and relief in a year. So

that while we have been clambering back to recovery on government monies spent on various WPA, CCC, PWA, and other recovery projects, the rest of the world has been climbing back on expenditures for war.

But this year the outlays will be far greater. For now France and England have joined the warrior nations on a large scale. M. Blum's government¹ has laid out an armament program to cost 19,000,000,000 francs (\$890,000,000) over the next four years. This is for military roads, the extension of the Maginot Line of fortresses along the Belgian and Swiss frontier, and for industrial mobilization. It is in addition to a similar sum of 19 million francs in the regular budget for defense purposes this year. So that France proposes war expenditures this year in excess of a billion dollars.

Great Britain has decided to spend \$7,500,000,000, spread over the next five years, on armament construction. This is in addition of course to her large outlays upon her ordinary military and naval establishment. The ministry has laid plans to spend a billion, five hundred million dollars a year on battleships, naval and air bases, armament factories, and the modernization of her military and aerial establishments. Mr. Neville Chamberlain has been authorized to borrow up to two billion dollars for this purpose. He has already offered a loan of £100,000,000 as the first step in this warlike program to buttress England's threatened empire on land and sea and, incidentally, has suffered the humiliation of seeing it tardily subscribed.

Italy has just increased the war budget 727,000,000 lire over last year's, while Germany's outlays are lost under such a maze of strategic financial devices that no one can tell to what new limits they have gone.

These are vast sums. But they are supplemented by other large grants by almost every nation, great and small, to expand their arsenals and multiply their armaments. France has loaned Poland \$121,000,000 for this purpose. The little Netherlands is spending 43,000,000 guilders to strengthen her East Indian defense. Czechoslovakia has floated a loan of \$120,000,000 to strengthen her armies and protect her frontiers. What the whole amount to be spent by the world, outside of the United States and South America, will be no one can say. But it is safe to say it will be not less than twelve billion dollars.

The average American is familiar with what has happened in this country in our effort to climb out of the depression and he has heard

¹Léon Blum (1872-1950) was a French statesman who led a coalition of radical Socialists and Communists to an overwhelming victory in 1936.

no little about the staggering deficits we have piled up in the past four years in our little domestic war on hard times. We have borrowed and spent three and a half billion dollars a year on recovery and relief. And in the presence of this even this great rich country now stands somewhat aghast and turns an apprehensive ear to the mounting clamor for economy. Those other cruelly depressed nations of the world, on the edge of financial chaos, will, nevertheless, manage to spend this year nearly four times as much as our great relief and recovery bill—and all on war preparations. I have not been able to find any really reliable figures on the expenditures in the first year of the World War, but I think they were probably not much in excess of preparation expenditures in this year of peace. This year's war bill would be more than sufficient to pay the entire war debt due by the Allies to this country. It is not difficult to imagine the effect of these huge outlays, raised for the most part by inflationary central bank loans, upon the whole economic system of Europe.

All the leading countries now find themselves in a position in which the abandonment of the war preparations would be an economic disaster second only to war itself.

During the World War, before our own entrance into it, every rumor of peace overtures sent a thrill of fright through Wall Street. In December, 1916, just before Germany made that last fatal bid for peace as a prelude to the final submarine campaign of ruthlessness, the event was thus reported in the *New York Times Annalist*:

"Tuesday, one-half hour before opening time, news of Germany's move for peace leaked out. It conjured up in the minds of traders prospects as terrifying as the declaration of war. Transactions amounted to 1,019,000 on Monday. On Tuesday they went to 2,352,000. There was a dumping of securities, etc."

With this in mind we can now see how futile would be any conference called to end the armament race or to bring about disarmament. A group of premiers or diplomats sitting round a conference table confronted with a proposal of disarmament would be asked to adopt a measure which would ensure an immediate collapse in every country. The French Premier recognizes this and has admitted it frankly. "It would be impossible to restrict the armament race without provoking the danger of a great crisis." In a world, therefore, where the existence of economic stability now rests upon a continuance of the war effort, all talk of peace by diplomacy becomes a grim jest.

III

You cannot of course unloose in Europe so mad a prodigal without producing some effect here. It would be manifestly untrue to say that our own recovery has been in any major way produced by war expenditures or that Europe's war trade has furnished any determining part of the energy for our upward push. Europe has been shopping here for war materials, but no one has the right to say that this trade has as yet reached such proportions that its withdrawal would cause a serious collapse. But the effects produced here are, none the less, grave. And they continue to grow more serious. They must be looked for in two sections of our economic life—first, in the impetus given to armament in this country and second, in the direct and indirect effects upon our foreign and domestic trade.

Because of the disturbed state of Europe the warrior spirit has flamed up here. It happened, by a strange coincidence, that as Europe sprang to her armaments, we named as President a man with a little-understood attitude toward military and, particularly, naval matters. It would of course be a grave injustice to Mr. Roosevelt to say that he is a militarist in the sense that Mussolini is a militarist. Mussolini is a lover of war. Mr. Roosevelt is not. But he is a lover of the instruments of war. There was a time when he favored universal military training—the corrosive curse of Europe. It was natural that, as he came to power in a world under the spreading shadows of Mussolini and Hitler, his first acts should have been to build up a military machine.

In the past four years the Army and Navy have been flourishing in their favorite preoccupation—preparation against that mysterious and as yet unknown enemy who is one day to invade our shores. It would be ridiculous to name the armament and battleship makers as conspirators pushing Congress and the President into extravagant outlays for defense. It has not been necessary. The President has been the leader in this job. The Navy is his darling. And the first monies earmarked out of the first huge relief appropriation in 1933 were for naval construction.

Let us see just how much business Americans have got out of our own war preparations. To understand this you have to look at our defense appropriations in the three years before Roosevelt and in the past three years.

They are not easy to follow. The vagaries of the bookkeeping of the present Treasury officials make the scrutiny of such things difficult. There are those two budgets—the ordinary one and the emergency one. And accounts have been shifted about from one to another

in such a way that they are confusing even to those who make a business of watching them. Then you read in the papers that a certain impressive sum has been allocated to Public Works you are not apt to suspect that there may be a couple of cruisers and a flock of submarines lurking in that innocuous item, as the salesman's new overcoat hides away in his innocent-looking expense account.

If you look at the expenditures for national defense for the years 1930, 1931, and 1932 you will come upon a total for the three years of \$2,440,000,000. But you cannot compare this figure with the defense expenditures for the past three years because various expenditures which used to be marked "defense" are now carried in different accounts. For instance, before the Roosevelt bookkeeping came into being, river and harbor expenditures were allocated to the Army. Now they are carried separately, partly in the general expense account but more largely in the recovery expense account. So to make a comparison between the three pre-Roosevelt years and the past three years, we have to omit the river and harbor expenses from the defense accounts and we have to make certain other adjustments. At the end of this we find that in the years 1930, 1931, and 1932 the federal government spent in round numbers on national defense two billion dollars, and in 1935, 1936, and 1937, three billion dollars.

In other words, in the past three years the government has poured into the bloodstream of American spending, and hence into business, a billion dollars on war preparations in excess of what it spent in the Hoover years. Put differently, the government has loosed into the stream of spending an average of a billion a year on war preparations—which is \$333,000,000 in excess of its previous annual expenditure. To this extent has it been stimulated by the war movements of the rest of the world.

If you think this is not a great sum, then you have merely to compare our own little war industry with some other large industries. A billion dollars a year is twice as much as the value of our whole wheat crop which supported over a million wheat farmers in 1935. It is almost twice as much as our great cotton industry's output in 1935. It is five times as much as the value of all our hard coal mines, and a good deal more than the combined product of our hard and soft coal mines which support over half a million men. It is greater than the value of our vast crude oil industry. And the increase per year alone—\$333,000,000—is enough to support one of our larger manufacturing industries.

The Navy itself is very proud of this. "The money appropriated to the Navy," it declares in a recent bulletin, "is nearly all returned to

the general channels of commercial business. It serves as a stimulus to the general business of the country." It then points out that of \$90,000,000 spent in a given period for shipbuilding, \$35,000,000 went to the steel industry and the balance for machinery, metal doors, paints, varnishes, and other materials drawn from every State in the Union.

What we are doing is evident from the following facts. Here is a simple table giving the number of war vessels under construction on January 1, 1937, for the various countries in the world:

	<i>No. ships</i>	<i>Tonnage</i>
United States	87	276,265
Great Britain	54	248,195
Japan	29	87,194
France	30	180,608
Italy	34	109,870
Germany	42	232,866

There remain, however, great sums appropriated for new tonnage. But here we fall a little behind. England, with her ambitious plans, passes us. However, we do quite well, for we have just provided for two more capital ships to cost \$100,000,000.

The truth is that the bulk of American shipbuilding is naval. Without our jittery government and its terrors of the unknown invader, shipyards would be quite empty. Of vessels of over 100 gross tons under construction about March 15th, only 30 were for private account, while the Navy had 87. The tonnage of these private vessels is only 181,000 tons while that of the naval vessels is 276,265 tons. And now we are about to embark upon a program of shipping subsidies to stimulate the construction of more merchant vessels which are capable of serving as transports in time of war.

IV

While it is difficult to put one's finger on the precise spots which have benefited most, no one who looks at the daily and weekly dry-as-dust picture of foreign commerce as told in the reports can doubt the effect of Europe's war business on our own.

So far as I know, there has been no concert between rascally traders in war profits. The average business man with a product to sell is eternally in search of customers. When he sees a customer he hails him with delight and does not pause to conduct an investigation into his

social philosophy or, for that matter, into the particular use to which he intends to put the merchandise purchased. The humble junk dealer laboriously scratching in back yards and attics for abandoned iron is not concerned with the grim fact that it is to be sold to some foreign nation to fabricate into guns and shells and that it may come back to us on its return trip in the muzzle of a machine gun to mutilate one of his neighbor's sons. There is no evidence of bankers inventing stratagems to mobilize American investors behind a growing war trade. It has all come about in a most natural way. Europe has money to spend. Our exporters are more than happy to accommodate her and no questions asked.

Of course there is a feeling that the immense activity in the steel industry is connected with Europe's war trade. Steel exports have of course increased, but it is hardly true yet that much of the metal turned out of our busy mills is for foreign war demand. Up to now European warrior nations have preferred to utilize their great armament programs to activate their domestic industries. Hence they have kept business as far as possible at home. But now the whole armament industry of Europe moves into a higher tempo. Haste—not the furious haste of 1914, but still rising haste—characterizes the preparation energies of Germany and France and England and Russia and Italy in these past few months. Now some of these countries have found their own resources and those of their neighbors hardly sufficient for their imperious necessities as the war cloud gathers breadth and darkness. Up to now they hardly have been willing to pay the American price for steel. But now they are not only willing but eager. Orders for steel have been coming in ever greater volume.

The steel companies themselves have shown a lack of willingness to take these orders. The chief reason of course has been that they have been supplying just about all the steel they can make to domestic business. Exporters in New York say that they are being swamped from abroad with orders for steel and that some buyers are offering bonuses as high as ten percent. England has reduced her tariff duty on steel fifty percent and has wiped out her duties on pig iron. There is a general impression that domestic steel orders are going to taper off a bit and that when this happens the American producers will be glad to have this foreign business. The *Iron Age* recognizes this: "If steel were available," it said editorially April 9th, "American producers could easily book a large volume of export business at prices higher than domestic business. Much of this demand cannot be satisfied by European mills and will be a cushion for American mills if it should be still available when domestic demand has ceased."

This, however, is merely by way of preface. Thus far Europe has confined her purchases largely to iron to be converted into steel in her own furnaces. And she, as well as Japan, has been buying scrap iron. If, as you have motored along the highway, you have overtaken an old truck piled high with rusted bed springs, car fenders, old stoves, corroded iron pipes, and other metal junk, held fast to its creaking carrier with wire, you have in all probability passed within arm's length of a far distant outpost of the world's war effort. For the first commodity to feel the thrill of this war prosperity has been the scrap iron and steel business. Thus war begins its work where it ends—with the scrap heap.

You must not look with scorn upon scrap iron. It plays a most important part in the making of steel. It is known as the surface iron mine, and these great junk mines frequently supply more iron to the steel blast furnaces than the underground mines do ore. It is not unusual for steel makers to use 60 percent of scrap and only 40 percent of pig iron in the conversion of metal into steel.

This scrap iron and steel export business began to feel the touch of life when Japan became serious about her great mission and Hitler raised the sword again in Germany. This was in 1933. In 1931 we shipped 136,000 tons of scrap abroad. The greatest year up to then was 1929, when we sent over half a million tons. But in 1933, when the world set about beating its plowshares into swords, exports increased rapidly. Last year they were around two million tons. This year they will be perhaps not less than three million. For the month of March the total was 360,000 tons—an all-time record—three times as much as in the whole year 1931. In fact this year we shall undoubtedly send abroad more scrap than in the eleven years between 1923 and 1933 combined.

Of course the price has soared. It was \$8 a ton in 1933—the low point. It averaged about \$15 a ton in 1935. It averaged about \$20 a ton in 1936. It has gone as high as \$25 a ton. It is around \$20 as I write.

How important this is you will gather from these simple facts. There are about 250,000 people, I am told by the savants of the Scrap Iron Institute, making a living out of this business—small enterprisers at the very bottom of the industrial heap. Yet, as the output of the so-called "purchased" scrap industry this year will be around fifteen million tons, you will see that at current prices we are talking about a 300-million-dollars-a-year industry—as big as our lumber products industry or the silk and rayon industries.

The bulk of our shipments have gone to Japan, England, and Italy. Scrap shipments have so clogged up freight trackage in certain places

that railroads had to impose temporary embargoes. Near Philadelphia a thousand cars loaded with scrap were tied up for lack of ships. In case you have forgotten it, it was thus the war business got under way in 1915—that is, in remote areas of industry. And if you think the scrap men don't think well of this business, just talk to one of them about it. You might learn that they are prepared to send up a mighty protest if any attempt is made to prevent them from cashing in on this handsome opportunity to make the world safe for scrap iron.

The business has, by the way, started up our first little war-trade row. Of course the rise in the price of scrap has hit the makers of steel in this country. And of course the steel makers don't like that. So they are sponsoring a bill in Washington to put an end to scrap export save under presidential license. Since they have not gone very industriously after this war trade themselves, it is worth recording that the steel producers' association has warned the scrap dealers in a burst of pacific hysteria that they would do well to remember that some of this junk they are selling may come back to this country as shells to kill some of our brave boys. Fine Americans, those steel men!

Into this war trade, as was inevitable, has stepped the speculator with his little bag of tricks. London, rather than New York, has been the scene of the adventures of the 1937 speculator in the materials of war. But all of these raw products, which are so innocent in themselves but which become so vital when the sabers are rattled, have come in for sensational increases in price. There is a whole host of such materials—aluminum and tungsten and antimony and manganese and quicksilver and zinc and lead and tin and ammonium nitrate, jute, cotton linters, leather, and a number of other things.

There is tungsten, to take a modest commodity. A critical scarcity has developed. It is important in the making of tool steels, but it is also an essential war commodity. And the scramble for the meager supplies has driven the world price up 100 percent.

Leather prices have risen 25 percent in the past six months. This is due chiefly to the frantic demand in Europe for skins for manufacturing gas masks.

A good example of the indirect effect of the European war trade on our own business is found in commodities like glycerine and copper. A year ago glycerine was selling at 14½ cents a pound. Now it is fetching 34 cents. The chief reason is that imports of glycerine have fallen very low, and this in turn is due to the fact that European producers are holding their supplies for war production.

In the case of copper the sensational rise in price from 9 cents a year ago to a high of 17 cents before the recent break was the result

of war demand. We do not, it is true, send much copper to Europe, and the copper producers did not make their money out of sales to the war builders. But the price of copper, for some mysterious reason, is fixed in London, and copper prices soared in Europe because of the armament demand there. Our own went up with them. This brought a handsome sum to the copper smelters. This difference in price between 9 and 15 cents meant an increased return of around 75 million dollars to the copper producers.

Of course the aviation industry has been one of the great beneficiaries. It has been seeking orders in Europe not only for planes but for parts. Following the assassination of Alexander of Yugoslavia in 1935, advices to our government revealed that instantly American airplane and parts-makers sent their representatives rushing to Germany and that in less than 60 days they sold enough for over a thousand planes. The plane plants are working, like the arms plants in New England, three shifts a day.

As a matter of fact, our whole export trade has been deeply affected by this war trade. Even though actual exports in 1936 and 1935 do not show a preponderance of war materials, the rise in our exports in 1936 was due principally to Europe's increased purchasing power, and this in turn was due to the recovery produced by war expenditures. Moreover, in 1936 there was a serious rise in prices of European goods needed here, much faster and higher than the price rises in our own goods. This price boost, due to the war buying, tended to increase Europe's buying power, and the effect has been seen in every section of our export trade.

To sum the matter up, the business created here by our own preparedness expenditures—an increase of \$333,000,000 a year—plus the increase in our sales of certain war materials abroad, plus the increase in profits on commodities like copper and aluminum and glycerine and numerous other commodities which have gone up in price as a result of the scramble for those commodities in Europe—all these together have produced enough business to more than equal the amount of war business this country had picked up from the warring nations of Europe by about the middle of 1915.

No one would have said at that point that our national economy was being shifted to a base of war-material production. But the business had got into our system and into our bank accounts. And presently we began to be interested in Europe's capacity to buy from us. The next step was to lend her money. And that is the step which lies just ahead of us now.

V

There is little doubt that Europe's buying here may well be restrained by her inability to pay. These warlike countries can build and recruit within their own borders so long as they can print bonds and unload them on their banks for credits. But when they step over their frontiers they must carry cash or sound commercial credits with them. They have been enabled to finance their purchases here so far in various ways. First of all, they have up to a point used gold. Second, some of these countries, like Germany and Italy, have exercised despotic dominion over their entire foreign trade exchange. Every scrap of merchandise sold by an Italian to America creates a credit here. The Italian government has assumed to avail itself of such credits and to say what kind of materials such credits should be used to purchase. Also Italy, and in a lesser degree Germany, have seized the foreign securities owned by their nationals and have used the dividends and interest payments due on these to make purchases abroad. Then besides, as already indicated, the rising prices of commodities in Europe have expanded the cost of our imports from those countries and given them a larger buying power here.

But there is a limit to all this. And, in the case of England and France in particular, democratic countries which can hardly seize the foreign holdings of their citizens as the fascist dictator does, the problem of financing large purchases here will be difficult. The only way it can be done is to effect loans here—perhaps large loans. But this is impossible as things stand now because of the Johnson law. This law prohibits loans by Americans to any nation which has defaulted on its war loans to us. This both England and France, along with all their allies save Finland, have done. The only way round the Johnson Act is to resume payments on the war debts. Therefore today behind the scenes, but apparently well observed by everyone, all sorts of moves are quietly in progress to arrange a debt settlement which will permit England and perhaps France, to make moderate yearly payments on their repudiated obligations. If this is done, then both England and France will be in a position to make further loans here.

This of course is much like what happened in 1915. By the middle of 1915 further purchases in America were difficult without large commercial credits first and outright longer-term loans later. Hence the first Anglo-French loan of \$500,000,000 was floated in the fall of 1915 upon the alluring assurance that all of the money would be spent here in our factories. This is precisely the offer which is due to come to us again and which may actually come before this can appear in print.

I do not see what can be done about this pre-war trade. It probably cannot go to very disastrous lengths here unless we make loans to whip it up. Therefore, the one practical method I can see is for us to discourage loans to any foreign nation for war purposes by every means in our power.

I urge this upon purely pragmatic grounds and without any feeling either for or against any of the belligerents. Of course a section of our people deeply sympathetic with France and England will set up a sentimental clamor that it is our duty to come to the aid of the great democratic countries in a world threatened by Fascism. On the other hand, the professional and hysterical foes of Communism will cry out against aid to those countries which allow themselves to be drawn into Communist alliances.

The intelligent American will think this all out in terms of the interests of his own country, its ideals, and its relation to the civilization of the world. I hope he will bear in mind these considerations:

First, no possible good can come from a boom in this country built on war trade. No man in his right mind can suppose that such a boom can last. It is bound to collapse and leave the country afflicted by it worse off than when it started.

Second, we have had the lesson of our last war participation. We have been the most hated nation in the world ever since that little adventure of questionable altruism. The money we loaned then has not been paid and never will be paid for the obvious reason that it cannot be paid. If we make further loans, the ability of the countries borrowing from us to pay will be reduced to the extent of the loans we make. They cannot pay the old loans. They will not be able to pay the new ones. They will default on them. When the next episode comes to an end in a disaster, and we ask for our money, we shall add another load of obloquy to the old one inherited from the last war.

No man likes to write in a tone of pessimism. But ahead I can see no escape from the appalling tangle into which Europe has got herself—no escape for Europe.

There is, however, an escape for us. It is to refuse, under any circumstances, to get enmeshed in that tangle. I would listen to the rulers of Europe whenever they want to talk peace. I would talk with them, exchange ideas with them, and trade with them. Because there is apparently no way to stop it, I would permit trade in any commodity even though it had an ultimate war use. But I would not encourage such trade and, above all, I would not permit the lending of a single penny to any nation to carry on such trade. Our safety lies in Europe's inability to buy disastrously from us without credit.

And then, should war come, I would ruthlessly restrict war trade and protect this nation by every device that ingenuity can invent, from the rise of a war-trade boom financed by the sale of American securities owned by foreign investors here or by credits from bankers, manufacturers, or lenders. I do not see how, in actual practice, we can do more than this. We shall do less at our peril.

Can Hitler Beat American Business?

Can Hitler beat American business? He can if the United States enters the war in Europe.

That war breeds in each man's mind his own special brand of terrors. One man sits in fear lest England and France be defeated, for this will bring the Fascist flood swiftly across our borders. Another is equally fearful of a German defeat, for this will mean that central Europe will sink into the arms of Bolshevism—a mere prelude to our own bolshevization. Another is certain that British disaster will mean the ruin of our foreign trade. And still another feels quite certain that the success of German arms will be followed by a spread of the Fascist philosophy to the whole world. Others look for German victory to be quickly succeeded by an energetic penetration of South America by the fascist powers. Others think they will go farther and attempt military penetration. And there are those who live in terror of a German invasion of our own country, ranging all the way from an aerial attack to Senator Andrew W. Neeley's dream of a conquering Germany coming here with the French army and the English navy, establishing a Siegfried line along the Canadian border, Setting up Sudeten areas in St. Louis, Milwaukee, and other populous centers and subjecting the United States to the fate of Poland. Fantastic as this last horrific vision may seem, there are many in America—editors, statesmen, and even Cabinet members—who accept the possibility of a German invasion of the United States.

In the midst of these alarms and terrors it is singular how little our people permit themselves to be disturbed by the most serious possibility of all—the possibility, not that Germany will come over here after us, but that we may go over there after Germany.

Americans do not want to become involved in this war of course. But it is not that they have the least fear of defeat. They do not want their sons slaughtered. They do not want to be saddled with the vast cost of war. The opposition to the war is not based at all upon the real peril of war to us. We should win a military victory. We should get a new set of monuments, a new collection of heroes, some new national shrines, and a new national holiday. The real peril of war lies not in

This chapter originally appeared in the February 1940 issue of *Harper's Magazine*.

military defeat. It lies in war itself, whether we win or lose. After such a war Hitler would probably be dead. But how his ghost would shriek with laughter as he surveyed the scene! For it would behold the greatest of all his victories. It would see America subjected, not to the fate of Poland, but to the fate of Germany.

II

To see this in all its white clarity it is necessary to look very swiftly over a few rather bare facts. You are probably familiar with that chart prepared by Leonard Ayres¹. It is the most popular of all charts, for I have seen it on the walls of banks and barber shops and in the windows of brokerage offices and barrooms. It is that chart which shows a long straight line which represents what is called a normal state of business. Then there is a long snaky line which curves up and down along the straight one, making little hillocks and large mountain peaks above and small valleys and canyons below. The hills and mountains above the straight line represent periods of prosperity and booms. The valleys below depict the intervals of depressions and slumps.

If you will look at that chart for the past thirty years you will perceive a very serious fact. It is this—that the hills and peaks of prosperity use up twelve years of the thirty, and the depressions and slumps occupy eighteen. Is it not a somewhat arresting phenomenon that for a whole generation in the most favored country in the world sixty percent of the time should have been passed in depressions?

The facts are even more serious when examined closely. Most of that era of depression has been in the last half of this thirty-year period. Out of the past fifteen years eleven have been years of depression—seventy percent. If we go back to the beginning of the century—forty years, forty years which have extorted from our after-dinner economists and poets paeans of praise for the most blessed age in all the long chronicles of man—we shall find this disturbing fact. In the first twenty years we had thirteen years of prosperity and seven of depression. In the past twenty this was reversed and we had seven years of prosperity and thirteen of depression.

At the risk of being disagreeable I will add one more pinch of dark statistics. The low points of depression in these forty years have been 1908, 1921, and 1933. In 1908 we went below the line to minus 18. In 1921 we descended to minus 25. In 1933 we hit an all-time low of

¹Leonard Porter Ayres (1879–1946) was an educator and statistician. He served as Chief Statistician for the War Department from 1940 to 1946.

minus 45. The 1908 depression lasted one and a half years. The 1921 depression lasted two years. The 1930 depression has lasted for ten years and exhibits no signs of being near its end. The depressions are deeper and longer.

I have only to add that these past twenty years make up the period following the World War. In this brief history there would seem to be warrant for the following observation. Our economic system is a delicately adjusted mechanism and under the most favorable circumstances is easily thrown out of kilter. The years 1900 to 1919 were extraordinary years of progress, yet we had seven years of sub-normal business. We were in trouble 35 percent of the time. Apparently this mechanism cannot stand the shock of war. For since the system was hammered by war we have been in trouble 65 percent of the time. We can win wars against military foes, but we cannot win them against war. When the victory is over we have to manage with an economic system which has been cruelly damaged and which, in the present instance, has remained damaged for thirteen years out of twenty.

III

The unpleasant facts recorded above have rested uneasily upon the consciousness of all manner of men for a good many decades. Well above the patriotic self-satisfied oratory of the Chamber of Commerce speaker, the overtone of fret and dismay about our balky, stalling, and unpredictable economic system has been audible. And out of this condition and the anxieties of men about it have arisen three facts which confront the whole world—facts overmastering in their meaning for those who try to peer a few seasons ahead to guess what lies in store for us. These three facts are the controlled society, national debt, and militarism. Far apart as they may seem they are logically and inextricably related.

All sorts of men, I say, have been aware for a long time of this imminence of distress forever above our heads while we were most pleased with our lot. Even in our most prosperous days there have been large provinces—geographical and economic—which have not shared in the general prosperity. In the Coolidge days, for instance, there was once prosperous New England, the farm belt, the sharecroppers, the sweat shop workers in the cities, to name but a few of the desert spots. Even in these good times there is the continuous repetition of the feeling that somehow means must be found to make our economic system work better. We must do something about it;

that is, we must find some way to control our economic system. All through the lush years of 1923 to 1929 the Chamber of Commerce of the United States kept up a persistent and energetic drive for the relaxation of federal laws which prevented trade associations and other business groups from getting together to do something about it, to find means of controlling the economic system in order to make it work "for us instead of against us."

The golden era of free competition was with us before and just after the Civil War. Save in railroading, there were no corporations to speak of, no holding companies, no dominating trade associations, no trade agreements, no chain stores, no powerful industrialists, no I.C.C.'s, no Federal Trade Commissions, no utility commissions, no rule-making commissions of any importance. The private enterpriser was free to plunge in, to drive ahead, to maul and kick and gouge, beat down his rivals until they beat him down. But that principle of action has been slowly dissolving for decades and is now almost gone.

The controls began not with the government but with private business groups. In the 1860s men in first one and then another industry formed themselves sometimes into loose combinations, sometimes into airtight trade associations to control production, prices, the conditions of competition. This movement spread. It was followed by the development of the corporation, not merely to combine large resources for large-scale operation, but in order to unite hostile groups, like various oil refiners, into a corporate combination more effective and manageable than trade-association combinations. Then as machine development went forward, making large-scale operation simpler, new forms of corporate organization—such as the trust and then the holding company were invented to extend and consolidate economic control. Monopolies appeared, not merely as the instruments in the hands of predatory men but as mechanisms for combatting the erosions and earthquakes of economic law attacking industries.

Along with this went the parallel movement of government controls. At first these were negative—prohibitory controls, regulations designed to prevent private groups from inflicting controls for selfish purposes upon the economic system. Such were the Interstate Commerce Law, the first utility commissions, the Federal Trade Commission. Their aims were based upon two popular concepts—the devotion of the people to the system of free enterprise and their hatred of injustices heaped by powerful men and groups upon helpless little persons, competitors and workers. The State and Federal interventions were to compel competition, to prevent constrictions upon business by private persons, to prevent and punish human injustices.

But this is no longer the chief objective of either government or private action. Now all sorts of people insist that government withdraw its restrictions upon business and let businessmen get together and make laws for the government of our economic life. And they insist too that the government supplement this with mechanisms of its own to keep the system functioning.

The Little Man, a little panicky, says we just must do something about this. We cannot sit down and let these economic laws run over us. We must make work for the people. We must help the people save their homes. The Aged say, we are outcasts; we've been thrown out of the economic system. The government must do something about it. It must invent work. It must shield us from want. The Youth say, we are licked before we start. The government must do something about us. We must have subsidies to take us through college. We must have jobs when we come out. There is a threatening note in their complaints.

The Farmer says, we must have laws, subsidies, rules; we cannot survive unless there is control—control and cash. The Little Business Man says, there are too many of us. There are too many grocers, cafe owners, saloon keepers; too many little shops. All cannot live. There must be restrictions. There must be no price-cutting. We must be permitted to charge a price that will enable us to live. We must be protected against the chain, the big fellow. The Big Business Man says, there is too much production, too much oil, steel, copper, lumber, textiles, everything. It ruins us. It kills prices. The government must let us do something about it. We must get together and submit all this disorder to law. We must control production, prices, the laws of competition.

Thus the young and the old; the manufacturer, the farmer, laborer, the little merchant and the big merchant, all swell the chorus of demand for order, law, regulation, rule—control. And thus for seventy years we have been introducing little by little into the system first one control and then another. First little price agreements, little selling cartels, then trade associations, then corporations to do more effectively in corporate combinations what trade associations did but imperfectly, then holding companies to expand and tighten corporate controls over great areas, then chain stores and modern merchandising, then government controls keeping pace with this—commissions and more commissions and laws and more laws and, perhaps as serious as anything, bigger and bigger units to exercise more despotic control over larger areas of economic activity—regulations against abuses, regulations to improve the lot of this one and that one, regula-

tions to energize the system until all this flowered into that so-called revolutionary orgy of regulation and control by private agencies and the government which flamed up in 1933 in the NRA, the AAA, and a large group of kindred agencies.

The purpose of this brief survey is not to discuss the wisdom or folly of the controls but to point to the fact that this movement toward control is one of the great, overmastering influences in our economic life. There may be differences of opinion—indeed there are—as to what are the wisest controls. But there is little or no difference of opinion that control there must be. The socialist, the capitalist, the fascist, the communist are one on this. It has come to be a conviction deep-rooted in the consciousness of people everywhere. It is in fact a settled mass conclusion, conditioning and directing the thinking of liberal and conservative. All the old shibboleths of liberty of action and freedom of choice are still uttered with that kind of pious fervor with which we proclaim our abiding love of the Commandments which we violate and the teachings of Christ which we ignore. We talk about freedom of action but it no longer controls our thinking. We are all interested not in freedom but in control—far-spreading, detailed, and comprehensive control of our economic life.

Thus, I say, this idea of the controlled society is one of the three great facts which are at the bottom of almost all the great drifts in man's social thinking in this critical time.

IV

The second molding fact of our times is national debt. The governments of the whole world are floating on an ocean of debt. Nothing saves the whole world from utter economic collapse and a world revolution but government borrowing. Whatever the reason—and we need not seek to find it here—private enterprise has ceased to provide all the jobs, food, and shelter that is needed. The same force that has driven people to demand comprehensive economic controls has driven the governments to throw up as a mere temporary barrier against disaster the barricade of bonds. The Fascist countries where totalitarian control has been tried, no less than the others where the control has been sporadic, fragmentary, and uncoordinated, have been forced to save themselves from the failure of private enterprise by borrowing vast sums to expend upon made work and doles.

Governments have borrowed because they all stand helpless in the presence of the economic riddle which confronts them. All make a great show of launching schemes of reform and repair. But none of

these has any important effect upon the economic disaster which envelops their countries and the world. Not knowing which way to turn, they borrow money and spend it one way or another. There is nothing new about this. It is one of the oldest devices of rulers. It is easier now merely because of the invention of bank credit which makes it possible for governments to spend money not only without taxing the people but even without consuming their savings. But it produces profound economic dislocations in the system and generates burdens of its own.

Just when the day of reckoning on this monstrous debt will come is not easy to say. It cannot be far off. Practically every country in the world has stretched its credit to the breaking point and now further credit is possible only through the most weird and fantastic improvisations. The United States alone has not yet exhausted itself. But it moves forward toward the breaking point rapidly. Our national debt in 1929 was \$16,000,000,000. Now it is \$41,500,000,000. And, despite a lot of brave talk about economy, there is no immediate prospect of an end to its further growth.

It is this fact—the surrender to debt as the sole remaining barrier between the nations and economic chaos—which is the second of the three tremendous facts in the world today.

V

The third of these facts is militarism. It is not a mere accident that militarism has spread like a plague of weeds over a world which had come to hate it. It is not an isolated fact. It is the inevitable and logical consequence of the debt technic of national salvation. Militarism is a scavenger disease and follows in the wake of national spending and debt as naturally as pneumonia on the heels of influenza where the body is weakened by disease.

Militarism takes many forms and flourishes for various reasons. But in its present-day form it has come to have a special significance. It is a means of creating a vast new industry. Immense numbers of the population can be drained off into armies while the remainder of the unemployed find work in factories, mines, enterprises which produce the ships, guns, tanks, planes, which the armies need. In a country like ours it is not possible to lead our people off into huge armament expenditures without much preparation. Peaceful, feeling secure behind our ocean fortresses, we could not have been interested in military projects in 1933. Our people were not averse to spending. They wanted recovery. They did not want sacrifices. They wanted abundance, the good life. Therefore an era of peacetime expenditures of

borrowed funds for recovery was *easily* practicable. But now that course has become difficult. More imperious reasons for continued spending and borrowing must be found.

Government spending and borrowing bring with them a number of burdens. They build up a heavy debt-servicing load which must be cared for out of unproductive taxes. They produce uncertainty about the currency. They make for dislocations in the field of private enterprise. They intensify the underlying disease which they temporarily alleviate. They begin after a while to frighten people—to become a national bugaboo. Resistance rises against them. The projects for spending grow more and more difficult to defend. Resistance becomes militant and formidable. But the bewildered minister has nothing to substitute for it. What he must do is to find a reason for spending which will subdue opposition. And in the end there is always one reason that is imperious, one reason which can override all opposition. That is national defense. That means spending on battleships, on guns and munitions, on planes and fortresses and uniforms and soldiers. That leads to this present-day kind of militarism. But to do this national defense must be made popular. And there is but one way to make a vast military establishment popular in an over-taxed and debt-burdened country. That is by providing the population with enemies.

Italy and Germany resorted to this first because their economic systems were more exhausted than others. They have been providing employment by spending taxes and borrowed funds upon military establishments for several years. And hence they have been popularizing the military expenditures by providing their countries with enemies. They were merely farther along the road of this fatal cycle. Now all the countries in the world are at that point, save that some of them, like Belgium and Holland and Finland and other small nations, have not had to invent their enemies. They are there as terrible facts upon their frontiers.

We have created a huge national debt to relieve poverty and idleness and produce recovery. With the money we have built schools, hospitals, playgrounds, roads, parkways. But now it is no longer possible to support such expenditures. Powerful resistance has developed. It is difficult to get approval of more school and park building when maintaining those already built has become so onerous, and legislatures and city governments are finding it difficult to get the money to support existing institutions. But the spending must go on or the present government will face a collapse. And hence this one great imperious call to national defense is invoked. All sorts of influences drive us that way. There is no other kind of projects for which the spenders and

borrowers can get support. It has the supreme advantage politically of being popular; the Gallup polls show that the public already supports it. The events in Europe are easily exploited to produce fear of various enemies. We have had the Yellow Peril kicking round for years. We have the old prejudices and aversions inherited from the last war. We have the natural love of force dramatically expressed in military might so dear to the heart of the conservative mind—the mind which is most to be mollified on this borrowing-spending policy. And along with this the whole device is most agreeable to the President whose love for battleships and the external manifestations of military power is well known. And so we slide with little or no resistance into the last phase of the cycle.

Economic dislocation, control and more control, national debt, and militarism—these three great facts have now invaded our life.

VI

How war will come to us we need not argue here. There is at least a possibility that, having thrown ourselves into the arms of militarism, we may by the very propaganda essential to defend this course generate a war psychosis. Popularizing war preparations is a dangerous process. We call up devils only to find we cannot exorcise them. Some of the enemies we conjure may take our propaganda seriously. There is grave peril in such a state of affairs. But I do not seek to probe here the path by which we may go to war. We are concerned with what may come upon us with war.

Of course the first effect of war will be to transform us into a dictatorship. Oh! of course it will be merely for the duration! A few weeks after war has been declared there will be no great difference in fact between America and Italy, though the external structure of the two governments will remain dissimilar. There is a good deal of pious horror now about M-Day. But that is only the whimpering of the Sabine virgin just before the magnificent Roman legionary subdues her. When war comes M-Day codes will be inevitable. And when M-Day comes all the M-Day restrictions and regimentations will be received with acclaim. The plan to subject our system to control will be laid upon a population which for decades has yearned for that very thing. In a society where all schools of thought have slowly got round to the necessity of a controlled economic system even in times of peace, there will be no resistance to the most drastic controls in the crisis of war.

In the last war almost all the proscriptions against industrial

agreements and combinations were suspended. The government went about and taught trade groups how to get together. The trade combinations which flourished in the late twenties were largely organisms which had been given life during the War. The official tolerance of the trade agreements which marked the whole period of the twenties was an inheritance of the War. We are of course much farther along the road to control now than we were in 1917. Then we had an Administration whose claim to fame was the perfecting of national instrumentalities for enforcing competition. This time we should go into a war with an Administration whose chief device of recovery was the NRA and AAA which suspended our laws against combinations and completely reversed our whole official attitude toward industrial and other controls.

Having delivered ourselves into the bands of a totalitarian regime through the necessities of war, what shall we do when the war ends? Observe the objectives of the M-Day plans. They are to eliminate delays in the producing machine, to conserve national assets, to direct them into essential channels, to distribute the production load to avoid industrial congestions. What is there in these objectives which differs in essence from the reasons for control which we have dallied with in our peacetime economy? And when the war is over does any innocent person imagine that the crisis will be less than during the war? Indeed, the real crisis will come after the war is over. What argument for control that can be made now to a people already convinced of its necessity will lose force in the presence of the crisis that will descend upon us with the peace? If control seems important now, if it will be accepted as inevitable during the war, will it not seem many times more essential when the war has done its work upon us? For when the fighting stops we shall see our economic system reduced to the kind of disorder and burdens and exhaustion which characterized the Germany of 1933 and the Italy of 1922. We shall then have advanced far—indeed beyond turning back—into that economic wilderness where the nation will be prepared and eager to throw itself into the arms of some cocksure group which will promise salvation through a subjugation of all our institutions and enterprises to regulation and control. The debt with which we go into the war will seem insignificant to the debt with which we emerge. What that debt would be one may merely guess. The last war cost us \$33,000,000,000 and we borrowed \$22,000,000,000 of it. It is not to be supposed that another such war would cost us less and it is equally improbable that we should raise so much of it in taxes because of the present state of our tax load. A war lasting as long as the last one—only a year and a half so far as

our participation was concerned—would certainly add another thirty billions to our debt and maybe more. We may safely estimate that another such war would leave us at its end with a total debt load of from \$75,000,000,000 to \$100,000,000,000.

The impossibility of going on without a continuance of national debt will be equally evident even to those who deplore it most. We shall be driven to all sorts of strange fiscal devices and to all sorts of strange internal—and perhaps external—adventures to justify such devices. We shall have a vast naval and military establishment on our hands which we shall not be permitted to demobilize completely. And we shall find ourselves in a world of strange neighbors. Nothing can save us from the practical dissolution of our ancient liberties when that day comes, even though we may continue to speak the language of the age of democracy.

There is a curious misconception of Fascism among our people. Essentially it is an attempt to make the Capitalist system of private property and private profit work by subjecting it to extensive controls. The controls are, in the first place, entrusted to the various trades. It is, in theory at least, self-control for industry. It is a form of syndicalism. It can be made to work only when backed up by a grim and ruthless authoritarian government which enforces compliance with an iron hand. Therefore, while it implies a corporative organization somewhat similar to our NRA, it implies also a dictatorial government unrestrained by democratic forms. That is all it is in essence. The other external evidences which we are accustomed to look at are merely part of its pageantry and part of its propaganda. This may take, in any given country, forms which conform to the spirit and character of that country.

What is more, nations do not sink down into Fascism and particularly into the most brutal form of Fascism at one fell dive. In Italy the catchwords of the Fascist party before it reached power were universal suffrage for men and women, abolition of the senate (though it was the Chamber of Deputies which it abolished), nationalization of arms and munitions factories, control of other factories, railroads, public resources by workers' councils, minimum wages, universal eight-hour day, extension of social insurance, confiscation of war profits and certain church property, heavy inheritance taxes and income taxes. And Mussolini said, "We will accept no form of dictatorship" (*The Corporate State in Action*, by Carl T. Schmidt). Thus it begins.

What is completely overlooked is this—that while some form of control is essential to the capitalist money economy, the kind of controls which the corporate state and we, with our self-rule-in-industry

cult, lean to, not only fail to make the system work but actually foul it. Profit may not be necessary to society, but it is certainly necessary to society organized under the profit system. And the type of control employed in the Fascist state, which is merely the type of control we favor carried to its inevitable conclusion, paralyzes all the glandular motors and regulators of the capitalist economy, including private investment and profit.

We may seem to be a long way from the kind of Fascism which we behold in Italy today, but we are not so far from the kind of Fascism which Mussolini preached in Italy before he assumed power and we are slowly approaching the conditions which made Fascism there possible. All that is needed to set us definitely on the road to a Fascist society is a war. It will of course be a modified form of Fascism at first. But Fascism cannot continue in a modified form. It implies dictatorship and the means to a dictatorship will be found, even though we may continue to preserve for a time the shell of democracy.

Thus, though Hitler will never come here to impose his Fascist abomination upon us, we may go to him to impose it on ourselves. Then one day American industrialists powerful enough to be dangerous to a dictator may find themselves like Fritz Thyssen sojourning in Canada or Switzerland and Hitler's ghost will rock Valhalla and deafen old Thor and Odin with its sardonic laughter.

Our Phoney War on Communism

Nothing in this world of mysteries could be more puzzling than the position of our government on the subject of Communism. President Eisenhower seems to be quite clear about the threat of Communism to world peace in Europe, Asia, and Africa. Indeed, he has taken up his position as the great leader of the world war on Communism. But when we get around to Communism and Communists in the United States, the President seems to be not only uninterested but actually takes assaults on American Communists as a personal affront. In the war on world Communism, he is a roaring lion. In the war on Communism at home, he is a critical and muttering lamb.

One explanation suggested as being at the root of this phenomenon is this. Attacking Russia is popular. She has no friends. But, more important, our war on Russia is the root of our prosperity. Those three-and-a-half million men in the armed forces and those far more numerous millions of workers in the war industries, all supported by grinding taxes and murderous borrowing, explain the all-time-high national income popularly known as "prosperity." The politician in power needs Russia in his business. It is Russia which provides him with the excuse for the taxes, debt, and prosperity. The President can take a deep interest in an enemy on which our phoney boom is built. When he turns his attention to the enemy in our midst—which he does only when aroused—the case is different. The weapon to be turned on the Communist in Europe and Asia is guns and armaments. The Communist in America must be handled differently. He must be handled gently, understandingly, and, above all, we must never call a Red a Communist or call a Communist a Red. The sword, the jet plane, and the bomb for the Communist in Europe. But in America—the soft answer which turneth away wrath.

The truth is that fighting Communism in Europe and Asia is a political racket. Playing footsie with the Communist and his foggy dupes at home is equally a racket. The President himself is doubtless a conscious and even enthusiastic champion of fighting Communism abroad. The origin of the tolerance racket for Reds at home is a little

This chapter originally appeared in the February 1954 issue of *The American Mercury*.

more obscure. The President now has a split political personality. He is, of course, in one phase of his official existence, the perfect "model of a modern major general" with preference for weapons for solving economic problems. In another phase he has become an educator, a college president, a member of the guild of the intellectuals where, under no circumstances, is he to be found infringing the code by warring on ideas—even Communist ideas.

Is there an American so naive as not to know that the vast inflation and boom on which this nation has been floating for the past fourteen years is built wholly on the ugly business of war? Whatever may be said in defense of that war is permissible only up to 1945. From that point on, the war has been a strictly phoney war. I do not mean that small sector of it known as the Korean War was phoney. But it was the dark and sinful product of the shocking foreign policy of the Roosevelt and Truman administrations. What Russia has was surrendered to her by our government. And as long as Russia stands there as the central devil squatting on these vast concessions surrendered to her by Messrs. Roosevelt, Truman, and Eisenhower, this government has an excuse for our adventure in militarism to keep three or four million men in the armed forces and another eight or ten million in the arms industries. This accounts for the spending of forty billion or more in American business enterprises and continues as the only basis of our phoney prosperity. And all this we do in the holy cause of fighting Communism everywhere in the world—except, of course, in America, where it could really be fought without spending more than a few dimes.

On this subject of the Communist foe abroad, the President can wax eloquent and even weepy. As late as last October 6th, he told the gathering of churchwomen at Atlantic City of the dread peril of Communism in the world:

"We and our friends in the free world must build, maintain, and pay for a military might assuring reasonable safety from attack. From this position of secure confidence we must seek to know and respond to the legitimate aspirations and hopes of all people."

Thus the war on world Communism went on in the great auditorium upstairs. But downstairs in another hall, a widely known preacher, giving a series of morning lectures, was instructing the ladies. This gentleman is the author of a book in which he said:

"When Christianity lost nerve and despaired about historic hope, Marxism maintained the faith. When Christianity lost faith in man, Marxism held that man could know a new classless day and a force-free society."

He added that there was more faith in Marxism than in actual Christianity and continued: "Marxism might be God's means to Christian fulfillment in history. Much blood may have to flow and much witnessing may have to be done through martyrdom, but in the long run we can do everything for and nothing against the truth."

Let any brave man, like J. B. Matthews, who knows this dark subject as few men do, write, as he did in this magazine, a terrifying warning about the infiltration of the ministry by Reds, and the President loses no time in joining the smear on the author.

What is the origin of the President's strange myopia on this subject? No one accuses him of being a Red or even a socialist. On the contrary, the one great remaining dream of his life seems to be to lead a host against the Red legions all over the world—as if Communism, which is a social disease, could be whipped by armies. The President does not seem to realize that militarism is a social disease and that it was the effort of the old Germany and France and Italy to bolster their economic systems by militarism supported by government debt that brought all these countries to the brink of bankruptcy in 1914, and then into war to escape the insoluble problems they had created by their folly. He does not seem to know that militarism bankrupted Germany, France, and Italy twice in fifty years.

How, then, are we to understand what it is that makes this strident and challenging anti-Communist warrior in Europe and Asia so sweetly tolerant of Communists and their dupes right here in America? The explanation can be found fast in the nature of the man's interests and in certain human relationships which have disarmed him. General Eisenhower is a military man who up to a few years ago had no interest whatever in political or economic affairs. He had never voted in his life until he left the Army and became president of Columbia University, when he voted for Dewey for governor but did not register any political affiliation. Politics and economics were just not his meat. To him, Communism is apparently not an enemy philosophy but an enemy country—Russia. He apparently knows little or nothing of the economic and political problems involved in Communism.

Along with this he finds himself in an embarrassing position. He owes everything he is or has to Roosevelt, Truman, and George Marshall. Lifted from a lowly rank to be General of the Army, he would be less than human if he did not have a warm spot in his heart for these men who lifted him so high. President Truman offered him the nomination for the Presidency and there is good reason to believe he would have taken it if his counsellors had not warned him that 1948 was not a Democratic year. He is today a rich man—another fact he

owes to Mr. Truman and his Internal Revenue Department. He wrote a book which he sold for \$750,000 and got a ruling from Mr. Truman's Treasury under which he was able to escape a huge chunk of taxes. Thus he retained twice as much of this rich sum as any other author would have kept. Had I written a book which grossed \$750,000, I would have had to pay \$610,000 in taxes. Eisenhower escaped on some theory that he was an amateur author, as if amateurs could not have money income.

As an example of his ingenuousness, he engaged a ghost writer to assist him in this venture, a professional journalist who has been identified by Whittaker Chambers, Louis Budenz, and Hede Massing¹ as a Communist. And since that time the President has had two ghost writers who were New Dealers. Not only did he get this rich tax treatment at the hands of Mr. Truman's administration, but his financial interests in these affairs were super-intended by such a stalwart New Dealer as Joe Davies of "Mission to Moscow" fame.

It can be readily seen that as the sins of these old friends pop up for public inspection, he is troubled, puzzled, and embarrassed. He would like to hear the last of it all. And his most recent utterance on the subject was that he sincerely hoped Communism would be a dead issue by the time the 1954 Congressional elections rolled around.

This explains his strange behavior toward Senator McCarthy and his even stranger behavior in the Harry Dexter White case, which was handled by his own Attorney-General and the man who managed his campaign for the Presidency—Herbert Brownell. He stepped completely from behind Brownell when the Attorney General exposed the fact that White was a Communist spy and was retained in office and promoted by Truman after the FBI had given him a full warning of White's espionage activities. One might have supposed that the President would have held his peace and given Brownell an opportunity to make good on his charge. Instead he told reporters he disassociated himself from the charges and he actually had to hold his temper trembling on the very edge of a passion.

He said he disapproved issuing a subpoena for Truman and gave him a clean bill of health before the hearing, saying that it was inconceivable that Truman had knowingly done anything in the White House to damage the United States. He sought to give the whole episode a black eye. He told reporters we "must not destroy what we are attempting to defend." And, to continue the verbatim report of his press conference, "so just as earnestly as he believes we must all fight

¹Prominent apostates from Marxism and former Communist Party members.

Communism to the utmost, he believes we must always fight any unjust, un-American way of uprooting them, because in the long run, he thought we would destroy ourselves if we used that kind of defensive."

What did he mean by this vague sentence? How do we fight Communists? Certainly not by appointing them by the hundreds to positions of power in the policy-making departments of the government. The President doesn't agree with Senator McCarthy. But what method does the President have in mind to get rid of Communists? How do Republican administrations get rid of Democrats and how do Democratic administrations get rid of Republicans? Apparently Communists enjoy some special immunity in this strange new order. Senator McCarthy fights Communists in government in return for which the President continues to snipe at him.

I return to my theme that we are carrying on a phoney war on Communism. Russia has won the global war with our complete assistance and blessing. She has Poland, Lithuania, Estonia, Latvia, Czechoslovakia, Hungary, Rumania, Bulgaria, Eastern Germany, and Albania. Russia shares with us the rule of Austria. She has Mongolia, Sinkiang, Manchuria, China, the Kurile Islands, Sakhalin. What is left of Europe is sunk to varying depths and England, France, and Italy are getting pretty well sick of us. Communism, with our aid, has been triumphant over half of Europe and half of Asia and there is nothing we can do about it. The Communist world, however, is good as an excuse to spend billions on military might in a phoney war all over the world, while our President carries on his own little war on those who fight Communism in America.

Militarism: The New Slavery for America

The people of the United States are now confronted by a movement to introduce into this country the project of Universal Military Training—UMT, as it is called—as a permanent institution. The ostensible purpose is to create a great reservoir of manpower to fight whatever global or other wars in which we may be involved. The assumption, of course, is that we live in a world upon which Communist Russia has launched with appalling success a monstrous plan to conquer it all for Communism.

Before we go further, let me warn you to be on guard against the supposition that UMT is essentially a military institution. There is a great deal more to it than national defense and soldiering. There is nothing new about it. It has been used in every important country of Western Europe—except Britain, to her eternal credit. And it has brought every country that used it to bankruptcy and war.

As long as I can recall there have been groups here devoted to UMT, chiefly because they thought it offered excellent discipline for our youth. But its sponsors got nowhere with that argument in free America. It is being urged now by the President and a powerful group in Congress who insist we must be ready on a moment's notice to defend ourselves against Russia. Now let me repeat the warning that we will go far afield if we think of UMT as a *military institution*. The idea takes numerous forms in various proposals to get it started or put it into effect either piecemeal or all at once. However, I am not discussing here any special measures or particular legislation. I am referring to permanent UMT as a *national* policy—whatever form it may take. It is, in general, a plan to conscript all young men into the armed services for from six months to two years, after which they will be discharged into a reserve, subject to annual training for years. But this plan would not get very far if it were proposed as a purely military measure, particularly in this day of aerial and atomic warfare when even many military authorities question the need for mass armies. There are other highly complicated elements in it—purely politi-

This chapter is an expansion of a broadcast made by John T. Flynn over the Mutual Broadcasting System on June 5, 1955. It was originally published by America's Future, Inc., in 1955.

cal and economic. Until these are examined and understood no intelligent opinion of it is possible.

No one who opposes UMT does so because he wants to keep America defenseless. Of course America must be prepared to resist assaults on us by a foreign power. But we must never forget that *there is an infinitely more dangerous enemy within our gates than Russia*. It apparently has not occurred to our citizens that the institution of militarism can be a far more formidable enemy within our gates than Communist Russia 5,000 miles away. We must know how to defend ourselves not only against Communist Russia in Europe and Asia, but also against Communist agents within our own gates and against a strange collection of other interests here in America. If America is ever conquered by Communism, it will not be by the armies of Communist Russia, but by a curious alliance of ordinarily loyal elements within our country. We have Communists, Socialists, various editions of collectivists, One Worlders, plus a variety of economic and sectional groups interested for political or business reasons in measures that will break down and finally destroy our free society.

Fortunately UMT has been tried in many countries. We will do well, therefore, to keep an open mind until we see clearly the various interests behind this dangerous institution. We can see this in all its aspects in the experience of Germany and Italy.

Germany

As we survey the institution of Universal Military Training in Germany, we will go very far wrong if we think of it in terms of a purely military organization. It did make a powerful appeal to those in Germany who loved military might and display. But there would have been no UMT in Germany had there not been in that country far more formidable reasons for it. Actually it had originated in France. And it found little favor at first with the old Junker elements in Prussia. The old army had been a prized professional institution as a proper activity for young nobles. They found in the officers' corps a vocation suited to their social level. When Germany turned to Universal Military Training there were not enough young nobles qualified to provide the military with the great swarm of officers needed. The immense number of non-noble applicants who crowded into the army tended to debase the "social standing" of the officers corps. Hence the nobility of Prussia in particular looked on the experiment of UMT with grave misgivings. We must look to other elements of the population for the rise of militarism in Germany. Foremost were the politicians,

the business men and the imperialists, who looked with growing envy on the imperialist adventures of Britain, France, and Italy and who nurse dreams of colonial expansion.

As a matter of fact, at the root of the movement in Prussia was the politician. And the urge for it was to be found in the rising tide of socialism in the German states. Bismarck, one of the first German leaders to be alerted to the socialist threat, was a pragmatic statesman. Socialism had had its origin in Germany, the birthplace of Marx and Engels. In their assault on the capitalist society the socialists held out the vision of "jobs for all and security for all." There can be no doubt this gaudy promise had a potent impact on the minds of the German workers. Lassalle, then the socialist leader in Germany, made so great an impression on Bismarck's mind that he cultivated the socialist leader. He began by adopting a few socialist welfare measures. But he came around after a while to launching a full-scale competition in socialist projects with the socialists.

The great German Chancellor decided, after some experimenting, that he could give the German people all that the socialists promised without setting up socialism—a tragic blunder which politicians in America who have not read history seem not to have comprehended to this day. As early as 1887 various German leaders were talking about capitalism suffering from a "lack of planning." Von Moltke and other German military leaders, following their great victories, were rewarded by the German people with seats in the Parliament. Under the influence of this type of leadership "the people became inclined to believe in a superior kind of planning," as one commentator put it, "which the crisis-beset capitalism did not know how to provide, but which was inherent in successful military institutions and enterprises." Bismarck was not proposing a socialist Germany. Like many a naive American politician, he recognized that Germany was troubled by grave economic dislocations and that the *government was being urged to do something about it*. He shied away from the word "socialism," just as our own bedeviled politicians do, and he took refuge in the word "planning." Many Americans do not realize that around 1937 the Socialist Party in America ceased to exist as a real force. The word "socialism" was a poor brand label. A new and slicker school of socialist revolutionaries adopted the term *Planned Economy*. And that is the brand name under which authentic socialism is now being offered to the American people. Bismarck adopted the term in Germany and proceeded to set in motion a chain of welfare and other socialist proposals for the purpose of creating jobs. He sought to take socialism away from the socialists. He proposed in his ignorance of the explosive

nature of this idea, that he could defend capitalism by adopting many of the root ideas of socialism—and to this he added the glamorous job-making boondoggle of militarism.

In one social area he established old-age pensions, unemployment insurance and public works to absorb as many unemployed as possible. He encouraged the several German states to take over railroads, electric power plants, water works, municipal transport, telegraphs, forests, mines and industrial enterprises. His avowed purpose was to operate these enterprises *at a profit to lighten the burden of taxation on the people*. This has been called *State Capitalism*.

But all these adventures were not sufficient to make the Planned Society work—a society that would provide jobs and security for all and take the wind out of the sails of the socialist revolutionaries.

None of this was enough. And it was no very broad jump for the Junker rulers of Germany to recognize the possibilities in Universal Military Training. While they were aware of its military value to a Germany then straining at the leash for imperialistic adventures, they were also aware of its job-making possibilities. These were derived from two sources:

1. Conscription takes into the armed forces great numbers of young men on coming of age who would otherwise be seeking jobs in private industry.

2. Not only were these registrants removed from the labor market, but they were provided with barracks, clothing, food, medical care at the expense of the taxpayers.

But this program involved still another and enormously important department. These huge levies of men had to be armed. This brought into existence Germany's vast armament industry, which became her greatest industry. It involved not only the manufacture of weapons and munitions, but it drew upon the raw material industries for steel, copper, wood products, chemicals; the garment industry for making uniforms; the shoe industry; the farmers for the immense herds of horses for the cavalry and the feed for horses and men. To which must be added the pay of the drafted men which, however small, made a substantial addition to the purchasing power of the nation.

The immensity of this huge military industry in Germany by 1907 may be seen from some figures. There were 600,000 men in the Army and 33,000 in the Navy. There were 1,800,000 employed in the materials industries such as mining and metals and forestry and commerce and trade, entirely dependent on government military orders. Actually militarism became a huge PWA that provided jobs for vast military and industrial armies. When critics complained of the oppressive

taxes and borrowings to support this enterprise, the reply, to quote one cabinet official referring to the military industry, was that "*The national economy, with its thousand wheels, through which millions find a living, cannot stand still for long.*" Another German statesman, at the Peace Conference in 1898, declared that "the armies are not impoverishing the people and the military service was not a burden." And he declared that "*Germany owed her prosperity to military service.*" Of course, there was the inevitable professor to assure the people that "In spite of the fact that millions in taxes were required to maintain this rapidly increasing naval power, the public in general was pleased with the new navalism." In fact the Herr Doctor declared:

People associated prosperity and good times with monarchy and *its militaristic props*, and they seemed to be convinced that this prosperity would continue if the fighting forces of the nation were continually modernized.

This is not an interpretation put on these policies after the event. The German leaders knew quite well what they were doing and why. An English writer in 1942 called attention to this gaudy boondoggle in our own time. He wrote:

The special features of the demand for armaments which has enabled it to be used as a solution of the unemployment problem are two. In the first place, the demand, being unlimited, imposes a system *not merely of planned production but of planned consumption*. Secondly, the plan of consumption is not determined by considerations of price and profit.

Of course the same result can be obtained from peace-time projects, but there is always a resistance to spending on peace-time projects. But on armies and armaments it is possible to break down the resistance by promoting fears of external danger, threats of war, or invasion. There is another reason. Where money was spent on war goods those who benefited were highly organized—as the huge armament industries in Germany which maintained powerful lobbies and could also keep alive endless war scares. Indeed it became a policy with the armament industries to employ retired army officers who enjoyed easy access and influence over the policy and purchasing bureaus of the government.

However, this policy confronted Bismarck's Germany with one dangerous problem. *It was never possible to collect enough taxes to pay the*

bills. In 1870 Germany defeated France and created the unification of the German states into the German Empire. Bismarck wrung from France an indemnity of 4,467,000,000 marks—a huge sum in the values of that day. But despite this great bankroll to start with, the new empire began immediately to go into debt. Here are the figures on the rise of Germany's national debt following the Franco-Prussian war, due chiefly to military enterprises:

	Marks
1871	0
1885	410,000,000
1897	2,317,000,000
1909	4,233,000,000
1913	4,897,000,000

In addition to this huge debt of nearly five billion marks of the central government, all the states and local governments were piling up huge deficits. The total of federal, state and local debts in 1913 was:

	Marks
Federal government	4,897,000,000
States	14,262,000,000
local governments	5,295,000,000
Total	24,454,000,000

These totals may not seem extravagant to the youth of our day who think in terms of war-inflated money. But it was a staggering burden to Germany in the money values of that period, prior to two world wars. In 1913, on the eve of World War I, the Finance Minister of Germany declared that "*the vital question of Germany's finances must be solved NOW.*" He said the "stability of the empire is exposed to risk."

In the hope of surmounting the difficulty, the cities and states began buying up private enterprises, hoping to operate them at a profit to overcome the immense burden of social welfare and military services. They never succeeded. Germany approached national bankruptcy.

There remained only the ancient escape of bedeviled nations—war. As usual the war was fought on vast taxes and huge credits. From 1914 to 1918 Germany spent 164,299,000,000 marks. Of this amount she borrowed 60 percent. This huge deficit, piled on the vast pre-war

deficits of fifty years, brought her politicians to those desperate experiments that culminated in the grotesque inflation of 1923–24. Thus the debt of 4,685,000,000 marks in 1922 became in two years nearly *seven trillion marks* (6,955,000,000,000). One result was that money lost its value and the bondholders lost their bonds. The debt was wiped out by inflation, including the savings and insurance policies of everybody in Germany. It became necessary to stop the printing presses grinding out trillions of worthless marks and to introduce a new money unit—the *Rentenmark*. *One Rentenmark was worth one trillion old marks.*

This is what militarism and welfare and boondoggling did to Germany. The imperial government fell and the new revolutionary republican government proceeded to repeat this crazy experience all over. Between 1926 and 1931 it built up a new national debt of nearly seven billion *Rentenmarks*. Adding the debts of the state governments, Germany had a new debt of 21 *billion Rentenmarks*. The appalling finale of all this was Hitler, who did what the Kaiser did in 1914—he turned to war as an escape—war, the supreme project of obfuscated politicians trapped in impossible promises, in overpowering taxes and crushing debt

These facts will illustrate what I meant by describing militarism as something more than a mere military enterprise. It was all mixed up with the efforts of the German government to resist the Socialist advance by outdoing the Socialists in welfare and economic promises. At the outset I cautioned that we must recognize that the subject of militarism, of which Universal Military Training is the base, could not be understood merely in terms of military policy. It was made possible in Germany by the decision of the German Junkers to go into competition with the Socialists and their promise of jobs for all. Welfare did not put people to work, and government owned and operated railroads, street-car lines, electric power plants and other industries merely added to the deficits. The supreme project, which fascinated the minds of military zealots, pan-Germans, imperialists and industrialists, provided the perfect answer. It took huge numbers of men out of the labor supply into the armies and even many more into the armament industries, all paid for out of taxes and crushing public debt. The capitalist sector of the national economy had to pay its own bills and undertake, by paying taxes, a huge part of the losses on the government's socialist industries. Even this was not enough. It had to support a mountainous debt that ultimately crushed Germany twice—once under the Republic and once again under Hitler.

Italy

The story of militarism in Germany ought to suffice. But its use in Italy will enable us to see the whole tragic experiment on a different stage. In the Italy of the late nineteenth century the general methods of parliamentary government were in practice. It was a constitutional monarchy and instruments of production and distribution were owned by private enterprise: The central government was endowed with more authority than in Germany, which encouraged politicians to use it. It fell into the habit of erecting bureaus like our numerous WPA's and AAA's and NRA's. Depretis, a conservative, was premier. Like Bismarck, he went in heavily for social welfare measures, but was never able to collect enough taxes to pay the bills. Like Germany, Italy was bedeviled by socialist agitators who promised jobs and handouts for all if they would only junk Capitalism.

This made a powerful appeal to the masses who had been used to short rations for years. Here again, as in Germany, the politicians of the Right supposed they could silence the demand for socialist institutions by actually giving the people a heavy dose of socialism. It was, of course, never possible to provide sufficient jobs in government-operated industries and bureaus to supplement the heavily taxed and regulated private ones. Depretis tried building roads, financing cooperatives, providing unemployment insurance, health insurance, and handouts of all kinds to various minority groups.

More radical leaders were demanding more radical measures such as dividing the land among the peasants. And, of course, and inevitably, Italy turned to militarism. Youth were conscripted into the armies, and the armaments industry was set off into violent energy providing weapons and munitions for the army and navy—which meant, as in Germany, as many jobs as in the armed forces themselves. In short, the conscript armies and the immense industry necessary to house, feed, clothe, and arm these forces became the greatest job-making enterprise in Italy. The government was spending on the armed services five times as much as on all other forms of government job-making such as public works. The cost of the armed services consumed 63 percent of the whole cost of government. Health insurance, unemployment insurance, funds for cooperatives, old-age pensions, subsidies for farmers and other government plans to spend money were adopted.

After World War I the experiment was continued, with the inevitable rise of deficits, as follows:

	Lira
1919-20	11,494,000,000
1920-21	20,955,000,000
1921-22	17,169,000,000

In the single year 1920-21 the deficit was *five billion lira greater than the accumulated deficits of pre-war Italy for fifty years*. By 1922 the national debt was 92,643,000,000 lira.

The government built 162,000 dwelling, 346 town halls, 255 hospitals, 1156 schools, 1000 churches, along with roads, railways, drainage projects, irrigation works. This enabled the politicians to provide a great number of jobs. One may ask—what was wrong about this? Were not these desirable contributions to Italy's well-being, to say nothing of the impact on unemployment? The answer, of course, is obvious. These adventures in job-making by the government were made possible only by *heavy taxation and endless borrowing*. The debt soared. Italy's resources were exhausted. The workers, their appetites stimulated by these measures, continued to demand more and more. This spending of borrowed money, largely borrowed from the banks, produces an inflation. The inflation forces prices up. The rising prices lead to demands for wage increases. The increased costs force ever heavier borrowing until the economic system approaches a crisis. One industry after another falls into idleness. Workers are laid off and the experiment—in reverse—proceeds to devour itself. Six hundred thousand workers in Italy were on strike in six hundred plants. Italy was bankrupt. The Communists ran amuck, took over many of the plants and hoisted the Red flag.

The climax of this gaudy and tragic folly was Mussolini and his *Fasci di Combattimento*. Of course Mussolini proceeded to give the deluded Italian people more of the same. He demanded a new constitution, nationalization of arms and munitions plants, national control of factories, railroads, public services to be controlled by workers' councils, confiscation of war profits, social insurance, heavy inheritance taxes and (with a gleam of satire) "*no form of dictatorship*." He proceeded to do precisely what the old parties did—to *which he added militarism on an even greater scale*. It is interesting to recall that many Americans visited Italy and commented on the skill with which Mussolini solved Italy's economic problems with his vast military adventures. Militarism on a grander scale became the base of Italy's economic system. No thoughtful man can escape the historic fact that in Germany and Italy—and other European countries—both conservatives and radicals turned to immense military establishments to solve

the problem of unemployment—and to get the funds for this purpose from oppressive taxation and fantastic borrowing.

There are, of course, great numbers who love military institutions for their own sake—the external expression of national might, the display of power and glory in the marching legions, the flying flags, the martial music. But there would have been no militarism but for the desperate search by frustrated politicians promising jobs for all and abundance for all. The promise is redeemed by vast armies, an equally vast military industry, handouts for numerous groups, heavy taxation and endless borrowing. It is never possible to pay these exhausting bills out of mere taxes. Always and everywhere these promise-making dictators and demagogues and military heroes turn to the ultimate destructive weapon—government borrowing—endless debt, until the whole tragi-comedy sinks into the arms of bankruptcy and war—war, which affords a brief refuge and ends the whole ghastly tragedy.

The United States

What we have seen in Germany and Italy was duplicated in Austria, France, Russia, and other European countries and in Japan. It of course produced a spurious prosperity by creating millions of jobs in the armed services and the war industries. But this evil institution had a more iniquitous effect. After all, it was a form of servitude—slavery—enforced labor. The government asserted the right to take the mind and body of every young man, put him in military encampments and subject him to a process of indoctrination designed to create an electorate subdued to these principles. To escape this form of servitude millions of men left Germany, France, Italy, Austria and other European countries to breathe in America the air of freedom. And what is more, it was the inevitable road to war. The system so crushed the nation under the burden of taxes and debt that in the end befuddled ministers of state sought escape from its consequences in war.

Now this evil thing rears its head in our America. It was promoted by General Eisenhower—a confirmed militarist—before he became President, and a powerful group in both parties insist that is necessary on the theory that we must defend ourselves against Communist Russia.

You can't have militarism without a reasonably prospective enemy—and Russia provides our militarist politicians with that essential, although no man in his senses believes that Russia, which has been handed and is in possession of three-fourths of Europe and Asia, has the slightest intention of risking the losses of these vast areas to

engage in a military war against the United States. But the President declares we must undertake the defense of something he calls the "Free World." He told Congress in 1948:

Universal Military Training is a necessity ... (It) should be enacted as soon as possible, in the interest of national security and to let the world know that America's championing of free peoples was here to stay.

But he believes militarism is a good thing in itself. In 1949 he declared that *everybody ought to be trained* and that, as reported by the *New York Times*, "*in future war the women will have to be drafted as well as the men.*" As a job-making boondoggle, we must set up as the policeman of the world. The general idea of UMT is for a year of training followed by six or more years in the reserve subject to annual training periods. The President has gone so far as to say that six months of this should be served in Europe. This, of course, would be outside and in addition to the regular armed forces.

It is obvious this adventure would get nowhere but for certain results it produces that have no connection with the business of soldiering. We will not understand this until we recapture a clear picture of events in America since 1929 when the Great Depression reared its head. I make no apology for that disaster. It took its roots in the folly and avarice of over-adventurous businessmen encouraged by certain crackpot economists. The faith of a large part of the business world in those pre-depression fairyland economics was in full bloom until a few days before the crash of 1929. It brought President Franklin D. Roosevelt into the White House in 1933, at which time the whole flimsy structure crashed around our heads.

It was at this point, though few realized it, that the climate was created for Universal Military Training in this country. President Roosevelt launched a rapid and sensational succession of plans to create employment and coax prosperity back to the nation. He also inaugurated some social and economic reforms, some of which were useful, but almost all of which were mere plans to spend money created by government borrowing at the banks. However well-intentioned these efforts were, they did not bring prosperity back to the American people. When Mr. Roosevelt took office there was an immense number of workers out of employment. But six years later, in 1939, when the war broke in Europe, there were still 11,809,000 people unemployed. When he was inaugurated there were 5,176,000 households on relief. Seven years later there were still 4,912,000 households

on relief comprising 19,000,000 people. Mr. Roosevelt as a candidate denounced President Hoover for borrowing money for relief. When in office, he borrowed on an enormous scale. The depression persisted. And then in 1939 came the war in Europe.

I have noted these facts because I hope to make the reader—particularly young readers—realize how frustrated politicians in America of both parties finally turned to militarism as an escape from their dilemma. It is a fact that none of the numerous relief agencies ended the depression. *It was the war which ended it.* When the war broke in Europe we had 335,000 men in our armed forces. In 1941, as our entry into the war approached, we had 1,801,000. In 1945 we had 12,123,000 in the armed forces. The number of persons employed in the civilian service of the government on war duties and the number of men and women employed in the war industries, producing guns and planes and tanks and munitions of all sorts, including uniforms, foods, medicines and other necessities for the fighting men, was far in excess of another 12 million.

The immense sums paid to these people flooded into the markets and farms of the nation, creating other millions of employment. All this was paid for out of taxes and government loans in fantastic sums. In 1939, the year the war started in Europe, our government costs—including welfare, boondoggling, farm subsidies, make-work adventures of all sorts—were \$8,700,000,000. Now compare these expenditures with the following:

	Dollars
1940	8,998,000,000
1942	32,396,000,000
1943	78,178,000,000
1944	93,743,000,000
1945	100,404,000,000

These vast floods of billions flowed over the United States—to pay the armed forces, the great army of civilians in government war bureaus; to pay the cost of manufacturing guns, endless floods of planes, munitions, uniforms, food, medicines, naval vessels, and all the necessary matériel of war. Factories worked night and day. And the workers flooded into all the shops of the land with their rising wages.

Now, on a somewhat smaller scale, these fantastic expenditures continue to the present time. There is no war. Even the Korean "police action" has been over for two years. But the war boom continues. Russia as an enemy has become almost a necessity to our government.

It is the bugaboo used to frighten our people into fantastic spending of taxes and borrowed money. Ten years after the end of World War II our government in a single year, 1955, spent SIXTY-THREE BILLION DOLLARS. Of this over FIFTY-TWO BILLION was spent on militarism and related subjects:

Armed forces and munitions . .	\$40,844,000,000
International Affairs	1,200,000,000
Veterans Services	4,408,000,000
Interest on the war debt	6,475,000,000
Total	<hr/> \$52,727,000,000

This means the expenditure of over 52 billion dollars on war and military adventures—ten years after the war ended in Europe and Asia. These vast billions, taken from us in taxes and in borrowings, make their way into the hands of government workers, workers in the war industries, to banks and private persons as interest on the war bonds, in payments for food, clothing, medicines and weapons for our “noble allies” and the support of 3,400,000 still in the armed services. Of course these funds flow on to all the departments of private industry where they are finally spent by those who receive them from the government.

But it must be obvious this cannot be kept up forever. At some point the war racket will just wear out. Business prospers while this experiment lasts. Great numbers accept it as something desirable without understanding the dangerous means by which this prosperity is generated. And while many others do not like it, they live in fear of the time when it will come to an end. But this must be obvious to any mind acquainted with the structure and dynamics of our system of private enterprise—namely that it will come to an end, as it has in every country that has used this evil thing called militarism to generate prosperity. The creation of millions of jobs in the armed forces and the munitions plants can be defended only when the nation is confronted with the danger of war. Now, every man who studies this subject knows that there is no way we can get into war now without actually launching one ourselves. But this could never be defended before the American people. Hence some other excuse must be found to continue the policy.

The champions of this system have now proposed that the United States set herself up as the policeman of the world. This gaudy boondoggle is composed of two parts. One is the principle of One World—a world in which all the nations will sink their sovereignty into one

great overall sovereignty that will undertake to govern the world. We will keep in existence an army of a million or two men (and maybe women too), ready to send troops to join the troops of our "noble allies" to suppress any attempt to break the peace. In addition to that we will have Universal Military Training, which will keep, in addition to the draft army, a million or more young men in barracks where they will study the arts of war, carry out the discipline, indoctrination and life of the soldier and then pass into a reserve which can be called each year for maneuvers and be ready to go to any part of the world where hostilities are threatened.

Of course our militarists insist that the life of the barracks and the submission to the slavery of conscription in time of peace is "good for our young men." But it is not good for free young Americans. It is good for the politicians who wish to continue to promise abundance for all and "security from the cradle to the grave." It is good for the internationalists who wish to indoctrinate our young men and women in the principles of One Worldism. It is good for the "statesmen" who imagine they can keep alive this fraudulent prosperity by crushing taxes and endless borrowing.

The day of borrowing is approaching its end. Senator Harry F. Byrd has recently called attention to the fact that the national debt is now equal to the total value of all the land, all the farms, all the buildings, all the mines, all the machinery, all the livestock—everything of tangible value—in the United States. In short, the nation is now mortgaged to the top of its befuddled skull.

When Germany and France and Italy launched their UMT's they were free of debt. It did not take many years to pile the debts so high that the economic system began to crack and the distraught "statesmen" sought an escape in war, which, of course, merely doubled the burden and darkened the inevitable tragedy. This is the fate certain powerful groups in the United States now seek to impose on free America—the slavery of militarism.

A Rejected Manuscript

Cecil Rhodes, Britain's diamond king, at his death left some thirty million pounds to finance at Oxford the education of young men from all over the British Empire. He dreamed of an imperial cluster of states embracing many self-governing dominions. A part of this dream was to bring the United States into this British world system. The society of Rhodes scholars, educated at Oxford, was to be the powerful nucleus of what Rhodes called the *Empire Feeling* all over the world. Originally 38 young American Rhodes scholars were chosen each year. The total number now in this country must be well over 1,200. It includes many authors, college presidents, preachers, editors, radio commentators who find themselves at strategic positions to exercise an effective influence on American policy. I doubt, however, that Rhodes in his rosiest hopes foresaw that one of his American scholars, Mr. Arthur Larson, would sit at the elbow of an American president, write the speeches the President would declaim and, in fact, become his closest mentor in the formulation of so-called American policy.

However, the influence of this gentleman has become the subject of no little concern to certain elder statesmen among the leaders of the political party with which the President happens at the moment to be connected. In addition to writing the words which the president utters over radio and TV, Mr. Larson has pinpointed for his eminent client something in our American system which he describes as the "Authentic Center." The "Authentic American Center" is a lately improvised label for an economic system which is half American capitalism and half European socialism—New Deal socialism, though Mr. Larson avoids these incriminating labels. What is more interesting, Mr. Larson has assured inquiring reporters that President Eisenhower is located at this authentic center. He further assures us that this is also the precise ideological hangout of Mr. Stevenson, though Mr. Stevenson describes his adopted spot as "the Twentieth Century." America is being led blindfolded into Mr. Stevenson's twentieth century and Mr. Larson's authentic center. May we note in passing that the bill to

This chapter was solicited in 1956 by *National Review*. It was rejected by the editor for its criticism of the institution of militarism. The article appears here in print for the first time.

date for this operation is in the neighborhood of 250 billion dollars—almost all of it still due and unpaid—and unpayable.

Now, for all his elaborate theorizing, I suggest that Mr. Larson is not on the right track. It is indeed true that we are trapped in a formidable number of socialistic enterprises. But we have not moved into these on any plan. The authentic meaning of the New Deals of Franklin Roosevelt, Harry Truman, and Dwight Eisenhower is to be found in one of the oldest rackets in history. It is nothing more than the use of government money, acquired through taxes and created by debt, to buy the votes of numerous minorities and thus remain in power.

In pursuit of this racket the politicians are confronted by the problem of finding defensible activities on which to spend. There must be visible in the spending some utility to justify the heavy taxes. Of course the oldest of all rackets for spending the people's money is the institution of militarism. It creates a host of jobs—at low wages—in the armed services plus the far better paid and numerous jobs and dividends in the industries which produce the arms, provide the sailors and soldiers with food, clothes, medical care, and, juiciest of all, the weapons of war.

It must be obvious that the tasks of our federal government in its legitimate sphere as we understood it for 145 years cost but little. Leaving out interest on the national debt (which is shocking) the actual costs of legitimate and constitutional federal government should not exceed five or six billion dollars. But in search of activities on which to spend money, the federal government wandered off its chartered road into all kinds of manufacturing, merchandising, agricultural, financial, and other authentic areas of private enterprise.

In the field of finance and banking the federal government now operates such institutions as the Commodity Credit Corporation, the Bank for Cooperatives, the Electric Home and Farm Authority, the Export-Import Bank, the Federal Crop Insurance Corporation, the Federal Farm Mortgage Corporation, the Federal Home Loan Banks, the Federal Savings and Loan Administration, and others.

The government owns outright one railroad and owns stocks and bonds in a number of others. It is in the building business in a big way through the Federal Housing Authority. It is in the public utility field through the Tennessee Valley Authority and the Rural Electrification Administration. It owns the securities of foreign governments valued at 15 billion dollars—which may well turn out to be worth nothing. It owns stock in 41 private railroad, electric, and banking institutions.

In addition it has been engaged in a great variety of industrial and manufacturing enterprises, on practically all of which it loses fabulous sums. It is, of course, government intrusion into these many private activities and investments which, according to our Rhodes speech-writer, places the government on the left side of the "Authentic Center," though he ducks away from the bad word "Socialism."

There is another sector to the left of this gilded center which must not be overlooked. I refer to the "Fund" racket. There are many of these federal "funds" which are part of the various retirement and pension systems run by the government. As usual they have been operated as political rackets. This was done by the Washington bureaucratic politicians who insisted on charging the beneficiaries of the "insurance" scheme unconscionably high fees that were to be accumulated over the years into something called "Funds." Against the advice of every authority in this field, the Roosevelt administration insisted on raising the fees charged members in order to accumulate immense sums of money in these funds. The funds, running into fabulous billions, have been "invested" in federal bonds, thus enabling the government to use the money on a variety of boondoggles in its political vote-getting adventures. These "insurance" plans were taken over as government enterprises, thus adding them to its socialist sector. But it was done not to promote Socialism, but to get control of these billions for use in the government's purely political adventures. These Funds consist, in a Pickwickian sense, of 40 billion dollars. But the dollars are gone. The government has borrowed and spent them and there remains only its IOU's which, if needed, would have to be taken again in taxes from almost the same sources.

Of course the gaudiest of these job-making boondoggles is militarism. The American taxpayer perhaps does not realize that this evil institution was used in Germany, France, Italy, and other countries not primarily for purposes of defense, war or conquest, but to bolster the economic system with jobs for soldiers and jobs and profits in the munitions plants. When the war in Europe roared up out of the muck, disorder, and bankruptcy of that unhappy continent, Roosevelt spotted the thing he loved best. He turned eagerly to it and showed what a boom could really be with the soldiers and military industry. From a little over a billion dollars spent on military institutions in 1939, the arms budget increased half a billion dollars in 1940; went to over five billion in 1941 after which, as Roosevelt eased the nation into war, the sky was the limit—24 billion in 1942, 64 billion in 1943, 95 billion in 1944 and 98 billion 1945. Meantime the national debt soared to 269

billion as the war ended. It put every human being to work, and as death took Roosevelt from the disordered scans, the nation frolicked in the gaudiest boom in history.

I labor this theme to make clear that the socialist elements in the administration had little to do with the prosperity. There was no "authentic center" with a socialist sector and a capitalist sector on either side. It was and remains a racket—the oldest in history—with a soldier-politician in the middle unaware of the meaning of this hell-broth of war, taxes, and debt. As a racket it has paid off up to now. Corporation receipts were 148 billion when we entered the war. They were 245 billion when it ended. They were 521 billion in 1953 and have soared out of all reason since. The central energy which keeps the racket rising is still militarism. The war in Korea ended three years ago. But Eisenhower's spending still ranges around 66 billions a year. After the Second World War ended, federal spending under Truman was from 33 to 39 billion a year. After the Korean War ended, Eisenhower's spending has been from 64 to 66 billion a year.

How is it spent? Only a small fraction is spent on the legitimate functions of government. The biggest item is on so-called "national security" (military outlays), international affairs, and veteran services. Here is the reckoning for 1955:

National Security	\$40,626,000,000
International Affairs	2,181,000,000
Veteran services	4,457,000,000

This is the soldier's budget. Then the civil functions in the field of boondoggling—housing, agriculture, natural resources, etc.—cost \$9,655,000,000. Thus we may say that the military racket and the boondoggling racket, plus interest on the national debt, cost \$62,990,000,000, while the authentic activities of the central government cost \$1,201,000,000.

I repeat again that the socialist invasion, while indefensible, does not enclose one-half of our economic system. It does not account for one-fourth of the outlays. I do not say this in defense of this socialist sector. I call attention to it merely to pinpoint the pretentious—even grandiose—conception of an "Authentic Center," part socialist and part capitalist. The evil aspect of this conception lies in the fact that the small fry who handle Eisenhower's mind accept it as a settled policy and that the nation must now set about making this monstrosity work. Obviously it will not work because the capitalist sector will have to pay all the bills of the socialist racket, as well as its own.

There is no authentic center; only an authentic racket under which one element in the nation frolics under the blessings of Adam Smith and another under the gospel of Karl Marx. We are not trapped in the center of two philosophies. But we *are* trapped—chiefly in the fantastic debt which can never be paid and in a batch of shameful spending rackets, the chief one being militarism. But now from some quarter comes a positive pressure to extinguish the fires that keep the boiler burning—namely the endless borrowing. The President is being urged to kill the goose that lays the golden deficits.

Here is how that racket works. The Treasury borrows ten billion. Government spends these in various rackets to make jobs. Presently the ten billions are in the hands of producers, farmers, workers. The government's second step is to tax the profits thus created and spend them a second time. The government spends what it recaptures and continues the racket until these dollars are dissipated beyond the reach of the tax gatherer. This is a very sketchy account of a highly complicated operation, but it will serve. As the borrowings come due they must be met with new borrowings at higher interest. If the borrowing stops the whole system will begin to sag and ultimately collapse. The precise duplicate of this expensive racket has been worked and exploded many times in history, the documented record of which is available to any student.

It is worth recording that at the bottom of the depression Roosevelt cried out in anguish: "Nobody tells me what to do." But a little squadron of transcendental economists descended on Washington with an incredible discovery. They came down not from Mount Sinai but from Harvard, headed by the inevitable professor—Dr. Alvin Hansen—with the glad tidings that government debt was not a fiscal or economic burden. It was a debt owed by the people to the people—they owed it to themselves—and their servant Franklin could borrow and tax and spend practically without limit. Here was what the magician Roosevelt had looked for. This economic soothsayer from Harvard was instantly installed as the fiscal adviser of the government and after that the sky was the limit. There was only one limitation—what to spend on? Adolf Hitler solved that problem. At that moment the government debt after 150 years was 40 billion dollars. After 17 years more of war, spending, boom, and debt, it is 275 billion. Now a new soothsayer has appeared—not from Harvard but from Oxford. However, with the best intentions in the world, he is too late.

We will make no headway against this social disease until we understand clearly its essential character. It takes its energy from one element—and one alone—namely the device of endless taxing and

borrowing. There has been, since Roosevelt's regime, no plan whatever for restoring the American Republic in its constitutional form. It is not possible to predict how long this spending and borrowing racket can be kept alive. But its end is inevitable and that end draws near. But there is now no program of action and no blueprint for rebuilding the American Republic, which was good enough for the freest people in history for 140 years. The crisis will bring wrath upon the heads of the guilty politicians and the soothsayers who misled them. And, of course, there will be fools who will want to rebuild the racket on which they prospered. That way lies nothing but grief and the inevitable bankruptcy. This will be the moment of fate—not for the racketeers, the politicians, and the soldiers, but for the patriots and statesmen. Those who are devoted to the reconstruction of the American constitutional system must, without further delay, come together not to agitate and make speeches, but to analyze and study with realism the evils that afflict us and to bring into existence the political machinery necessary to rebuild our society.

III. FREEDOM AND THE FUTURE



Coming: A Totalitarian America

It seems to be the fate of nations in times of great crises that those who are most vocal and are listened to most are the professional litterateurs. What is happening in the world, its meaning, its consequences, come to be described for us by those who see it through the luminous fog of their emotions. It is therefore no matter of surprise that the present crisis should be pictured for us by various novelists, columnists, and poets as something quite new in the world.

Yet there is nothing very new about it. No one who has read history to any purpose can fail to see that all this tragic churning about is but a repetition of an old, old story that has gotten itself told many, many times before in history. When we can quiet our emotions, we may take a glance at the essential elements of the crisis and perhaps form a more intelligent notion of its nature and our duties toward it.

I have said that the essentials of this crisis are not new. Those essentials are cloaked under a collection of new and horrific words. The age-old concept of despotism is called totalitarianism. The hoary principle of guild government is called corporatism. General Phil Sheridan, describing that portion of the Shenandoah Valley that his troops had swept over, said that a crow travelling across it would have to carry its own rations. General Sherman planned and executed the strategy of an attack on the economic base of the Confederacy. Today this is called total war, as if it had never been heard of before. And a whole group of old ideas—collectivism, syndicalism—are mixed up with the instrumentalities of the Savonarolas, the Torquemadas, and the ministers of half a dozen Louis's and called Fascism. In the war itself the names are new, the instruments of destruction are new, but the objectives and the ideologies behind the war are the old ones, some of them as old as Babylon.

What concerns us most in America is our own domestic problem. Men like Walter Lippmann¹ have sought to sell us the idea that we are trapped between two hostile oceans, that these oceans have shrunk to the dimensions of ditches and that over them have come flooding the problems of the world, submerging utterly the problems of our

This chapter originally appeared in the February 1941 issue of *The American Mercury*.

¹Walter Lippman (1889–1974) was an American editor, journalist, and author.

own society, that therefore we must abandon our society and its destructive maladjustments that we do not know how to solve and proceed to the solution of the problems of the world about which we know less. At the base of this philosophy is the idea that the way to bring peace, order, security, and abundance to the world is to settle the problems of the world first. It is in opposition to a far more reasonable philosophy, that the nations of the world, differing in manners, language, culture, and economic organization, cannot deal with world problems so well as with their domestic ones, and that an ordered and civilized world will come when there are enough orderly and civilized constituencies to form a world community. We—our United States with 130,000,000 Americans—will constitute one such constituency. It is a vast world in itself. It is more happily situated to deal with its own problems than any other single national community in the world. If it abdicates its high function of thinking about its own problems to plunge into the age-old controversies of Europe and Asia, then the fairest chance of a rational approach to peace and order in the world will be lost, certainly interrupted for a long period.

II

One of the illusions I encounter most is that, whatever else may be said of the last eight years in America, they reveal a new order in which, for the first time, a government recognizes and accepts the challenge of responsibility for the welfare of its citizens and the stability of its economic system. Someone has said that about the only thing that history teaches is that it teaches nothing. Here is a glowing example of that truth.

Probably the oldest phenomenon in society is that series of episodes in national history that may be described thus: (1) Economic depression; (2) rising impatience of the masses; (3) apprehension of the ruling groups; (4) adoption of welfare laws to placate the masses; (5) persistence of economic anemia and disorder; (6) creation of government purchasing power by borrowing and spending money; (7) final resistance to borrowing and spending; (8) military preparedness and war as a means of spending; (9) collapse. Over and over again in history the cycle is repeated—in all ages, in all countries. And along with it goes, frequently, the conscious effort to control and direct the economic mechanisms of the society—always in the name of abundance or stability or security, but actually in the interest of whatever group happens to be in control of the society, usually the producing groups.

The little society of ancient Attica was a capitalist one—a society in which the production and distribution of goods was carried on by private owners for profit and within the framework of a money economy. Four hundred years before Christ we witness a depression: farmers in distress, unemployed workers, sterile investment, farmers clamoring for money aid from the capital and for devaluation of the drachma, workers demanding doles from the rich and the government, capitalists fearful of their property. Then we see Pericles setting up his PWA's and his CCC's and his WPA's and his RRA's. In Plutarch's *Essay on Pericles* we read:

Every year he sent out threescore galleys, on board which there were numbers of the citizens, who were in pay eight months, learning the while and practicing the art of seamanship. . . . He sent, moreover, a thousand of them into the Cherosonese as planters, to share the land among them by lot, and five hundred more into Naxos. . . . That which gave most pleasure to the city of Athens . . . was his construction of the public and sacred buildings.

Against these extravagances the propertied classes murmured. But Pericles replied that

with their variety of workmanship and of occasions for service, which summon all arts and trades and require all hands to be employed about them, they do actually put the whole city in a manner, into state pay. . . . For as those which are of age and strength for war are provided for and maintained in the armaments abroad by their pay out of the public stock, so it being his desire and design that the undisciplined mechanics that stayed at home should not go without their share of public salaries, and yet should not have them given them for sitting still, to that end he thought fit to bring in among them these vast projects of buildings.

And the money for this he provided not from taxes but from loans from the Delian Fund—the great defense fund of the Aegean cities, of which Athens was the trustee.

This neat device has been the refuge of the hard-pressed rulers of all time. And so naturally did it spring out of the very nature of the systems in force that even Japan, before she had ever established relations with the rest of the world and suffered any sort of economic

infection from it, repeated these experiments, borrowing money, taxing the people, running into economic and political jams, devaluing the coinage, attempting control of the economic system by guilds, by cartels, by syndicalist production controls, and moving thus through the inevitable cycles of disaster.

These stratagems of hard-pressed governments were not the exclusive property of liberal ministers. On the contrary, there is scarcely a measure of the last eight years—labor legislation, pensions, welfare measures, doles, public works, borrowing—that has not been employed more often by reactionary princes and their agents. Some of the earliest welfare legislation of England came from the hand of Disraeli, and the earliest efforts to placate the masses in Germany originated with the royalist Iron Chancellor who, while he was inventing the techniques of “blood and iron,” was also teaching Germany how to mollify her population with old-age pensions and a whole group of related reforms and as Pericles said before him, to “provide and maintain in the armaments those of age and strength for war” and “the undisciplined mechanics” in industries related to war and in other public works.

The man who made the most important modern contribution to this system was the regent of Louis XV, the Duke of Orleans. Coming to power when France was bankrupt by the long reign of Louis XIV, Orleans adopted the theories of John Law for the establishment of a bank of deposit and discount that could create deposits by the simple process of making loans. Thereafter France could borrow money from the national bank instead of from the people, create bank money by making loans, distribute bank money among her people instead of taking it away from them by taxes, and promote an easy, swift, orgiastic, and wholly collapsible prosperity.

This is what modern states do. They borrow, not on bonds from the savings of the people, but from commercial banks, thus creating bank deposits, bank money. They build up vast national debts to do the things that Pericles did with money borrowed from the Delian Fund. They keep this up as long as possible. And in good time this air-blown structure tumbles. When spending for peacetime projects becomes impossible because the people apply to this ultimately the principles of hard-headed economic logic, the governments always turn to spending for war, with war hysteria worked up in order to sweep out of the brains of the people and their leaders these constricting principles of economic logic. The war hysteria brings prosperity built on loans and vast expenditures by the government, as Pericles did it, as Louis XIV and Louis XV did it, as Bismarck did it, as Mus-

solini and Hitler do it. And this in turn produces wars *or* economic collapse *or* war and economic collapse.

The fundamental difficulty arises out of certain mechanistic defects in the capitalist economic system. These defects have always been present in it—in Athens and Rome as in Germany and America. They have been swollen by certain modern developments in the system. There is left to the people of America but two alternatives: to correct these defects or at least to diminish them, or to abandon the system. Nowhere do I see any effort to correct the defects of the system. I see only the hoary stratagems of Pericles and Bismarck—welfare measures, putting the bulk of the population into state pay with spending programs of all sorts, creating government funds as Louis XV created them with bank loans and attempting, as they did in Japan, in the Holy Roman Empire, in the Italy of Mussolini and the Germany of Hitler, to submit the economic system to controls in the interest of scarcity and profits and high wages. The capitalist system has bogged down, not because Hoover was President or Roosevelt his successor, but because of certain maladjustments in the system that at intervals paralyze its dynamic element, which is private investment.

Before us stand two problems. One is to revive private investment. The other is to apply certain policies that will tend to protect investment from collapse, and which will, while stimulating production, tend to effect a wider distribution of the income created by the processes of production. Here I do no more than state the problem. It differs from the popular New Deal statement of that problem in that the latter talks endlessly about distributing income but never at all about stimulating production, for which it has no plans.

In the absence of plans, what I see with growing terror is the presence in our midst of the essential elements of Fascism. Our unthinking poetasters and self-appointed intelligence units see Fascism in such grotesque and futile excrescences here as the Bunds, Christian fronts, and the like. They think that to be a Fascist you must have some sort of shirt uniform, must drill and goose-step, must have a demonstrative salute, must hate the Jews, and believe in dictatorship. Fascism is not the result of dictatorship. Fascism is the consequence of economic jam and dictatorship is the product of Fascism, for Fascism cannot be managed save by a dictator. We have the economic jam. Private investment is as completely in collapse here as it was in 1933. We exist wholly upon an ocean of government debts. Out of this jam, if we find no other escape, no normal, rational escape by the employment of democratic principles, will come the rise of Fascism.

III

We will not recognize it as it rises. It will wear no black shirts here. It will probably have no marching songs. It will rise out of a congealing of a group of elements that exist here and that are the essential components of Fascism. The essentials of Fascism are: (1) corporatism; (2) government-created purchasing power as a substitute for private investment; (3) production of government funds by bank credits; (4) militarism; (5) dictatorship.

1. Corporatism is here to the extent of 75 percent. It is the principle that holds that production and distribution must be controlled by the producers in the interest of scarcity for profit and high wages. Mussolini developed this old combination of labor syndicalism and medieval guildism. In this country we have played with it under the name of self-rule in industry and actually installed it as a national system in 1933. We did not call it by the foreign name of corporatism. We called it the National Recovery Administration. We will, of course, give all these things good American names. And the Fascist when he appears will knock you down if you call him a Fascist. Americans believe in this. It is popular with capital and labor. It is approved by the Chamber of Commerce and the CIO.

2. Government-created purchasing power—this, surely, we see with our own eyes. Rexford Tugwell, collaborating with Leon Henderson, Mordecai Ezekial, and Seymour Gilbert, government economists, said recently that we have failed to produce recovery because we had spent only three billion a year on it whereas we should spend twelve billion.

3. This government purchasing power we are producing by means of funds borrowed at the banks, thus creating an intense national debt.

4. No one will doubt that we have gone in for militarism. Many people imagine that the government has invoked conscription merely to meet a crisis. Its leaders are thinking of it as a permanent feature of American life. As Bismarck perceived in his generation, this will take a million or two out of the ranks of unemployment and create a new and continuing industry, the armament industry, to supply them with machines and put millions to work with government funds. Mr. Tugwell and Mr. Gilbert said in Washington that the government would give a demonstration of how prosperity could be produced by means of the war effort.

5. There remains totalitarianism. The combination of state functions listed above cannot exist without a dictatorship. Compliance with the corporative system, continuous collaboration with the banks

in the system of permanent deficit financing, the immense tax burdens and militarism cannot be procured save by a dictator. Under a democracy the resistance to these things can become vocal, cumulative, and effective. Only under a dictatorship can this resistance be suppressed.

This is the direction in which we move. We move in this direction because the elements of this appalling doctrine of Fascism are here. I repeat they are here because of the continuing and unsolved economic problem. This will bring these Fascist conceptions to the surface and into use. When they are tried, a dictatorship will be inevitable. It will be at first decorous, humane, glowing with homely American sentiment. But a dictatorship cannot remain benevolent. To continue, it must become ruthless. When this stage is reached we shall see that appeal by radio, movies, and government-controlled newspapers to all the worst instincts and emotions of our people. The rough, the violent, the lawless men will come to the surface and into power. This is the terrifying prospect as we move along our present course.

There is but one way to avoid it—and that is to begin at the beginning, to begin with the imperfections of the economic system and to correct them. This we may do perhaps by making less than half the sacrifices we would have to make in a war. The way to hurry this Fascist disaster upon us is to strike our already impoverished economic system the blow of war.

Eggheads Through History

Something over a year ago Mr. Louis Bromfield, in *The Freeman* ("The Triumph of the Egghead," December 1, 1952) defined the word egghead. It was designed to describe a character who pretends to the title of philosopher—a sort of professional intellectual—dedicated to the theory that the eggheads are the appointees of Destiny who will bring something known in the trade as "security" to a creature known as the "common man" in return for which all they ask is that he deliver his soul to the management of a government operated by the eggheads. The society of the eggheads embraces Communists, Socialists, rudimentary Fascists along with a numerous following of certain publishers and their wives, rich men's sons and daughters, and even some corporate vice presidents. Several of our convinced left-wing philosophers, in the early thirties, discovered a magic brand name for their product—the Planned Society.

The central idea in this revolutionary method was that the business of planning and managing the model society belongs not to politicians or businessmen but to the intellectuals—or, if you will, the philosophers—who alone are capable of planning and directing the flow of human energies which compose the economic society. Designed to provide abundance for the masses rather than luxuries for the few, this new dialectic omits the repulsive jargon of the Communist, stimulates the vanity of the intellectual elite, and is calculated to arouse the appetites of the masses. It is Socialism or Communism under a new brand label, plus the insidious appeal to the vanity of the Heavy Thinkers on the campus, in the labor unions, in the Colony Club, and similar roosting places for deep-thinking ladies, as well as in the lower echelons of bank and corporate directorates. It is to these tall-browed heavy thinkers that the name of eggheads has been given. I do not pretend to know why, but it seems almost incredibly appropriate. It seems to distill the essences out of several other words such as double-dome, crackpot, do-gooder, and pinko. It describes, as Mr. Bromfield observed, the intellectual lacking in common sense, a doctrinaire contemptuous of experience, a fuzzy-minded, starry-eyed dreamer.

The explosive element in this philosophy is in the two words

This chapter originally appeared in the March 1954 issue of *The Freeman*.

which describe it—the Planned Society or Economic Planning. After all, what healthy mind can object to social planning? And, after all, who are capable of understanding the aspirations of the people better than the thinkers, the scholars, the philosophers?

It Began with Plato

What is little known is that throughout history this notion of the Planned Society has been considered to be a department of philosophy and its practical administration the function of the philosopher. As far as I know the earliest—certainly the most famous—of these planning evangelists was Plato who, in his *Republic*, sketched his perfect society. There would be no private wealth, but all would be rich, since all would have an equal “allotment” of leisure, merrymaking, visiting, drinking wine, and begetting children—but all in moderation, particularly the last. There would be three groups—the Workers who would produce, the Warriors who would defend the city, and the Philosophers—to be called Guardians—who would “bear rule.”

Each citizen would be assigned to his proper category by the Guardians. No inhabitant would share in government until he was 35 or 40, and after 50 the more intelligent would be chosen as Guardians. These, the ruling eggheads, would occupy their time in philosophical studies. The artisans would have no share in government because they could never become philosophers or eggheads. The producer and merchant and warrior are hopeless in the field of statesmanship—“Until philosophers are kings, or kings and princes have the spirit of philosophy, cities will never cease from ill.” (Plato: *The Republic*.)

Perhaps the most famous of these mythical heavens is the happy island community of Sir Thomas More, to which he gave the name of Utopia, which has continued in use to describe these enclosed social heavens. More was a scholar and a dreamer who, after his break with Henry VIII, went to the Tower and then to the headsman with perfect composure. During the imprisonment preceding his beheading he described the perfect society discovered by a mythical navigator called Raphael Hythloday. The people divided their time between agriculture and industry, the whole product going to a common warehouse. There was no gold, no hoarding, no covetousness. The dirty work was done by slaves convicted of transgressing the law. Every thirty families chose a magistrate; each ten magistrates chose an over-magistrate who served for life and who chose a philosopher-prince who also ruled for life.

Not long after More, another philosopher, Francis Bacon, created

another earthly paradise ruled by another philosopher-king. He conjured out of the mystic seas his own island—New Atlantis. Here the center of authority was Solomon's House, a laboratory where twelve chosen students pursued the search for truth and made up the aristocracy.

About the same time Campanella, an Italian monk, brought from the deep his fabled island, the City of the Sun. Here the people were poor because they possessed nothing and rich because they wanted for nothing. The state was supreme and deposited in the hands of "an aristocracy of learning." In the City of the Sun, incidentally, Campanella discovered progressive education centuries before John Dewey. The city had seven great walls on which were presented pictorially the seven regions of knowledge, from which the children would inhale education painlessly while they played.

Masterpieces of Credulity

The last half of the eighteenth century and the first quarter of the nineteenth produced the most extraordinary eruption of authentic eggheads in history. The age of reason and of the machine was dawning. The old order was crumbling, but the philosopher with his enclosed heaven would persist. There was, for instance, Etienne Cabet, who discovered a new Utopia called Icaria. This was a heavenly democracy divided into a hundred provinces arranged around a capitol situated in the very center. All streets and blocks were arranged on a mathematical pattern. All industry and agriculture was state-owned. All the people, regardless of sex, dressed alike. Education was compulsory and all must work to the age of sixty-five. The people chose their state officers, but only from among the certified technicians; those selected constituted a Dictatorship of the Technicians, who possessed, among other powers, absolute censorship of literature.

Impatient to establish his heaven on earth and balked in France, Cabet took his blueprints to Texas, of all places, from which he was driven by yellow fever to Illinois. There he set up an ideal community of over a thousand members. But his Icarians began to behave like human beings. They argued and quarreled among themselves, and the paradise dissolved.

It taxes belief to witness these masterpieces of credulity launched by men of great intelligence. Take Henri de Saint Simon, for instance, born in 1760. After a bizarre career, which included losing one fortune, amassing another, he settled down as a qualified philosopher and wrote three volumes on the Industrial System and Christianity. He

concluded, of course, that the new order must be designed by the scientists, run by the industrialists. It would guarantee jobs and security for all. This idea immediately attracted a whole rabble of professors, writers, poets, lawyers, some engineers, and a number of politicians. St. Simon finally drifted out of the movement, and the leadership fell to Enfantin, who committed it to free love, thereby disrupting it altogether.

Rule by Philosophers

These erratic intellectual adventurers were not fools. Many were men of large intelligence. But there is a little screw somewhere near the center of the intellect which holds all its functions together in harmony, so that a man may dream, yet dream within reason. When that little screw gets loose, the imagination, the reason, and the sense of order and proportion begin revolving in contrary and eccentric orbits with amazing results.

Associated with St. Simon was a far greater intellect—that strange recluse who might well be installed as the patron saint of the eggheads: Auguste Comte. He is the perfect example of the mental philosopher who presumes to reorder the world of men and work of which he knows nothing. His method was to retire into complete seclusion, avoid newspapers and economic matter, and devote himself to reading religious and political works. Thus withdrawn from the play of economic, political, and human forces, he prepared a blueprint for the reconstruction of society.

Comte sought a substitute for God, and created Humanity as a vague deity to be worshipped. Then he tried to duplicate the images, sacrifices, and ceremonial devotional forms of religion—even prayers. There would be a hierarchy with its officialdom, priesthood, and an elaborate series of feast-days to excite the devotion of the faithful. Running through it all, however, was the concept that the rule of the people belongs to the philosophers, who would form a sort of priesthood in this new church. Here was eggheadism in its perfected form.

The most dramatic episode in this series of weird adventures occurred in our own country under the name of Fourierism. Charles Fourier was a French traveling salesman who made the comforting discovery that the earth was passing out of its infancy. He had a plan to insure 70,000 glorious years for mankind, when lions would be used as draft animals and whales would draw vessels through the ocean. He proposed to organize society into phalanxes, small agricultural communities each with less than two thousand inhabitants. Workers

would dine in a central hall on meals prepared in a great kitchen by expert cooks. Every inhabitant would produce enough from his eighteenth to his twenty-eighth birthday to support him in leisure for the rest of his life. Each community would be headed by a Unarch, and all the phalanxes would be united under an Omniarch.

Early American Eggheads

Curious as this movement was, even more curious was what happened to it when it crossed the ocean to America. Here it enlisted the passionate support of many of the most famous writers, thinkers, journalists, and teachers of the day. Its most noted convert was Horace Greeley, founder of the *New York Tribune*, a candidate against U. S. Grant in the 1872 Presidential elections. Greeley was brought into Fourierism by Albert Brisbane, an able journalist who was engaged by Greeley to expound its philosophy in the *Tribune*. Another convert was Paul Godwin, associate of the *New York Evening Post*. Charles A. Dana, editor of the *Sun*, also enlisted for this new edition of paradise. But the real center of the movement was the Transcendentalist Club of Boston, the rendezvous then of America's intellectual world. There Nathaniel Hawthorne, William Ellery Channing, George Ripley, Ralph Waldo Emerson, and others breathed their collective souls into the movement. George Ripley, literary critic and encyclopedist, who was also a Unitarian minister, bought a 200-acre tract not far from Boston where the first phalanx was organized under the auspices of the famous Brook Farm Institute of Agriculture and Education. The central building was nearing completion when it was burned to the ground. With it the great dream perished.

This was the first authentic roost of the first great collection of eggheads in America. Ralph Waldo Emerson wrote to Carlyle in England: "We are a little wild here with numberless projects of social reform—not a reading man but has a draft of a new community in his pocket." It was the same in England. Social conditions in England indeed cried aloud for reform. And there were serious, practical men busy with that task. But there was the same giddy flock of eggheads, too, flying through the rosy cloudlands of transcendental economics.

The root idea at the bottom of this long history of reckless social blueprinting from Plato to Henry Wallace and the Americans for Democratic Action is that social planning is the peculiar mission of the poet, the essayist, the novelist, the professor, and the technician. I do not by any means infer that all intellectuals are eggheads. I merely suggest that eggheadism is an occupational disease of the intellectual,

to which the shallow or the frustrated or the unsuccessful or the angry or vengeful intellectual, particularly if he has a passion for hatred or notoriety, is exposed. I would also suggest that members of these crafts, if they are disposed to be sensitive to the problem of social reconstruction, are apt to offer a peculiarly hospitable incubation to these giddy ideas. In these later years eggheadism has run like a scourge through our colleges and our journals of opinion. The younger the thinker, the bolder his philosophy. This bursting egotism of the young intellectual who feels his diploma confers upon him authority to seize the world by the scruff of the neck and shake it into good behavior may be seen in this chant of the youthful Rexford Tugwell, just emerging from the Columbia campus:

I am strong. I am big and well-made.
I am sick of a nation's stench.
I am sick of propertied czars.
I have dreamed my great dream of their passing.
I have gathered my tools and my charts.
My plans are finished and practical.
I shall roll up my sleeves—make America over.

Here is the egghead literally on fire—true inheritor of the “book and the torch” of Plato and Bacon and Campanella, of St. Simon and Comte, and above all of that molehill of poets and musicians and novelists and philosophers and journalists and teachers who fluttered around the pale but beautiful candlelight of Brook Farm.

The modern eggheads are the natural inheritors of the divine right of revolution and social reconstruction. But with this immense difference. They no longer talk of Brook Farms and Icarías and small enclosed village communes. Long ago Karl Marx saw the end of that nonsense. Universal suffrage and the machine changed the nature of the struggle. The philosophers now talk of throwing down the boundaries of nations and subjecting not a village, but a world to their planning. What was once called Communism applied to a village republic has become Socialism erected over a vast nation. But they do not call it Socialism. It is now being peddled under a new brand name—the Planned Economy.

But the great objective is the same. Beginning with the nation, the population will enjoy the vote but under arrangements such that the power of those who control the state will be so great it cannot be successfully challenged. But our bold and hopeful eggheads make one decisive mistake. They suppose *they* will control the state. It may be

the peculiar *forte* of the philosophers to dream, but when the dream has been realized and the state has been invested with these vast and compulsive powers, it will be not only the governor but the employer of all, with a power over men's bodies and minds too great to be resisted. At this point the management of the state will come into the hands not of the professors and their fellow intellectuals, but of the practical politicians who understand the techniques of acquiring and retaining and managing power. Then, I suggest, most of the eggheads will be in jail or in flight to Canada or Mexico.

Communists and the New Deal

Why have the Russians made such monkeys out of us? We can't doubt that they have. They got from us the arms with which to drive the Germans out of Russia. We drove the Germans out of France and crushed them in most of Germany. After that the Russians outsmarted us at every turn. They got us to split Germany into four parts. They trapped us into dividing Berlin and establishing American headquarters 200 miles inside the Russian zone. They trapped us in the United Nations, where we cannot make any important decision without Russia's consent. In Asia they let us drive the Japanese out of China and then walked in and took it over with our consent; and then trapped us in Korea.

We won the war in Asia and the war in Europe against Germany. But we lost it right here in America.

How this happened can now be made quite simple and easy to understand by looking at a Red operation in just one episode. I propose, therefore, to let you sit in and watch Communist agents here pulling rabbits out of American hats; making fools out of American high officials and turning a magnificent victory by our soldiers into a shameful defeat.

To understand what I am about to describe you must recall certain events in Europe as World War II rushed on to its climax. By September 1944, Italy was almost clear of the Nazis. Paris was retaken and northern France and a huge triangle in southern France had been cleared. Belgium was redeemed. And Eisenhower's armies were poised on the Rhine for the invasion of Germany. Hitler's armies were pulling back from their last stand in Russia and Stalin was preparing for the invasion of the Reich from the East. The end of the war was now imminent.

What, then, would happen to Germany? The moment for decisions had arrived. America had to have a plan for Germany. We would assume that our leaders would have a plan that would correspond with America's moral code and would represent our ideas of a just and secure peace. It is reasonable to suppose that Russia would have a plan to fit prostrate Germany into Russia's dream of world-wide

This chapter originally appeared in the July 1953 issue of *The American Mercury*.

conquest for Communism. Under ordinary, normal, human circumstances, Russian officials would prepare the Russian plan and American officials would prepare the American plan for the German surrender and Germany's place in the post-war world. Then a moment would come when Roosevelt and Stalin would sit down to agree on which plan would prevail. This is obviously the way we would assume this job would be done that it is scarcely worth mentioning save for the fact that *this is not what has been done*.

Stalin's dream was a dream of world conquest. He made no secret of that. Obviously, his aim would be to put defeated Germany and as much of defeated Europe as possible under the heel of the Communist world. But how would he do that? Certainly Americans would never agree to that. At best, the problem would result in a bitter and violent disagreement at the very moment of victory. How, then, would Stalin win this argument?

Well, there was a way to do it. That would be for Stalin to write both plans—to write his plan for post-war Germany and also to write Roosevelt's plan for post-war Germany. Then there would be no argument. Such an idea is too fantastic to be considered possible. But it was possible. It was actually done. *Stalin's agents in Moscow drew up Stalin's program for Germany and Stalin's agents in the United States drew up the United States program*. I know this sounds utterly incredible—and so it is; but it is a fact. And you will understand something of the appalling malignance of what we may call Communist revolutionary strategy as distinguished from Communist philosophy, by what I am about to relate.

You will recall the various international conferences held as the war neared its end—Teheran, Quebec, Yalta. On September 11, 1944, one of these gaudy circuses was staged amidst imposing pageantry in Quebec. For the moment the glittering spectacle overshadowed events on the battlefields—the Russian armies and the American armies rushing for Hitler's Reich in Germany. The eyes of the world were on the plaza overlooking the St. Lawrence, crowded with spectators, great war figures, generals, admirals and their aides, statesmen, arriving by every train. And at the center of the stage those two world shaking figures—Roosevelt and Churchill, *but not Stalin*. Three hundred rooms were engaged to house the horde, plus the regiment of correspondents. Then when it was all over came the incredible communiqué. The leaders had met and had entered into great decisions, we were told. But not a word about the one great and fatal decision they had made. What you will read here is only one incident in a whole series of incidents which will help you to understand why we lost the war

we had won—why the victories we achieved, the men who died, the billions we poured out were turned into a vast success for Stalin and an appalling global headache for us which continues to this day.

Secretary of War Stimson had visited Europe and returned in July, 1944 to lunch with Roosevelt and advise him that he felt the war was nearing its end and that it was important that plans be made for the occupation of Germany when our armies and those of Stalin would meet in its wreckage. Roosevelt named a Cabinet committee composed of Secretary of War Stimson, Secretary of State Hull, and Secretary of the Treasury Morgenthau, with Hull as chairman. Soon after this, the committee met in Hull's office, and Stimson and Hull each presented plans prepared in the War and State Departments. Morgenthau also had a plan. That plan literally staggered Stimson and Hull. It was the plan to dismember Germany and render her permanently helpless. The mines were to be flooded and rendered forever useless, the industrial machinery dismantled and either destroyed or removed to victor countries. Germany was to be converted into a country principally "agricultural and pastoral in character."

The plan provided for: (1) permanent disarming of Germany. (2) The dismemberment of Germany—France to get the Saarregion, and Poland to get part East Prussia, the rest of Prussia to go to Russia. (3) What was left of Germany would be partitioned into two states. (4) The Ruhr would be stripped of all existing industries and so weakened that it could not in the foreseeable future become an industrial area. Those plants not destroyed would be dismantled and shipped to allied nations.

Stimson and Hull were horrified. German industrial facilities, Stimson said, had been used to help feed all Europe. To destroy the mines and the Ruhr would mean to punish all Europe. He said, "I cannot answer for turning such a gift of nature into a dust pile." Hull said "it was an act of blind vengeance." We would be confronted with the task of feeding 70 million helpless people reduced to starvation, for, he pointed out, if we wiped out Germany's means of feeding herself the task would fall to us.

Hull and Stimson went to Roosevelt and protested. Roosevelt seemed to agree. Next day Stimson sent Roosevelt a long letter vigorously presenting his objections. That was on September 9th. On September 11th, Roosevelt went to the conference at Quebec. He did not take either Stimson or Hull, but did invite Henry Morgenthau. When Roosevelt returned from Quebec he told neither Stimson nor Hull what he had done there. He had agreed to the so-called Morgenthau Plan to dismember Germany and reduce her to beggary.

You will recall what was said earlier—that as Russia was preparing her own design for beaten Germany, our leaders were supposed to be preparing our plans. But how did it happen that the plan Roosevelt took to Quebec corresponded precisely with Russia's plan? By what devious means did Stalin's plan become Roosevelt's plan? And how was it that Stalin's plan was adopted by Roosevelt against the vigorous opposition of the two highest-ranking members of Roosevelt's Cabinet? These are the facts.

The Russian government maintains a network of spies and secret agents around the world. Washington swarmed with them—almost all of them native Americans. This espionage apparatus was entirely separate from the American Communist Party. There were in this secret apparatus a large number of separate cells. These cells operated independently of one another and had no knowledge of one another's existence. One of was a group headed by Nathan Gregory Silvermaster, known as the Silvermaster cell, composed of from eight to ten members. Silvermaster was employed by the Agricultural Department and, aside from his espionage activities, was highly useful in placing other Communists in government jobs. Silvermaster's immediate superior was a Russian, Jacob Golos, a high Russian official in America, who directed a number of cells.

In the spring of 1944, just before the events leading up to the Quebec conference already described, Golos gave an order to Elizabeth Bentley, a Communist courier under Golos's authority to convey to Silvermaster an order to a high American official. This official was Harry Dexter White, and the order was to prepare a plan on Stalin's lines for the surrender of Germany.

Harry Dexter White was an economist—a graduate of Stanford—who at the moment was assistant to Henry Morgenthau, the Secretary of the Treasury. He was later elevated to the post of Assistant Secretary of the Treasury, and as such was a member of what is generally referred to as the Little Cabinet. White, a man of large intelligence, was in fact the Secretary of the Treasury—Morgenthau being a frail reed, little qualified for that high post. White has been identified as a Communist agent by two witnesses under oath—Whittaker Chambers and Elizabeth Bentley. Chambers begged White to break away, but he refused. White was not a member of the Party, but he served eagerly and extensively the agents of several cells. On the witness stand, White denied he was a member of the Party—which was true. But he admitted he was a friend of Silvermaster and that he and Lauchlin Currie, a presidential aide, visited Silvermaster's home and played ping-pong in the basement, where, Miss Bentley testified, Sil-

vermaster operated an elaborate photostating and microfilming apparatus. When White testified, the net was drawing tightly around his underground companions, and only four days later he died of a heart attack.

It was Harry Dexter White who prepared the plan for the dismemberment and pastoralization of Germany, which corresponded with Stalin's plan, after receiving a directive to that end relayed to him from Golos by Silvermaster.

We return now to Hull, Stimson, and Morgenthau—the Cabinet committee named by Roosevelt to prepare the American plan. Roosevelt added Harry Hopkins to the committee and on September 2nd, Hopkins called a meeting of the Cabinet aides of Hull, Stimson, and Morgenthau. These were Andrews and Riddleberger for Hull and Stimson, and Harry Dexter White for Morgenthau. There White first revealed the so-called Morgenthau Plan. Germany was to be dismembered—part going permanently to Poland, part to Russia, and the rest divided into two zones. All industrial machinery which could be removed was to be taken by the victors, including Russia, and the rest was to be demolished and the mines flooded.

Then on September 9th, Morgenthau appeared with this plan in Hull's office, where Hull and Stimson made their protest.

Before this someone had reached Roosevelt's mind. In August, he had told Justice (later Secretary of State) Byrnes that the "German people should be taught their responsibility for the war and for a long time should have only soup for breakfast, soup for lunch, and soup for dinner." It was, as a matter of fact, because of this that Byrnes refused to accept the post of High Commissioner for Germany.

Without ever seeing his Cabinet committee again, Roosevelt went to Quebec and invited Morgenthau to meet him there, saying nothing to Hull and Stimson—although he had already heard their protests. And there at Quebec, Roosevelt induced Churchill to agree to the Morgenthau Plan. When Roosevelt returned to Washington he said nothing of this to either Hull or Stimson. They did not know the subject had been discussed. Hull knew nothing of it until about ten days later. He asked Roosevelt what had been done at Quebec, and Roosevelt forwarded the documents to him. There Hull saw to his surprise and horror what had happened. But Hull wondered why Churchill had approved the agreement. Then he saw that at Quebec, Roosevelt had given the promise of a six-billion-dollar grant for England when the war ended. Morgenthau told Hull that Churchill was furious when the plan was first proposed to him and that when Anthony Eden arrived and heard of it he made a heated protest to Chur-

chill. Morgenthau described how Churchill opposed the Morgenthau Plan while Roosevelt refused any grant of money for Britain. But under Hull's questioning, Morgenthau agreed that Churchill's real reason for being at Quebec was to arrange for these money grants.

How much did Roosevelt realize what he was doing? He certainly took great pains to keep from Hull and Stimson what he was doing at Quebec. When he returned he gave to them no hint of what he had done. And when confronted with the fact by Hull, he declared that "someone had been giving statements to the newspapers which are fundamentally untrue." It is indeed one of the strangest chapters in Roosevelt's strange career. To what extent Roosevelt was himself directly responsible for this shameful agreement or to what extent those around him in the Treasury knew of his rapidly declining physical condition, it is impossible to say. It seems incredible that a man in full possession of his senses would enter into so shocking an agreement after collaborating with its sponsors to keep away every possible source of resistance, and then, after signing the papers, deny to his own Cabinet ministers that he had made such an agreement.

Morgenthau, in his own book, has boasted that his plan did shape the post-war policy in Germany. However, the dark infamy of this barbarous agreement made it impossible of execution in full. Civilized soldiers shrank from the task and, at least, the Ruhr and Saar industries and mines were saved. But in most other respects the plan prevailed. It has been called the Morgenthau Plan. It was the Harry Dexter White Plan. But it was in fact the Stalin Plan—presented by Roosevelt to an angry Churchill and literally forced on him by a grant of six billion dollars of American money.

Why was it possible for Stalin to prepare, through a high-ranking American official, his own plan for Germany to be adopted as the American plan? Because the Communists were and are skilled in the dark art of penetrating their enemies' councils—the very Cabinet of the President—just as they have penetrated our schools, our colleges, our press, our radio, our movies, and every instrument of opinion in America. But even this would not be possible without Communism's greatest ally—the Great American Dupe.

What is Senator McCarthy Really Trying to Do?

What is Senator Joe McCarthy up to? What is he trying to do? One critic has said he is just an invincible show-off. But now his enemies say he is trying to make himself President. As for running for the Presidency, McCarthy has no illusions. A very wise politician, he knows as well as the next man that the time has not yet arrived when a Catholic can be elected President of the United States. His foes can stop worrying about that.

What, then, is he up to? The implication is that he has some mysterious enterprise on his agenda. But after all, is there anything wrong about being against Communism and Communists in America? Is some profound psychological problem involved in explaining why an American Senator is against Communism?

No, there is no mystery about Joe McCarthy. As a matter of fact, he is about the most obvious person in Washington. He just doesn't like Communists. And above all, he doesn't think they should hold jobs—particularly important jobs—in our Government. What is so peculiar about this point of view that it should call for an explanation? The mystery of Joe McCarthy can be explained in a single sentence: he is opposed to admitting Americans who are the enemies of our American system of government—Communists or Socialists—into the Government of the United States.

It is just as simple as that and, I should like to inquire, what is wrong about it? And I would like to ask one more question. What is the matter with the people who want to know what is the matter with McCarthy?

The truth is that McCarthy has come in for the same dose that has been given to every political leader or writer who has broken a lance against the Commies. McCarthy didn't begin this. The first important attack on the Reds was made by a famed and beloved old labor leader, John Frey, vice-president of the American Federation of Labor. He appeared as one of the first witnesses before the Dies Committee in 1938 and gave the committee a list of more than a hundred Communists who had penetrated the newly formed CIO labor federation. President Roosevelt sent for the chairman of the committee, Martin

This chapter originally appeared in the March 1954 issue of *The American Mercury*.

Dies, and demanded that he put an end to Frey's testimony, which Dies refused to do.

Later Dies became the target of the same groups that have been sniping at McCarthy. A group of congressmen headed by Frank Hook of Michigan hatched a plot to disgrace Dies. They obtained a letter supposedly written to Dies by the discredited and convicted William Dudley Pelley, then a fugitive from justice. Hook was delivering a speech against Dies in the House when Pelley turned up and denounced the letter as a forgery. This was proved when the disreputable stooge who wrote it confessed to the forgery, for which he was paid \$105, and was convicted and jailed. Later the Reds and their strange allies in the Democratic Party massed all their forces to defeat Dies in Texas. He is back in the House now, I am glad to say, after a long absence.

Bob Stripling, the chief investigator of the Dies Committee, was drafted into the Army (though he had standard exemptions which excluded others at the time) and sent to a camp as a yardbird, sweeping refuse, along with German prisoners. Parnell Thomas, who succeeded Dies as committee chairman, was shadowed and spied on until they found he had taken a kickback from one of his office employees—not unusual among Congressmen who have campaign expenses to meet. He was indicted and sent to jail. Joseph Starnes, an able member of the committee from Alabama, became the target of the infuriated Reds and their Democratic allies and was defeated in an election in which all the forces of the national administration were mobilized against him.

The toll of the dispossessed is a long one. I could fill this page with the names of writers and journalists who were silenced for their boldness in attacking the Communists in government. Every time a Red was spotted in government and exposed or indicted, all the forces of the administration were mobilized to defend him or her and to persecute his accuser.

When Whittaker Chambers revealed the Hiss treason to Adolf Berle, a loyal and left-wing Democrat then an Assistant Secretary of State, and Berle carried that news to the State Department and the President, nothing was done about Hiss; but Berle was later literally transported out of the State Department to a post in South America. It was years before Hiss was brought to book. It is one of the strangest stories in our history. McCarthy is simply getting the standard treatment prepared to intimidate lesser and weaker men.

McCarthy's special objective now is quite obvious and of the first importance. America faces many grave and almost frightening prob-

lems. These call for the devoted attention of men and women dedicated to our own country and its interests. The United States Government simply cannot afford the presence in its counsels and among its officers of a camarilla of officials who are part of a conspiracy to advance the interests of any other country at the expense of our own—any country, but above all, Soviet Russia and her Communist allies.

McCarthy's objective is to rid our government of that conspiracy. For the life of me, I cannot understand why any loyal American should not approve this.

Actually, McCarthy came into the struggle somewhat late. He had been in the Marines during World War II. He entered the Senate in 1946. The revelations of the shocking betrayal of China by American Reds in official posts shocked him. He began to study that dreadful story, but it was not until 1950 that in the course of a speech he charged that 57 members of the Communist Party were in the State Department. He did not name any, but in a long speech a little later expanded the charges and in the course of that speech said there was a top Communist espionage agent in the State Department, and he demanded an investigation. A widely-known columnist reported that the man McCarthy was aiming at was Owen Lattimore.¹

All this led to an investigation of the charges by the Tydings Committee. But the investigation turned into an investigation of McCarthy, not of the State Department. It ended with a denunciation of McCarthy and a complete acquittal of all those he had named, including Lattimore.

But, fortunately, this did not really end it. Senator Tydings, running for election in Maryland, was defeated. Later Senator William Benton, the active prosecutor of McCarthy in the Senate, was also soundly beaten when he tried for re-election in Connecticut. On the other hand, McCarthy, running for the second time in Wisconsin, was re-elected by a tremendous majority.

Meantime, the Internal Security Sub-Committee of the Senate investigated the Lattimore charges. The members—three Democrats and two Republicans—declared that Lattimore was “a conscious, articulate instrument of the Soviet conspiracy” and that he had lied to them under oath. He is now under indictment for perjury and awaiting trial. However, the record of evidence in those hearings leaves no doubt

¹Owen Lattimore was an American Orientalist who served as an advisor to Franklin Roosevelt. Flynn authored a book, *The Lattimore Story*, about his pro-Communist proclivities.

whatever that McCarthy's charges against the State Department were well-founded.

As for the pro-Red Department officials he named and who were acquitted by the Tydings Committee, most of them and a great many more have been driven out of the government. It is not necessary to name them here. They make up only a small part of the strange horde of faithless Americans who not only dedicated their lives to the fortunes of a foreign country but chose our deadliest enemy—Russia—as the object of their affections. McCarthy's vigorous exposure of these troublemakers ultimately stimulated the alertness of various departments.

Even before Mr. Truman left office, the exodus began. And since the new administration took over, some 1,456 security risks have been let out of the government. It is safe to say that this never would have happened but for the vigorous activities of Senator McCarthy, Representative Velde of the House Un-American Activities Committee, Senator McCarran of the Senate Internal Security Sub-Committee and, more recently, Senator Jenner, who succeeded Senator McCarran.

However, we must never lose sight of Senator McCarthy's objective from the beginning. He has never denied the right of an American to be a Communist or to join the Communist Party, even though that party be a defender of the political ideas of Communist Russia. He has insisted that Communists and their sympathizers have no place in our government councils.

The problems facing our leaders are the most difficult, and even baffling, in our history. Normal Americans—Republicans and Democrats—will differ on these problems and the method of dealing with them. We cannot afford to complicate the task of meeting them by having in these councils a secret conspiratorial clique dedicated to the interests of any other country, even a friendly one. Above all, we cannot tolerate in these councils the agents of a country which has declared war upon our way of life and maintains in our midst a highly organized conspiracy to destroy our institutions and, in our struggle against the enemy, to represent the cause of that enemy. The differences between normal and loyal Americans are sufficiently disturbing without subjecting the study and discussion of them to the intrusion of a numerous, trained, and resolute conspiracy representing the enemy.

This, and nothing more, is what Senator McCarthy is trying to do—create a condition in our government where our policies will be made by Americans devoted whole-heartedly to America. Why should he not have, in this, the whole-hearted support of every loyal American?

The Dark Alliance

What is the average American to think when the *New York Times* and *Herald-Tribune*; the Methodist Bishop Oxnam and the Chicago Catholic Bishop Shiel; Gus Hall, National Secretary of the Communist Party; Adlai Stevenson and General Eisenhower are all united in one great cause—the war on Senator McCarthy because he is fighting Communists in Government? This curious collection of allies compels us to re-examine some of our cherished assumptions about America. If we will do that with candor, we will begin to understand why the Communist revolution in America is so terrifying a threat to our civilization.

The number of Communists in America is very small. Yet the most dangerous enterprise any public man can launch is an honest-to-goodness assault upon the Communist Party or any of its satellite enterprises. Alone the Communists are helpless. But they have allies—powerful allies, numerous allies—who can be depended on to be at their side whenever they have an assault to launch or a position to defend.

The Communist movement is a revolutionary attack on our political and social institutions. But it has no intention of attaining its objectives by civil war. Its leaders know that our free system of political and economic life consists of a number of institutions—forms of government, systems of finance, of production, of transportation, of distribution, of education, and of social life. The aim of the Communist is to break down, one at a time, these several institutional sectors of our society until the whole great edifice of this free republic collapses.

The Communist plan to accomplish this result is to activate some large minority—economic, political, social, or intellectual—to weaken, disfigure, and to wreck some one particular bastion or pillar or foundation of the system. There is nothing new about this. It has been done with incredible success in Europe. Now it is being done here. The appalling feature of it is the pathetic and shocking ignorance of supposedly educated and smart Americans who lend themselves to this dark alliance.

This chapter originally appeared in the September 1954 issue of *The American Mercury*.

Had you talked to any well-informed Communist leader in 1936 and asked him how so small an organization hoped to bring this great, free system of American government and economy into the dust, here is how he would have answered you—if he was disposed to be completely frank.

"My dear fellow," he would have said, "you must understand the we Reds are few in numbers—a few thousand against 125 million people. But never overlook this fact. We are experts. Your 125 million Americans are dopes. What is more, you are not a lot of duplicates. You are a collection of differing minorities. Each minority has its own appetites, hopes, hates, vengeance, and dreams."

For instance, to take just one example, there is that sizeable group which thinks of itself as an intellectual elite. It includes college professors, writers, editors, lecturers, scientists, musicians, playwrights, actors, and that considerable swarm of persons of all degree who classify themselves as "Thinkers"—dealing in ideas—floating around in space and vaguely known as "philosophers" or "intellectuals."

For some reason the revolutionary spirit seems to be an occupational disease of the intellectual. But there are other groups. Government in a republic must be by majority decision. But unfortunately there is no such thing as a majority in general practice. There are only minorities. The business of the successful politician is to cultivate the support of a sufficient number of minorities to create a majority.

The Communist revolutionary knows this and has used it all over Europe, and now in America, with deadly results. And, to come to the point, the minorities which are doing with amazing success the work of the Communist revolutionary are found here among the intellectuals, certain sectors of the labor movement, certain sectors of Big Business—which is really paying the bills of the revolutionary movement while enjoying the diseased prosperity of the war racket—and the general run of American politicians interested in office and its perquisites, who have never enjoyed this prosperity on so lush a scale before.

First, of the intellectuals. The teaching world has been widely poisoned by this philosophy. It is a fact that college professors and school teachers generally are, for the most part, paid less than the man who drives a milk truck in my neighborhood. Most teachers, I think, accept this situation as the inevitable hazard of their profession. But there is a large segment which distills in its heart a deep resentment against a system which pays a small business executive ten or fifteen thousand dollars a year and a mere \$2,500 to \$5,000 to a teacher.

For some reason, as soon as one comes to the conclusion that he or she is an intellectual, the virus of social discontent is apt to infect

him. Dr. Robert Oppenheimer is a case in point. He has described himself as "not interested in economics and politics . . . I was wholly divorced from the contemporary scene. I never read a newspaper or magazine . . . I had no radio, no telephone. I learned of the stock market crash of 1929 long after the event." Here is a large intelligence, focused on a single sector of the universe. But the philosopher in him distills in his spirit a scorn for the immediate and practical world about him.

Thus isolated from humankind and reality the so-called Thinker may be carried along into various giddy social extravagances, some ludicrous beyond belief. The history of Utopias throughout the ages is perhaps the most startling evidence of the capacity of men of great intelligence to pursue the most fatuous and silly ideas when they step outside their chosen fields. In America today there is not a Communist enterprise which does not carry the supporting names of men eminent as writers, scientists, professors of history, literature, and divinity.

Dr. Einstein is another example. When Hitler came to power in Germany, Dr. Einstein found that climate unhealthy and left. He might have gone to Russia—that Communist heaven only 500 miles away. Instead he sought refuge 4000 miles away in this capitalist hole, which he has been slandering ever since he arrived. Like Oppenheimer, he has confessed (when declining the presidency of Israel) that he "had a little comprehension of the natural and physical world" but had no talent for political administration. Yet he has described this country as a land of "economic anarchy" and has said there is only one way to eliminate its grave evils and that is through the establishment of a socialist economy. When Garry Davis renounced his American citizenship, Dr. Einstein was among the first to approve and applaud his courage.

The incredible industry of the Communist Party is attested by the fact that it has promoted its various objectives through what are called "front" organizations and that it organized over 1,200 such leagues, councils, committees, unions, conferences and that in most of these will be found the names of writers, artists, teachers, university professors, including many eminent college presidents.

Indeed, it has become fashionable to criticize and denounce and sneer at the American political and economic system, but is now some sort of social error to support or praise public men who fight Communism and Communists in our Government. How else explain the strange attitude of President Eisenhower, who made the White House the GHQ for the war on McCarthy, without whose support he would not have a majority in the Senate? Apparently the reigning intellectual

pose is that one's mind must be wide enough to leave at least one cozy little corner in it for this Red tolerance.

Another ally of the Communist conspiracy in America is that curious collection of big businessmen and well-heeled millionaires who can be found paying the bills of most important Communist activities. I have suggested that the Communist revolution in America has been and is being in fact financed chiefly by American millionaires and big business. This is not a mere weird suspicion. Let us take one laboratory case.

Russia planned, when the war in Asia drew toward its end, to deliver China into the hands of the Communist revolutionaries there. To carry out that plan it was necessary to cultivate the American State Department and to prepare the public mind. An organization known as the Institute of Pacific Relations has been branded by a Senate Committee—unanimously—as having been used as a front for this purpose. Its first executive secretary was Joseph Barnes, who has been identified as a Communist sympathizer by three witnesses under oath. He was succeeded by Frederick Vanderbilt Field, a notorious Communist and columnist for the *Daily Worker*. Another secretary was Harriet L. Moore, also identified as a Communist.

To prepare the public mind for the betrayal of China, fourteen books were published here, written by IPR members or staff men, such as Israel Epstein, Mark Gayn, Phillip Jaffe, Guenther Stein, Agnes Smedley, Anna Louise Strong, and others. Practically all of these books were given wide currency through glowing reviews in the *New York Times* and *Herald-Tribune* written mostly by pro-Red reviewers. The Senate Sub-Committee identified and listed 46 persons connected with the IPR as staff members, writers, or workers who were Communist Party members. There is no longer any doubt about the fact that it was this organization which, through its publications, its lobbyists, and its members working in the State and other departments (such as Alger Hiss), disarmed Chiang Kai-shek's armies and broke down all resistance to the sweep of the Red armies over China and Korea.

But here is the black meaning of all this. The work of the IPR in this conspiracy cost over two million dollars. What is more, while the Reds inside the machine did their deadly work, the enterprise had to have the clear evidence of high respectability. And it got both high respectability and money from big business. Much of the funds came from the Carnegie and Rockefeller Foundations and the Laura Spelman Foundation. Twenty-four big business corporations gave their approval and their money—such great concerns as the American

Brake Shoe Co., Bank of America, Chase National Bank, Firestone Tire and Rubber Co., National City Bank, Otis Elevator Co., Standard Oil Co. of California, Time, Inc., and a number of others.

I do not charge that the officials of these companies knew what they were doing. I do say they financed this operation and that most of the important activities of the Reds in America have been financed by business—including big business—whether they knew what they were doing or not.

This subject alone could exhaust the pages of a book. The two magazines which did most to promote socialism in American colleges in recent years were *The New Republic*, financed by the great Whitney fortune, and the *The Nation*, kept alive by contributions from numerous American millionaires. And now we are being treated to the revelations of the Reece Committee in the House, which is making it clear that much of the subversive activities in this country have been financed by great foundations set up by American millionaires.

As an example, the plan hatched by George Counts and his gang to capture the schools for socialism was financed by the Carnegie Foundation (\$300,000). And to cap this necessarily brief reference to this subject, we find John Foster Dulles making Alger Hiss president of the Carnegie Endowment for International Peace.

There is one more group which has been playing the game of the Reds in this country. This includes our politicians of both parties. The Federal Government in its present tortured and disrupted state has become a vast pool of funds for both business and politicians. Let us never overlook the fact that the fantastic expenditures of the Federal Government go, for the most part, into the hands of large manufacturing and mining concerns, as well as into the pockets of wage earners. In 1933, the total wage disbursements in the United States were 29 billion dollars. In 1952, they were 181 billion. In 1933, the dividends of business were roughly two billion dollars. In 1952, they were over nine billion. The personal consumption expenditures of the American people in 1933 were 46 billion; in 1952, 208 billion. American manufacturing concerns collected 7½ billion in 1933, and over 83 billion in 1951.

To do this, however, the Federal Government had to go into the war as a business-making racket and had to borrow over 250 billion dollars for the job, which is still due, growing greater every month, and will one day come crashing down on the backs of the American economic system. But while it lasts, business and the unions have a merry time of it. But the Communist rubs his hands in glee. For he

never forgets what Lenin said: "We will make the United States spend herself into bankruptcy." This is precisely what our government is now doing.

The most melancholy aspect of this is that it is called some sort of new social miracle. Yet it has been worked with success in most of the countries of Europe. After the Franco-Prussian War, the German Empire set up in business—debt free—and with several billion marks in the bank from the huge French indemnity exacted by Bismarck. But the new socialist movement got under way, promising jobs for all and security for all to the people. Bismarck, frightened at this threat, decided to go into competition with the socialists. The various German states began to operate railroads, public utilities, mines, forests, telegraph systems. Bismarck was aiming at taking over tobacco and spirits and began to establish state philanthropies—social insurance, compensation insurance, old-age pensions, and sickness insurance—as early as 1889. Bismarck fought socialists by sinking Germany in socialism.

But he could never pay the bills. Starting in 1871 with a huge surplus, the empire had a debt of five billions by 1913 and the Finance Minister warned the Kaiser that the "stability of the empire was in danger." World War I was an escape. When it ended, Germany was bankrupt and, in due time, Hitler took over as receiver, and he turned to the supreme project—war.

In 1938, Roosevelt's Second New Deal having crashed, he cried in despair to his cabinet: "No one tells me what to do." Hitler solved his problem for him. He attacked Britain, and America went into the arms business and finally into the war—that dread racket upon which we have been living in a fool's paradise ever since.

But the Red conspirators know it will one day blow up. The partners in this Dark Alliance in America—the Red, the intellectual, the selfish and stupid politicians, and the short sighted businessman—are hurrying it along at an ever-increasing speed.

Two Rackets of the UN

One of the first facts we must face when we discuss the United Nations is that its members are in no sense united. The United Nations is not an instrument for preserving the peace of the world. It is an instrument for protecting a few powerful nations, chiefly Russia and Great Britain, in a dangerous racket that has led to almost all the wars in the last 150 years. For Russia and Britain, therefore, it is a racket. For the United States it is also a racket, but of a different sort. There are, to be sure, some luminous souls in this country—and some others who are by no means so simple-minded—who support the UN for a variety of both bad and generous reasons of their own.

First of all, for one powerful group the United Nations is a device to use the great resources of the United States to protect the British Empire. For Britain this slogan, "One World," means a world in which England, a nation of 50,000,000 people, lords it over some 569,000,000 people on every continent on the globe. We are not protecting the broken peoples of the world by supporting the British Empire in the United Nations. How much good will can we cultivate for America by associating ourselves with Britain's adventures in imperialism? Outside the British Isles, her government dominates 335,000 other peoples in Europe, 450,000,000 in Asia in nine separate countries, 86,000,000 in twenty separate countries in Africa, 12,000,000 more in Australasia and 20,000,000 more scattered all over the world. Here is the greatest land-grabber in modern history, which is our partner in the "noble" enterprise of liberating the underprivileged people of the globe.

The "Union Now" Movement

One can make allowance for Britain, which finds these immense populations in the inheritance left her by her conquering statesmen. But what defense can be made for this inheritance now? And what holds it together? Sir Winston Churchill was smart enough to give an honest answer. He said two years ago that the British Empire cannot be written off as long as there is England, Canada, Australia, New

This chapter appeared in the March 1955 issue of *The Freeman*.

Zealand and "its great friend and relative, the United States." Indeed, there is a richly financed movement in the United States to effect a union of the British Empire and the United States. Its foremost advocate is the *New York Times*, whose editor asked two years ago

Is it too much to believe that the Atlantic Community is at last shaping up as a functioning coherent organization? . . . *Are we going beyond the military concept of NATO to the broader field of confederation of the Western nations?* The communiqué given out after the Truman-Churchill talks poses these questions and gives some reason for hope that the answers are affirmative. If so we are seeing the *creation of one of the truly great alliances in history* [Italics added].

Senator Smith of New Jersey put into the Congressional Record a speech by his colleague, Senator Hendrickson, in which he advocated what is called Federal Union, a version of Atlantic Union or Union Now—all brand names for that old dream of Cecil Rhodes in which the two great English-speaking peoples would unite in one great empire. The version of this imperial edifice that seems most pleasant to our American Anglophiles is a sort of cross between Atlantic Union and Union Now. Former Supreme Court Justice Owen I. Roberts, at a meeting of the Atlantic Union Committee in Buffalo in 1952, declared that Atlantic Union "would mean a common citizenship, common economic and military policies, common currency and free exchange of goods." And while that group was in session, John Foster Dulles sent its members a telegram congratulating them on their great movement.

Earlier, Harold Stassen, in 1950, made a speech in Philadelphia in favor of the United World Federalists, an even more extreme form of "one worldism." Let me add that Milton Eisenhower, who has been defined by his brother, the President, as his closest adviser, has been an enthusiastic supporter of Atlantic Union. And General Eisenhower himself, in 1951 before his nomination, sent a telegram to the Atlantic Union convention in Memphis, Tennessee, in which he declared his interest was "official as well as personal" and that "success is certainly worthy of official effort." Let no one dismiss this dream as fatuous. In 1950, twenty-four Senators and fifty members of the House listed themselves as sponsors of this scheme.

There is some reason to believe that the United Nations may be approaching dissolution. But it has served as a powerful instrument to ally the United States and Britain in the defense of Britain's empire,

a project which could be continued if the United Nations dissolves. It could go along in some version of Union Now—a cozy and more compact United Nations—which would unite the power and resources of America with those of Britain for the preservation of her vast imperialism. Certainly no one could blame Britain for seeking such a solution to her imperial problems.

The presence in the UN of the Soviet Union with her power of veto makes impossible any action favorable to what is called the free world or against the enslaved world behind the Iron Curtain. But it would not be true to say that, from the standpoint of Britain and her American allies the UN has been ineffective. It has, indeed, been futile as an instrument for peaceful collaboration among nations. But it has served as a powerful meeting ground within which Britain has been able to bring the United States delegation close to her side, and has prepared to create, when the United Nations breaks up, a British-American team for the perpetuation of her shaky empire.

In all this I do not hold any brief against Britain in her efforts to live in whatever kind of world she wishes to form. She has had a great history within her own borders in defining and advancing for her own citizens the freest society in the world outside the United States. But the source of her troubles now lies in the existence of an outmoded empire which she can no longer defend with weapons or with reason. And this is no time for the United States to move into that dissolving imperialism as a partner.

Let me add a word here touching that shrewd verbal invention—the phrase, “peace-loving nations.” Britain is no peace-loving nation, any more than Germany or France or Russia. In 1853, Russia occupied Turkish land north of the Danube, whereupon Kitchener was sent to liquidate the Sudanese army. In 1899, almost all America denounced Britain as she made cruel war on the sturdy Boers in South Africa. Then in 1900 came the Boxer uprising in China against British, French and other exploiters of their country.

In 1914 Britain made common cause with Russia and France in a war that killed nine million and wounded twenty million. The prize which came out of that struggle was Hitler in Germany and Lenin in Russia, while the United States found herself embroiled in a multitude of problems as a result of our folly in joining the fight. And, as an inevitable result of that war, came World War Two, into which, for a second time, we were maneuvered. As a fruit of this madness, we are trapped in a world in which Communist Russia rides herd on all of eastern Europe and most of Asia, and Britain is confronted by a series of threats against her own indefensible empire from the people she

has dominated—and once again tags us for the dubious privilege of defending that empire. For Britain, the United Nations has been a perfect arrangement by which to cast us for the role of champion and defender of her empire against the Reds.

At Home—the False Prosperity Racket

But in what respect is the United Nations a racket for the United States? Not for our country, of course, but it is very obviously a racket for two groups of politicians: those who play the game of the British Empire and those who know how to use the United Nations for their own domestic purposes.

The root lies in the depression of 1929. President Roosevelt, when he came to the White House in 1933, turned to the spending of great sums of borrowed money on relief and various types of boondoggling to create jobs for the unemployed. In the years from 1933 to 1940 he spent from five to eight billion dollars a year on relief and make-work projects, borrowing most of it. In 1939, when the Germans struck at Poland, the President turned to military preparedness. A reasonable amount of armament was clearly defensible, provided the President was resolved to remain out of the war. But it is known now that the President, long before the attack on Pearl Harbor, had resolved on entering the war and was merely awaiting the favorable moment to act. The economic and political effects of this were immense and obvious. Large orders for military and naval weapons and munitions flowed into American factories from Britain and France. And after the attack on Pearl Harbor—an attack which every informed student now knows was invited and welcomed—the sky was the limit in munitions making in America.

The effect on the United States, trapped in the depression, was immediate. America became a vast arsenal and, as was inevitable, was brought into the fighting war. After that the problems of the depression were in the past: everybody at work, wages going up, whole families employed with plenty of overtime. Here is the record of the taxes and borrowing:

	<i>Taxes</i>	<i>Borrowing</i>
1940	\$5,264,000,000	\$2,528,000,000
1941	7,227,281,000	5,993,000,000
1942	12,696,286,000	23,461,000,000
1943	22,201,502,000	64,274,000,000
1944	43,891,673,000	64,907,000,000

1945	44,761,609,000	57,079,000,000
1946	40,026,889,000	10,740,000,000

Thus, in 1940 the President spent in taxes and borrowed funds roughly \$7,792,000,000. By 1945 these funds available to spend had risen to over *one hundred billion dollars* in a single year. The year after the war, the taxes and borrowed funds were more than fifty billion dollars. In 1940 the national debt was \$42,968,000,000. The year after the war ended it was 169 billion dollars. Today it is 278 *billion dollars*.

These vast sums were spent on coal, iron, metals of all sorts; in foundries, farms, factories; on wages of men in the armies, profits of producers and in the operation of the endlessly multiplying bureaus of government. When the war ended, the politicians were trapped in a vast, feverish prosperity created wholly by borrowed funds and huge taxes. The people, despite the gravity of the war, were led to believe that the prosperity would continue—that the government had found some magic device for creating endless streams of money on which to float an endless boom.

The politicians had discovered an old, but ever new, trick for creating money and prosperity. There is no war now, but the federal government managed to spend over 66 *billion dollars* in 1953 and 74 *billion dollars* in 1954. The outlook for the present fiscal year, to end June 30, is for 64 *billion dollars*. How much of these 64 billions will be for the ordinary and legitimate processes of government? Not more than \$7,200,000,000. The rest will be for spending on military, interest on the debt, and stockpiling (a shameless boondoggle by which the government buys up what farmers and other producers cannot sell and "stockpiles" it). The interest on the national debt alone is now more than twice what the total cost of government used to be.

Now I insist this is a racket to create a lawless and, ultimately, a fatal prosperity. But this cannot be done by taxing and borrowing merely to spend in the United States. Hence our government finds in the United Nations a vehicle, not to do the actual spending, but to locate and defend the expenditure of immense sums of money all over the world. Actually, the money is not spent in Europe, Asia or Africa. It is spent here to build military weapons, to support immense armed forces and vast naval establishments, and to provide so-called "friendly nations" with arms, food, clothing, education, schools, and assistance of all kinds. But most of the money is spent in the United States to continue the fraudulent prosperity which we are "enjoying" on the cuff.

New Site for Fort Knox

The agency which makes all this possible is the United Nations. This enables us to get mixed up in one way or another in every quarrel anywhere in the world. It provides us with the excuse for paying out billions of dollars to defend ourselves against enemies who have no intention of attacking us. The only enemy we have to fear internally is the Communist underground, which occupies a privileged position in the United Nations.

Fighting Communists in the United States is a hazardous undertaking. The American citizen or official who attempts it with any degree of success is sure to be attacked. It seems that the only Communists who can be fought with impunity are those in the communist conspiracy in Russia and Asia. The only approved way to fight them is to raise vast armies and navies and squadrons of planes and clouds of atomic weapons, which cost huge sums and provide jobs and prosperity for the nation and security for the politicians who create the prosperity with taxes and borrowed billions.

Communism is a grave menace to us and to the world. But Communists must be opposed by men in government who mean business and who realize that the first step is to liquidate them here in America; that the second step is to stop playing with and supporting their allies in Europe; and that the third step is to organize the American Republic again upon constitutional lines. This means that we must rout Communists out of our government and our schools at home. We must stop financing other governments which play fast and loose with us on this issue. And, above all, we must rid this nation of the United Nations, which provides the communist conspiracy with a headquarters here on our own shores, and which actually makes it impossible for the United States to form its own decisions about its conduct and policies in Europe and Asia.

The Road Ahead

Most people in this country believe that the American Communist Party and its dupes are the chief internal enemy of our economic system and our form of government. This is a serious mistake. The Communists are a traitorous bloc in our midst, but if every Communist in America were rounded up and liquidated, the greatest menace to our form of social organization would be still among us.

This most dangerous enemy is the American counterpart of the British Fabian Socialist, who denies that he is a Socialist and operates behind a mask which he calls National Planning. These Socialist Planners are enticing us down the dark road that has led so many European nations to their doom. Unless they are recognized for what they are, and are stopped, they will destroy this country.

Our people have been so far from the European scene that they have not observed closely the forces which in the last 30 years have been eating away the foundations of European civilization. The same forces that ruined Germany, Italy, France, and Britain are repeating their work of destruction upon our economic and political organisms.

Of the countries in Europe which have moved into the Socialist camp, the two which concern us most are Russia and Great Britain. Each adopted Socialism by a different route; each organized its Socialist society upon a different model. But both are Socialist. Russia was conquered overnight by a sudden, violent revolutionary convulsion. Great Britain moved into Socialism a little at a time, without bloodshed, in a journey that took almost 40 years.

We are following in the footsteps of Great Britain. We are much further along the road than we suspect. If we do not clearly recognize that fact and abandon that fatal road, we shall inevitably, perhaps in less than a decade, be in the condition the British now find themselves in.

In Great Britain we have a perfect case history of the infection and progress of the Socialist disease and, while this book is about America, we should briefly review the carefully concerted Socialist plan by which that once great country—the home of modern capitalism and modern free government—was led stealthily to her present state.

This chapter originally appeared as a condensed version of John Flynn's bestselling book of the same title in the February 1950 issue of *The Reader's Digest*.

The Socialist government in Britain did not come into power by accident. In 1883 a small group of Socialists organized what they called the Fabian Society. Among its members were such eminent persons as Sidney and Beatrice Webb,¹ George Bernard Shaw,² and Ramsay MacDonald.³ This group realized that if Socialism were to make any headway against the solid rock of British opinion it would have to proceed gradually, by political methods. They adopted the policy and the name of the Roman general Quintus Fabius, who held that the only way to conquer his principal enemy was to lure him to battle in small sectors and defeat him bit by bit.

They began by advocating not a Socialist State but a Welfare State. Deciding against State ownership of land and industry, they simply proposed State ownership of such basic sectors of the nation's economy as credit, electric power, transportation, and coal. The rest of the economic system would be left in private hands but operated under plans made by the State.

They knew they must capture the mind of the working class and must take over the apparatus of the labor unions, so they formed a political arm which later became the British Labor Party. They would begin by cooperating with the Liberal Party, which corresponded to our Democratic Party, until their own Labor Party acquired strength enough to displace it.

They agreed they must penetrate and capture the instruments and leaders of public opinion and information—writers, churchmen, and schools.

This plan's central aim was to bring on Socialism without mentioning that odious word—to offer to the voters one small part of the Socialist program at a time without the Socialist label on it. Thus they would smuggle Socialism into the social fabric without arousing the suspicions of the people.

The small coterie of Socialist doctrinaires, which never had more than 4,000 members, got into action about 1905. Thirteen years later their party had pushed the old Liberal Party aside. In five more years their leader, Ramsay MacDonald, was Prime Minister of England. At that time MacDonald did not remain long in power, but the Socialists continued to push through social-welfare measures which eventually

1. Sidney and Beatrice Webb (1859–1947; 1858–1943) were British Socialist intellectuals and authors.

2. George Bernard Shaw (1856–1950) was a British playwright, novelist, and critic.

3. John Ramsay MacDonald (1866–1937) was a British statesman who served twice as Prime Minister.

accustomed the citizens to look to the State for the correction of all their ills. The climax of this creeping revolution came in 1945.

The First World War had hit Britain a smashing blow from which she never recovered. The Second World War struck her with such epic violence that her empire withered away, her foreign trade disappeared, and her economic system lay in ruins. No Capitalist government had anything to offer other than sweat and short rations for a decade at least. Only the Socialist had his radiant rainbow ready, his promises of the good life, jobs for all, security for all from the cradle to the grave. And so in the general election of 1945 the inevitable happened: the Conservatives were swept out and a Socialist government came to supreme power in Great Britain. The Fabians' plan had succeeded.

For four years now the Socialist prophets of abundance and security have been in power. Finally it has dawned upon the British people that the realities of the Socialist paradise do not correspond with the rosy dream. The dream has turned into a nightmare.

Socialist propagandists from Britain are fond of claiming that they have socialized only about 25 percent of the economic system and that 75 percent remains under Capitalism. This is a distortion of the facts. Britain has "nationalized" about 25 percent of her economic processes, but she has "socialized" almost the entire economic system.

The government has nationalized the following: the Bank of England (credit); cables and wireless (the overseas communications system); civil aviation; railways, bus transport and inland waterways; coal mines; electricity; the gas industry; medical services.

The rest of the economy has been socialized by a method under which the State makes the plans for all forms of business—farms, factories, shops. Government bureaus decide on production quotas for an industry as a whole and in many cases for the individual units. They fix the quotas, priorities, and prices on raw materials; fix wages; determine who shall get credit at the banks and who shall not. In sum, the State generally makes the blueprints upon the basis of which all business operations are carried on and *policies* those operations to ensure faithful obedience to the State's plans.

If the British Socialist experiment were successful one would suppose that it would have produced more goods at lower prices, and workers would be better off than under the old capitalist regime; that the security of the nation would be advanced in every way.

But these promised benefits have not appeared. On the contrary, by every economic, physical, and moral test, Socialism has been a tragic failure. It is already falling apart. The people cry out against

impossible prices, against scarcities, oppressive taxation, and bureaucratic oppressors.

Britain's foreign trade—the foundation of her economic existence—is being washed away. Even with the aid of billions of dollars from Capitalist America she cannot settle her foreign debts except by the gradual extinction of her gold reserves.

Her people have seen withering away those great freedoms for which Britons have fought through the centuries—freedom from seizures and searches without warrants, freedom to work where and at what they choose, freedom to engage in business and to own property, freedom to work their privately owned farms as they choose.

Let us look at the black record. The Socialist government has operated at a loss the basic industries and services which it took over. At the end of 1948 it was producing coal at the rate of 7,000,000 tons a years *less* than the mines under private ownership produced before the war, notwithstanding the expenditure by the Socialist government of over \$170,000,000 on mechanization to increase output. The National Coal Board lost about \$95,000,000 in 1947. By raising the price of coal it managed to cover costs in 1948, but it is still in the red about \$90,000,000 since it began operations.

The miners, despite the fiction that they are now the owners of the mines, will not produce as much for themselves as they produced before the war for private owners. Around 84,000 miners a day fail to show up for work.

The government owns and has operated the overseas air-transport industry in the Atlantic area at a loss of \$244 on every passenger carried.

The railroads have been run at a considerable deficit.

Of course, every loss sustained by the government on its enterprises must be paid through taxes taken from the people. There are no longer enough rich individuals to "soak" with any appreciable results. In fact, there are only 45 persons in England whose incomes after taxes exceed \$24,000 a year, and only 35,000 with incomes between \$8,000 and \$16,000. Hence, to pay the losses of Britain's nationalized industries everybody must be soaked, including the workers.

We have heard a great deal about Britain's achievement in providing homes for its workers. Actually, despite the government's free-handed spending on housing, it has provided only about 230,000 houses a year compared with 364,000 in each of the two pre-war years.

Britain's exports have fallen off disastrously. She can fix the prices her own people must pay, but she cannot fix the prices to her foreign customers. In foreign markets she must meet the prices of her competi-

tors. She cannot sell abroad goods whose prices must include the enormous taxes of the Socialist government.

This Socialist regime may be able to drag on as long as it receives free billions in aid from private-enterprise America. When that ceases—as it must—Britain will have to face the grim realities. If there is one prayer British Socialists should send up nightly it is that God will save America from drifting into Socialism!

The bait held out by the Socialists to the workers was the vision of a softer and more abundant life. But poverty has not been abolished; it has simply been distributed. A small minority have been benefited a little; the great majority have been grievously brought down. John Strachey, Minister of Food, boasted that the British people “are getting enough money to buy all the food they ought to have.” Here is the permitted ration: one egg and a half a week, three ounces of butter, six ounces of margarine, one ounce of lard, one ounce of cheese, one ounce of bacon, eight ounces of sugar, six ounces of meat, two ounces of corned beef. This is Socialist abundance four years after the war ended!

The Socialists’ great boast concerns the social services they provide from the cradle to the grave. These begin before birth with prenatal care and cover medical care, hospitalization, old-age retirement payments, unemployment insurance, allowances for widows and for families in need. The allowances, however, are meager. But thin as they are these social services, along with the losses on the nationalized industries and the cost of the bulging bureaucracy, are wrecking Britain’s enervated economic structure.

Workers were led to believe that Socialism would end “wage slavery.” But in fact the worker has now merely exchanged the old boss for a new one—a bureaucrat. The old boss might have been a tough fellow, but he usually was also a fairly decent human being. The boss now is a cold, impersonal, remote bureau.

No decision can be made on the job without an immense amount of paperwork that begins at the local office and moves snail-like through various local boards, sub-councils, regional boards and other bureaucratic nests up to London, and finally back through the same succession of petty bureaus.

Added to all this are the controls which are worse than they were during the war. Regulations and amended regulations pour from the presses daily: so voluminously that neither shopkeeper nor housewife can keep up with them. There were 30,000 prosecutions for infractions of the regulations in a single year.

The Socialist leaders declared fervently they would never interfere

with the right of British workingmen to choose their occupations. But adequate supplies of labor and full effort by workmen have not been forthcoming in the industries the government wishes to stimulate, so the government had to enact a law which says that *no man between the ages of 18 and 50, or woman between the ages of 18 and 40, can change occupations at will. The Minister of Labor has the power to direct workers to the employment he considers best for the national interest.* This power has been exercised upon occasion, and men have been put in jail for resisting it.

This ruthlessness extends to the farm. Over the farmer's head hangs a threat perhaps more serious than that applied to the industrial worker. Farmers are paid large subsidies to produce what the government wants them to raise, but there is a regular inspection of every farm and a record kept of its produce. If the farmer falls short of what is expected of him the government can put a price upon his property, pay him for it and put him off the farm, which then passes into the hands of a government manager.

The British Socialist Planners who have done these things are not wicked men; they simply believe they know how to run the economy of an entire nation. They have now discovered that this cannot be done without applying compulsions to labor and farmers as well as to owners of industries.

One of the curses of this system is that nothing is called by an honest name. Words are used to deceive. Hateful practices, abhorred for ages by a free people, are now identified by luminous words, while praiseworthy practices are ticketed with odious names. The man who works in a privately owned factory is a wage slave. Socialism itself is never called Socialism—it is National Planning. Thrift is a vice until the government asks you to save and lend it money; then it becomes a virtue.

Socialists say that the most diabolical crime against society is profit. Private industry runs at a profit and uses that profit to expand its producing capacity. Government industry runs at a loss and taxes the substance of the people to pay for its inefficiencies. Which is the greater crime against society?

The British Socialists have been destroying freedom. This was, inevitable. Years ago it was prophesied that the Socialist State, uniting the functions of political ruler, landlord, and employer of the population, would result in tyranny. This is what happened in Russia.

Today the British Socialist, faced with the problem of compelling citizens to comply with his plans, has turned to compulsions. The government has plenty of machinery for this, since it now possesses

credit, electric power, transportation, and fuel—without which no man can operate a business—and can grant or withhold these.

The citizen's right to spend his income as he chooses is almost permanently abolished, since the government takes so much of it in taxes that most people have only enough left to cover the bare necessities of life.

It would be possible to fill a book with accounts, amusing and terrifying, of the blunders of men who assume that they know how to plan the economy of an entire nation. In 1947 Emmanuel Shinwell, then Minister of Fuel and Power, ordered all electricity used for power shut off in the extensive industrial areas of London and the Midlands. This shut down 75 percent of British industry. The reason given was the shortage of coal. It would last, said the Minister, only two or three days. But it actually lasted three weeks, threw 2,000,000 people out of work and lost over \$800,000,000 in desperately needed export trade.

Many predictions of the coal shortage had been made public. Why was no provision made against it by the Minister?

In 1946, Shinwell *had* foreseen there would be a coal shortage that year, so he suggested to Alfred Barnes, Minister of Transport, that 1,200 locomotives be converted to oil to effect a saving in coal. (Oil, being imported, is far more expensive than coal, and if 1,200 locomotives had been converted this policy would have cost about \$16,000,000 a year more for fuel.)

Barnes converted 93 locomotives to oil at a cost of \$6,000,000. Then he inquired about getting oil—and discovered there was none to be had for this purpose. The British Transport Commission reversed the plan. Barnes and Shinwell now had on their hands 93 locomotives for which there was no oil, so the 93 were converted *back to coal*.

In January 1947 the great housing plan was proclaimed: the government would build 250,000 houses that year. Brick, cement, plumbing, nails, plaster and other materials were ordered, and factories went to work to produce them. All this was well along when it was discovered that lumber could not be supplied for more than 60,000 houses, and that there was not nearly enough labor for the program. In the meantime, all the other materials were being furiously produced; mountains of bricks lay in brickyards, innumerable materials were piling up.

The great plan fell short by 190,000 houses.

These are just a few samples. We can match such blunders among our American planners. When they occur, the critics point to the stupidity of the planners. But the fault lies rather in the fact that *no one man or small group of men, no matter how brilliant, can ever hope to compre-*

hend the vast amount of data and the innumerable conditions which would have to be grasped in order to make effective plans for a large industrial nation. It simply cannot be done.

In taking over the railroads, the coal industry, and others, the Socialists bought the properties outright from the corporations and stockholders who owned them. They paid for them with British bonds paying three percent interest. With each new industry it takes over, the government adds another heavy obligation to its already crushing national debt. The folly of this lies in the fact that under the old order the stock holders had no claim for any return on their investment if the industry made no profit. But these bonds are now a fixed charge upon the government, and it must pay interest on them whether the industry makes a profit or not.

England is being taxed to death. For instance, a clerk with an income of \$2,800 a year gets one deduction of \$560, an additional deduction of \$720 for his wife, and \$480 for his two children. Total deductions: \$1,760. This leaves \$1,040 of his income subject to visible taxation.

On the first \$200 he pays 15%	\$30
On the next \$800 he pays 30%	\$240
On the next \$40 he pays 45%	\$18
Total tax	<u>\$288</u>

A man with the same family and salary in the United States would pay \$26 in visible taxes.

If a worker goes to the pub for a glass of beer to forget his troubles, he pays a tax of 16 cents on the pint. Half of the 30 cents paid for a ticket to a movie goes to the government.

The dark realities of the condition created by this floundering Socialist regime have brought more than one Socialist up with a jerk. Alfred Edwards, formerly a Socialist member of Parliament, declared: "I have spent years discoursing on the defects of the Capitalist system. But we have seen the two systems side by side. The man who would still argue for Socialism as the means of ridding our society of the defects of Capitalism is blind indeed. Socialism just does not work." (Naturally he was promptly expelled from the party.)

In 1949 Lord Milverton, Labor Whip in the House of Lords, renounced his party affiliation during the debate on steel. In a speech on the floor he declared, to quote the *London Times*, that "he had certain ideals and had thought the Labor Party could deliver the

goods. He was now appalled at the type of goods which were being delivered. He thought he was participating in a crusade but found himself a camp-follower in a rake's progress. *The road on which they were traveling led to a precipice at the foot of which clearly emerged the totalitarian State."*

This is the system of Socialism we in the United States are being asked to imitate.

We have seen what Socialism means in Britain and the plan by which it was brought into effect and the consequences visited upon the British people. Do we have in America any movement comparable to the Fabian Socialist movement in Britain? And if so, what is it doing, how is it progressing, and what are its chances of success here?

The answer is that we have precisely such a movement here; that it is making rapid strides; and that, unless it is soon arrested, nothing can prevent its extension here on the British model.

Do not confuse the present Socialist movement in America with what we have known for so long as the *Socialist Party*. This party has reached a low estate in numbers and in growth. I am referring to an entirely different movement led by entirely different men and under wholly different banners.

There are some persons who brand as Socialism almost any intervention by the State into the economic system. Many imagine that Socialism means confiscation by the State of the whole economic apparatus of the nation. These concepts are incorrect.

As we have seen in Britain, *modern Socialism means the assumption by the State of the responsibility and authority for the control of the entire economic system*. This does not mean that the State will take over every farm, mine, shop, and factory. It will operate the great basic functions of credit, power, fuel, transportation, and insurance. The rest of the economic system may be kept in private hands but must be operated according to plans made by the State and carried out under the supervision and compulsions of government bureaus.

This is the type of Socialism with which America is now threatened. And just as it fastened itself on Britain by a movement that avoided calling itself Socialist, so it is being promoted in America by persons and organizations that never use the word Socialism. They call their system the "Planned Economy." What that cunning label means is precisely the same thing that is now in operation in Britain.

The advocates of planning believe that the economic system must cease to be a free system and that the State, which under our system was forbidden to intervene in the management of industry, should be established as the master of industry with the power to make the plans for the whole

economic system. Who are these mysterious American Fabians? What is their organization and who are their leaders?

The crackup of 1933 and the inauguration of Franklin D. Roosevelt brought into Washington swarms of men and women with blueprints for the reconstruction of civilization upon every conceivable model. Such a miscellaneous menagerie of social philosophers had never before been gathered together.

Because of the presence in positions of power of men like Wallace, Frankfurter, and Tugwell, streams of out-of-work or low-salaried Socialist professors and instructors, young lawyers and economists flowed into nearly all the bureaus in Washington. As the bureaus increased in number, fresh hordes of Socialist doctrinaires, ranging from dark-red revolutionaries to mild-mannered pink reformers, multiplied in the Government. In time, the left-wingers floated to the top.

The crackup of 1938 and the rise in unemployment created the opportunity for a new type of radical who called himself an Economic Planner. This new form of hooded Socialism gained immense ground. A man could espouse it without confessing himself a Socialist. Actually a great many of the men who were arguing for the Planned Economy loudly declared their purpose was to "save capitalism."

The theory of Economic Planning which Stuart Chase, George Soule, and others had been preaching for years rose into respectability. This philosophy, newly equipped with glorious spending theories and magical proposals for practically endless Government borrowing, brought the school of Planning into official favor.

The first attempt to provide this idea with an organized propaganda machine was the formation of the CIO Political Action Committee by labor leader Sidney Hillman in the 1944 Presidential campaign. In this Committee, Socialists of every description—Planners and Communists by the thousands—were collected together. To reach various elements outside of labor, Hillman formed the National Citizens Political Action Committee. Intellectuals were formed into the Independent Citizens Committee of the Arts, Sciences, and Professions, which included professors, writers, dramatists, actors, movie stars, lawyers, doctors, and editors.

The Americans for Democratic Action (ADA) was formed in January 1947. This organization has now become the spearhead and the central planning and propaganda machine of the National Socialist Economic Planners in this country. The basis of their program is in their statement of policy of March 2, 1948. It states that there are areas of the economy which cannot be controlled while in private hands. These may be dealt with in two ways. One is to have them taken over

by cooperatives operating under one of the Government agencies—the Rural Electrification Administration, for instance. The other is complete public ownership. The rest of the economic system they will subject to national economic planning.

They propose first a vigorous use of the power to tax and spend, in order to shape and control the economic system. They advocate what they call “balanced production targets for the whole economy,” and say there must be “price, allocation, inventory and credit controls.” Those and other trade phrases are actually a costume of words for Socialism. What the Planners intend to bring here is precisely what the Fabians brought to England.

Americans for Democratic Action have brought together many of the most powerful figures in the three great labor groups; there, too, will be found most of the old New Deal Planners.

The ADA announces that it “is not a political party,” that “it works through established parties,” and that “its tools are education and political action.” It declares its intention of “telling the people the facts and what they can do about them; working in party primaries to nominate liberal candidates; campaigning for their election.” It has spread through 48 states, with over 75 full-fledged chapters and 100 student groups.

Of course, it will offer, as in England, personal benefits to various groups. At the moment it is putting its power behind a very important drive—socialized medicine. But it will never use the word Socialism. That word will not emerge until the country is carried so far along the road that it can no longer be disguised from even the most ignorant.

At every stage of this subject the Communist issue arises to confuse us. The Communist Party in the United States is a political organization, but is not a party in the sense in which we understand that term. It is a secret, conspiratorial brotherhood, engaged in wrecking the American system as a prelude to making this country into a Socialist nation. (It is also the agent of a foreign power in carrying out the objectives of the Russian Government in this country, and to this extent it is organized treason.)

In a left-wing gathering it would be difficult to determine whether a given person is a Communist or a Socialist. They all believe that the capitalist system must go. They are agreed that Socialism in one form or another we must have, and on this plane all of them—*Communists and Social Planners*—must be grouped together as enemies of our traditional American system.

Communist Party members favor anything which will tend to wreck our private-enterprise system. For instance, they know that

nothing will wreck it more quickly and more surely than extravagant spending and the accumulation of public debt. They are, therefore, for any program that will pile new tons of debt on the nation. Our less intelligent Socialist reformers, who know little about economics and despise its lessons, support public spending because the effects are immediately pleasant and because they have been persuaded by a new school of so-called economists that it is a sound policy.

The Congressional Committee on Un-American Activities has compiled a list of 1,160 organizations and movements brought into existence by the American Communist Party to promote all sorts of seemingly laudable social objectives. Until the war ended, you would find in the "front" organizations the names of most of those men and women who have been prominent in Socialist activities.

My point is that there is no need to make a fine point of the distinction between Communists and Socialist Planners. They have been good soldiers together, marching in the cause of wrecking the American capitalist society in favor of Socialism. They have penetrated labor unions, professional groups, teacher organizations, political bodies, religious bodies, racial groups. They are doing a job together upon the minds of the American people, creating in us a mood of frustration and despair about our traditional way of life. They paint a vicious picture of America which makes this country seem rotten with poverty and injustice. They proclaim that there is no prospect before us except to follow the "democracies" of Europe and throw ourselves into the arms of the Planners.

Since the war ended and the terrible truth about Communist Russia has been revealed, it has become the fashion to be anti-Communist. But behind that anti-Communist label you can be a Socialist Planner. As we look around for the real enemy who must be kept constantly in sight and kept ruthlessly out of positions of power where he can do his work of destruction, we need be in no doubt about that enemy. He is the Socialist Planner. In 1936 John L. Lewis, Sidney Hillman, and David Dubinsky, in a deal with President Roosevelt, put their unions, and the CIO into politics and gave Roosevelt \$500,000 for his campaign fund in return for certain pledges from him. One of the by-products of this deal was the delivery of the unions into the hands of the radical labor politicians, who wanted control of the officers, funds, and educational machinery of the unions. This propaganda apparatus they proceeded to use upon their own members.

They have brought to bear upon the minds of the rank and file vigorous propaganda pressure for all sorts of blessings which are to come from a benevolent Government—guarantees of perpetual em-

ployment, endless prosperity, and Government responsibility for the welfare of every worker. These are what might be called the first steps in a Socialist program, after which follow such things as socialized medicine and endless Government spending to provide employment at constantly rising wages and prices.

The immense, powerful, well-financed propaganda apparatus of the unions is now at the service of the Socialist Planner.

The Democratic Party is at the Socialist Planners' mercy in precisely the way the British Liberal Party became the prisoner of the British Labor Party. Through third parties in New York State the Socialist Planners have the margin of votes which can spell victory or defeat for the Democrats; therefore, that party must subscribe to their demands. The next problem is to crack the Democratic South, and the Planners now have elaborate plans for this job. Meantime, they propagandize through the schools, the press, the theater, the movies and, strangest of all, through the churches.

I have tried to make it clear that our American system is being destroyed by groups united in the design of luring this country into a Socialist system on the British model. The Communist would like to ruin the American system by clubbing it over the head. The Socialist Planner does it by slow poison. Both types of assassin are at work here now, but the latter is by far the more dangerous. *And their campaign is succeeding.*

Just how far have the Planners advanced their program for socializing this country? For one thing, our Government now has almost as large a control over our private banking system as England has over its banks. It has not yet the power to decide what types of loans may be made to private industry, but is geared now to assume that power with only a slight alteration in the setup. It would then possess the power of life and death over every industry.

The Government itself has moved into the business of banking, including money-lending, upon an astonishing scale, through a large number of major lending agencies whose loans and investments total \$6,575,000,000, while the private banking system is at the Government's mercy because the Government is now the banks' biggest borrower and most powerful customer. Next to credit, the most important key economic weapon is electric power. Our federal government's authority to engage in flood and navigation control has been seized on as a pretext for engaging in the manufacture of electrical power. The public has little conception of the extent to which our Government has penetrated that industry.

Up to now the Tennessee Valley Authority (TVA) has been the

largest entry into that field. But President Truman has sent to Congress a demand for an extensive project on the Columbia River which would embrace river systems draining Washington, Oregon, Idaho, and western Montana. There are 16 other similar power projects. This is just the beginning of a program which is intended to cover America, take the power industry out of private hands, and put it into the hands of the Government.

While Government power systems are to a great degree free of taxes and of interest charges on investment, amounting to countless millions a year, and are permitted bookkeeping practices which would land a private utility official in jail, the privately owned power companies are weighed down by every form of Government shackles. Private power systems must run at a profit or die. The federal power systems run at losses while loudly claiming fictitious profits.

The Socialist Planners believe they have the private power systems on the run. The total capacity of the private systems now is 45 million kilowatts. Present Government plans call for Government plants generating 41 million kilowatts. It is all being done in the name of reclamation and flood control. Little will be said about power, but the drive is to socialize the power industry.

Another project now heavily pressed by the Socialist Planners is socialized medicine. It is called "Health Insurance." The plan, which ostensibly came from Oscar R. Ewing, head of the Federal Security Agency, calls for an increase, with federal aid, of the number of hospitals, doctors and nurses and dentists, along with what he calls compulsory health insurance. This plan is similar to Britain's. Under it, all employers and their employees would be taxed at the payroll window for medical care. The proponents of this scheme had the effrontery to call it "free" medical care. Of course it is not. It will be paid for by taxes from everyone's pocket.

It is important to remember that, while each of these proposals—federal invasion of banking, federal invasion of electrical power, and socialized medicine—is promoted as if it were just a single reform unrelated to all the others, *the fact is that each is intended to liquidate some sector of the private-enterprise system and expand the area of Socialism.*

The President has announced his wish to have authority from Congress to build additional steel mills because he believed the private steel industry was not producing enough steel. He was egged on to this by his Socialist labor-leader supporters, who are eager for the Government to get started on this course.

Congressman Brent Spence of Kentucky has proposed a law called the Spence Act which would authorize the Government to use vast

powers under certain conditions. These powers are stated in such broad terms that the President can use them whenever it suits his purposes, and under the plan he is to be the *sole judge* of whether or not the conditions exist.

If this act becomes law the President can decide how much ought to be produced of any essential commodity, and make up a national production budget which industry will be directed to meet under Government plans and compulsions. He can order new factories constructed. He may set up priorities and allocations of materials.

Manufacturers would have to get permission to buy materials, and a bureau would decide in what order and in what quantity each would get it. *Here is the power of life and death over industrial enterprise.* He can establish maximum prices on materials or facilities. *Here is the beginning of the end of the price system without which a private-enterprise economy cannot possibly exist.* And he may "make such inspection of the books, records and premises or property of any person and make such investigations as may be necessary to the enforcement or administration of this act." *Here is the power of seizure and search upon a hitherto unimagined scale.*

This is the Planned Economy so far as industry is concerned. If this law were enacted, our country would be further along the road to the Socialist Planned Economy than Britain was three years ago.

What appears in this Spence Act, of course, is only one part of the scheme. Another federal administration approach to the Planned Economy is the Brannan Plan, sponsored by Secretary of Agriculture Charles F. Brannan.

The Government has been pegging prices of some crops to provide high prices for farmers, but the harassed housewife has been crying out in anguish. To meet this situation the Government has invented an incredible scheme.

There would be no more Government pegging of farm prices. The farmer is to sell his produce in the open market at whatever prices he can get. This gives the housewife the benefit of a low price. The other prong of the scheme is to give the farmer his same old high prices by a subterfuge. A price level for produce will be fixed; then the Government will pay the farmer the difference between the price at which he sells his crop and the price which the Government guarantees him.

For instance, if the guaranteed price on his crop were fixed at \$2,000 and it brought in the open market only \$1,500, the Government would pay him the remaining \$500. The farmer would thus be paid for one part of his crop by the consumer and for the other part by the Government. But of course the consumer would really pay it all—and

the part paid indirectly to the farmer through the Government in taxes would bear the additional charge of the salaries of bureaucrats needed to run this show.

Secretary Brannan has thus far refused to estimate the cost of his scheme, but others have indicated it might run from *five to ten billion dollars a year in additional taxes*.

From these Spence and Brannan proposals we may form a picture of the society into which we are being tempted by the bait of Government planning and spending. These are not schemes which may at some distant day appear as a program of Government. *They are the program of the present Government, and have been announced as such.*

From it all emerges the spectacle of a society in which the Government makes itself responsible for the security of every citizen from the cradle to the grave, and for the operation of the entire machinery of business and farming. The ultimate aim, of course, is to control banks, transportation, power, coal, iron and steel, and the entire business of insurance. The rest of the system will be operated by private owners, following plans made by the Government under broad powers and a multitude of planning and enforcement bureaus. This corresponds in every essential respect to the system which is now wrecking Great Britain. And this is what we will have here if the men now in power in our Government are permitted to have their way.

This, then, is the road we are traveling. It is the road to Socialism. And we will continue to travel it until Americans realize this and take vigorous measures to halt the journey and to reverse it.

One of the first things those opposed to this socialistic program must do is to rid themselves of the moral intimidation which has been imposed on their minds. In the debate around this problem, the American system has been painted as something wicked, bungling, even brutal, while the Planned New World of the future will be filled with sweetness, light, and plenty. The very word "profit" has been endowed with the most sinister implications.

But it is not a choice between a perfect system called Socialism and an imperfect system called Capitalism. It is a choice between two human systems both of which will inevitably have their imperfections because they are human. But the Socialist Planners do not concede this. Capitalism they present to us only in terms of its defects. But Socialism is painted only in terms of the wonderful things it is going to do some day.

But we do not have to rely on the promises any longer. Socialism in various forms has had plenty of trial. Russia is a Socialist country, though the Socialists would like to escape that fact. The old Socialists

who first lifted the torch in Russia talked of the perfect day of the free life which they would bring. No one arraigned tyranny more vigorously than Lenin. But when they set their ideal into motion it rushed along to its inevitable end—tyranny, the most terrible tyranny in history.

The old Socialists, with their luminous dreams, got power in Germany after World War I and operated a society not greatly different from that now in effect in England—partially nationalized and partially planned. It ended in Fascism and Hitler, for the line between Fascism and Fabian Socialism is very thin. Fabian Socialism is the dream. Fascism is Socialism plus the inevitable dictator.

In Italy Socialists of various schools dominated the political life with the same results as in Germany, and that too ended in Fascism and Mussolini.

Now Britain makes the experiment, blown-up with promises of freedom. But already she has got around to the ways of the tyrant. She asserts over the worker the right to say where he shall or shall not work. She asserts the right to throw the farmer who does not meet her directives off his farm. And this British experiment would collapse tomorrow if the strong arm of American capitalism were withdrawn from its support. Indeed it is collapsing now even with that powerful arm around it.

On the other hand, the greatest and most efficient producing machine in the world is in this country. *This did not happen by accident. It is the result of the soil of freedom in which it grew.*

The road we are traveling is sufficiently clear. We cannot delude ourselves with the expectation that we may go a little way further and then stop in the belief that we can combine Socialism and Capitalism and preserve the best features of each. The very first hard and cold fact we must face is that these two systems cannot live together in the same society.

If we keep on the way we are going, nothing can save the Capitalist sector of our economy from extinction, because it will inevitably be called upon to pay the cost of operating its own sector and the greater portion, if not all, of the cost of operating the Socialist sector. In the United States the few Government-operated industries we have are operated at a loss. *Private industry must produce the income out of which the losses of these Government industries are paid, and the attendant costs of Government as well.*

We must arrest the course of the social disease that is destroying us and set our hands to the hard task of lifting up and revivifying our

shattered system of free enterprise. If we do not, we shall go on stumbling down the path along which Europe has slipped.

It is not possible to lay down a program in detail for checking and reversing our direction. And it is not necessary. What is necessary is to see clearly the general principles which must govern our effort. These I shall now attempt to enumerate as briefly as possible.

We must put human freedom as the first of our demands. There can be no security in a nation without freedom. Let us work to make our country a more bountiful home for all to live in, but the first and indispensable test of every plan must be whether it will impair our freedom. A better life for all, yes—but not at the expense of our liberties.

We must stop apologizing for our Capitalist society. It has made us strong, and has provided us the highest standard of living in world history.

Not one more step into Socialism. There is, of course, much to be done to repair all the damage already done to our system by the advocates of socialistic measures, but the first militant maneuver must be to hold the line for the American way.

Get rid of compromising leaders. Let us put a mark upon every man in public life who is willing to surrender further.

We must recognize that we are in a social war, and that we must fight it as such. Our enemies have managed to capture many of the instrumentalities of the classroom, the platform, the pulpit, the movies and the radio upon an amazing scale, and to use them not for their traditional purposes but to carry on an attack upon the minds of the American people.

We must put an end to the orgy of spending that is rapidly bankrupting the nation. Among the most critical conditions that menace us are the fantastic commitments for spending countless billions and the crushing weight of our national debt upon our economic system. From July 1, 1945, to June 30, 1949—President Truman's years in power—he spent 184 billion dollars. This is 30 billion dollars more than was spent by this Government in all the 147 years of its existence from George Washington to the end of Franklin D. Roosevelt's first administration. We must not permit one more cent for any purpose beyond our present commitments.

We must stop "planning" for Socialism and begin planning to make our free system of private enterprise operate at its fullest capacity. Since 1933 the Government has waged relentless war upon the Capitalist system—at first ignorantly, but recently with a definite design to cripple and destroy it. The man who runs a business has been pilloried as a criminal, and the Government has taken measures to prevent him from

accumulating those savings which make expansion possible. It has held him up to public scorn and hatred. It has taxed away his savings, and it has so choked the streams through which savings flow into investment that our system is wilting away.

Our system is in an appalling mess now, what with the public debt, the confiscatory taxes which draw the blood from its very veins, Government intrusions, and the threats of ultimate extinction that are taking ever more terrifying shape. The task calls for patriotism and courage; it must not be delayed another day.

We must set about rebuilding in its integrity our republican system of government. We cannot depend on any political party to save us. We must build a mass organization outside the parties so powerful that all parties will be compelled to yield to its demands. Our forefathers gave to the world the sublime example of statesmen who cast off the tyrant State and built up the sovereign people, unleashing the energies of free men. It was this historic experiment which set off the astonishing surge of human energy that created here such abundance and freedom as the world has never known.

The task before us is clear. For our principles of action we must go back to our Constitution, to our Declaration of Independence, to our history and to the example set by our national fathers. We must begin now to dismantle the tyrant State in America and to build up once again the energies of a free people.

Index

- Africa, 110, 167
Agricultural Adjustment Act, 43, 54
Agricultural Adjustment Administration, 103, 107
Agricultural Marketing Act, 28
Alexander of Yugoslavia, 94
American Bankers Association, 43
American Brake Shoe Co., 165
American Car and Foundry Company, 43
American Federation of Labor, 9, 21, 61, 157
Americans for Democratic Action, 148, 182, 183
Amsterdam, 57
Andrews, T. Coleman, 155
Asia, 110, 116, 124, 127, 138, 151, 164, 167, 169, 172
Association for the Improvement of the Condition of the Poor, 38
Athens, 55, 56, 139, 141
Atlantic Community, 168
Atlantic Union, 168
Attica, 55, 56, 139
Australia, 167
Austria, 114, 124
Ayres, Leonard, 99

Bacon, Francis, 145, 149
Bailie, Earl, 43
Bank for Cooperatives, 130
Bank of America, 165
Bank of England, 175
Bankers Trust Company, 16
Barnes, Alfred, 179
Barnes, Joseph, 164
Baruch, Bernard, 18, 19
Beard, Charles, 17
Belgium, 86, 105

Bentley, Elizabeth, 154
Benton, William, 159
Berle, Adolf, 13, 158
Bismarck, Otto von, 52, 117, 119, 120, 122, 140, 141, 142, 166
Black Friday, 51
Black, Hugo, 15, 16, 17, 18, 21
Blum, Leon, 86
Boers, 169
Boxer Rebellion, 169
Brain Trust, 9, 12, 15, 21
Brannan, Charles F., 187, 188
Brisbane, Albert, 148
Britain, 65, 85–86, 90–93, 95–96, 98, 114, 117, 129, 140, 148, 167, 168, 169, 170, 173, 175, 176, 180–182, 185, 188–189
British Labor Party, 174, 185
British Liberal Party, 185
British Transport Commission, 179
Bromfield, Louis, 144
Brook Farm Institute of Agriculture and Education, 148, 149
Brookings Institution, 16
Brownell, Herbert, 113
Brunner, Harry G., 34
Bryan, William J., 38, 71
Budenz, Louis, 113
Bureau of Printing and Engraving, 47
Byrnes, James, 155

Cabet, Etienne, 146
Campanella, Tommasco, 146, 149
Canada, 109, 150, 167
Capitalism, 180, 188, 189
Carlyle, Thomas, 148
Carnegie Foundation, 164, 165
Civilian Conservation Corps, 86, 139

- Chamber of Commerce, 10, 12, 13,
 14, 15, 16, 21, 41, 42, 43, 100, 101,
 142
 Chamber of Deputies (Italy), 108
 Chamberlain, Neville, 86
 Chambers, Whittaker, 113, 154, 158
 Channing, William Ellery, 148
 Chase National Bank, 165
 Chase, Stuart, 17, 182
 Chiang Kai-shek, 164
 China, 114, 151, 159, 164, 169
 Christian fronts, 141
 Christianity, 112, 146
 Churchill, Winston, 152, 155, 156, 167,
 168
 Congress of Industrial Organization,
 142, 157, 182
 City of the Sun, 146
 Civil War, 69, 101
 Clark, William, 20
 Clayton anti-trust act, 10
 Co-operative Farm Banks, 28
 Coal Commission, 43
 Cockran, Bourke, 71
 Codes of Practice, 15
 Cohen, Benjamin, 43
 Columbia River, 185
 Columbia University, 112, 149
 Committee on Continuity of Business
 and Employment, 13
 Committee on Work Periods in In-
 dustry, 14, 15
 Commodity Credit Corporation, 28,
 32, 130
 Communism, 54, 96, 110-114, 116,
 144, 149, 152, 156, 157, 172
Communist Manifesto, 78
 Communist Party, 154, 159, 160, 161,
 163, 173, 184
 Comte, Auguste, 147, 149
 Confederate States of America, 137
 Connery, Lawrence J., 18, 21
 Coolidge, Calvin, 44, 47, 51, 52
 Copeland-Curley bill, 35
 Corcoran, Tom, 43
Corporate State in Action, The
 (Schmidt), 108
 Corporatism, 142
 Costigan, Sen., 20
 Counts, George, 165
 Craig, General, 38
 Currie, Lauchlin, 154
 Czechoslovakia, 86, 114

 Dailey, Vincent, 34
Daily Worker, 164
 Dana, Charles, 148
 Davis, Garry, 163
 Davis, Joseph, 113
 Day, Mason, 43
 DeArmond, David A., 71
 Declaration of Independence, 191
 Delian Fund, 139, 140
 Delian League, 56
 Democratic Party, 158, 174, 185
 Department of Agriculture, 17, 43
 Department of Commerce, 17, 22, 40,
 45, 46
 Department of Labor, 17, 20
 Department of State, 158, 159, 164
 Department of the Treasury, 43, 47,
 88, 156
 Department of War, 43
 Depression, 62, 63
 Depretis, 122
 Dewey, John, 112, 146
 Dickinson, John, 17, 19
 Dictatorship of the Technicians, 146
 Dies, Martin, 157, 158
 Disraeli, Benjamin, 140
 Donovan, William J., 12
 Doughton, Robert, 53
 Dubinsky, David, 184
 Dulles, John Foster, 165, 168

 Eden, Anthony, 155
 Edwards, Alfred, 180
 Einstein, Albert, 163
 Eisenhower, Dwight, 54, 58, 60, 65, 74,
 111, 112, 124, 130, 132, 161, 163

- Eisenhower, Milton, 168
- Electric Homes and Farm Authority, 130
- Emergency Crop and Seed Loan, 28
- Emerson, Ralph Waldo, 148
- Enfantin, Barthélemy Prosper, 147
- Engels, Frederic, 117
- Epstein, Israel, 164
- Essays on Pericles*, 139
- Europe, 24, 47, 51, 52, 53, 62, 64, 65, 83, 85, 87, 88, 90, 91, 92, 94, 95, 96, 98, 110, 116, 124, 125, 126, 127, 131, 138, 151, 152, 161, 162, 166, 169, 172, 190
- Ewing, Oscar R., 186
- Export-Import Bank, 32, 130
- Ezekial, Mordecai, 142
- Fabianism, 174, 189
- Fahey, John, 34
- Fairchild, Henry Pratt, 11
- Farley, James, 34, 45, 46
- Farm Mortgage Corporation, 27
- Farm Board, 33
- Farm Mortgage Corporation, 30, 35
- Fasci di Combattimento, 123
- Fascism, 54, 96, 109, 137, 141, 142, 189
- Federal Crop Insurance Corporation, 130
- Federal Farm Credit Corporation, 27, 28
- Federal Farm Mortgage Corporation, 28, 130
- Federal Home Loan Banks, 130
- Federal Housing Authority, 130
- Federal Reserve System, 24
- Federal Savings and Loan Administration, 130
- Federal Security Agency, 186
- Federal Trade Commission, 12, 101
- Federal Union, 168
- Ferrero, Gugliermo, 52
- Fertig, Lawrence, 78
- Field, Frederick, 164
- Finance Committee (House and Senate), 53
- Firestone Tire and Rubber Co., 165
- Fort Knox, 172
- Fourier, Charles, 147, 148
- France, 52, 57, 58, 85, 86, 90, 91, 95, 96, 98, 112, 114, 117, 120, 124, 128, 131, 140, 146, 153, 169, 170, 173
- Franco-Prussian War, 120, 166
- Frank, Jerome, 17, 19, 43
- Frankfurter, Felix, 182
- The Freeman*, 144
- Frey, John, 157
- Gayn, Mark, 164
- George, Walter F., 53
- German-American Bund, 141
- Germany, 50, 52, 84, 85, 86, 87, 90, 91, 92, 94, 95, 98, 99, 105, 107, 112, 116, 117, 118, 119, 120, 121, 123, 124, 128, 131, 140, 141, 151, 152, 153, 154, 155, 156, 163, 166, 169, 170, 173, 189
- Gilbert, Seymour, 142
- Glass, Carter, 41
- Godwin, Paul, 148
- Golos, Jacob, 154, 155
- Goodyear Tire and Rubber Company, 14
- Grant, Ulysses S., 148
- Great Depression, 125
- Greeley, Horace, 148
- Grinnell College, 38
- Hall, Gus, 161
- Hansen, Alvin, 133
- Harriman, H.I., 13, 15, 16, 21, 43
- Harriman, W. Averell, 43
- Hawthorne, Nathaniel, 148
- Henderson, Leon, 142
- Hendrickson, Robert C., 168
- Henry VIII, 145
- Herald-Tribune*, 161, 164
- Hillman, Sidney, 182, 184
- Hiss, Alger, 158, 164, 165

- Hitler, Adolf, 51, 52, 62, 75, 98, 99,
 109, 121, 133, 141, 163, 166, 169,
 189
 Holland, 105
 Holy Roman Empire, 141
 Home Owners Loan Corporation, 27,
 30, 31, 32, 33, 34, 35
 Hook, Frank, 158
 Hoover, Herbert, 12, 13, 14, 27, 32, 33,
 45, 61, 62, 73, 74, 89, 126, 141
 Hopkins, Harry, 37–46, 155
 House of Representatives, 62, 71,
 165
 House of Lords, 180
 Hull, Cordell, 41, 155, 156
 Hythloday, Raphael, 145

 Icaria, 146
 Income Tax Amendment, 78
 Independent Citizens Committee of
 the Arts, Sciences, and Profes-
 sions, 182
 India Company, 58
 Industrial Advisory Council, 22, 45
 Institute of Pacific Relations, 164
 Insull, Samuel, 26
 Intermediate Credit Bank, 28
 Internal Revenue Department, 113
 Interstate Commerce Commission,
 101
Iron Age, 91
 Israel, 163
 Italy, 51, 52, 84, 85, 86, 90, 91, 92, 95,
 105, 106, 107, 109, 112, 114, 116,
 117, 121, 123, 124, 128, 131, 141,
 173, 189

 Jacobstein, Meyer, 16
 Jaffe, Phillip, 164
 Japan, 84, 85, 90, 92, 124, 139, 141
 Jefferson, Thomas, 41
 Jenner, William E., 160
 Johnson Act, 95
 Johnson, Hugh, 15, 18, 19, 21, 43
 Jones, Jesse, 35, 36, 43

 Jordan, Virgil, 16
Journal of Commerce, 41

 Kelly, Clyde, 16
 Kennedy, Joseph P., 43
 Kent, Fred I., 16, 17
 Kitchener, Lord, 169
 Korea, 132, 151
 Korean War, 64, 111, 132
 Kurile Islands, 114

 LaFollette, Robert, 20
 Land Banks, 27, 28
 Larson, Arthur, 129, 130
 Lattimore, Owen, 159
 Lauck, Jett, 16
 Laura Spelman Foundation, 164
 Law, John, 56, 57, 58, 64, 140
 Leahy, William Daniel, 38
 Legge, Alexander, 33
 Lenin, V. I., 166, 169, 189
 Lewis, John L., 184
 Lippmann, Walter, 137
 Litchfield, P. W., 14, 15, 18
London Times, 180
 Long, Huey, 27
 Louis XIV, 57, 140
 Louis XV, 56, 64, 140, 141

 M-Day, 106
 MacDonald, Ramsay, 174
 Maginot Line, 86
 Magna Charta, 9
 Manchuria, 114
 Maritime Commission, 32
 Marshall, George, 112
 Marx, Karl, 66, 78, 117, 133, 149
 Massing, Hede, 113
 Matthews, J.B., 112
 McCarran, Sen., 160
 McCarthy, Joseph, 113, 114, 157–61,
 163
 McGraw-Hill, 16
 McMillin, Benton, 71
 McNary, Sen., 33

- Mills, Ogden, 9
 Milverton, Lord, 180
 Mississippi scheme, 57
 Mitchell, John P., 38
 Moley, Raymond, 13, 19, 41
 Moltke, Helmuth von, 117
 Mongolia, 114
 Moore, Harriet L., 164
 More, Thomas, 145
 Morgenthau, Henry, 43, 153–156
 Moscow, 12, 152
 Moulton, Harold, 16
 Mount Sinai, 133
 Mussolini, Benito, 27, 52, 75, 84, 88,
 108, 109, 140, 141, 142
 Myers, W. I., 28
- The Nation*, 165
 National Citizens Political Action
 Committee, 182
 National City Bank, 165
 National Coal Board, 176
 National Conference of Federal Re-
 serve Business and Industrial
 Committees, 14
 National Planning, 178
 National Recovery Act, 54
 National Recovery Administration,
 9–22, 42–43, 103, 107–108, 122,
 142
 Naxos, 139
 Nazis, 151
 Neeley, Andrew W., 98
 New Atlantis, 146
 New Deal, 14–15, 44, 54–60, 61, 75,
 129, 130, 141, 166, 183
 New Jersey, 14, 168
The New Republic, 41, 165
 New York, 16, 31, 32, 34, 38–39, 41,
 91, 185
New York Evening Post, 148
New York Times, 161, 164, 168
New York Times Annalist, 87
 New York Tuberculosis Association,
 38
- New Zealand, 168
 Nicias, 56
 Norris, George W., 20
 North Atlantic Treaty Organization,
 168
- Odin, 109
 Oppenheimer, Robert, 163
 Otis Elevator Co., 165
 Oxford University, 129, 133
 Oxnam, Garfield Bromley, 161
- Patman, Wright, 27, 41
 Peace Conference of 1898, 119
 Pearl Harbor, 55, 63, 170
 Peek, George, 43
 Peisistratus, 27
 Pelley, William Dudley, 158
 Pericles, 55, 56, 58, 139–141
 Perkins, Francis, 17
 Plato, 145, 148, 149
 Plutarch, 55, 139
 Podell, David, 16, 17, 19
 Poland, 62, 86, 98, 114, 153, 155
 Populism, 71
 Portugal, 51, 52
 Production Loan Corporation, 28
 Public Works Administration, 32, 86,
 89, 118, 139
- Quebec, 152, 153, 154, 155, 156
 Quintus Fabius, 174
- Railway Brotherhoods, 16
 Rand, James, 16
 Reconstruction Finance Corporation,
 16, 27, 29, 32, 35, 36
 Red Cross, 39
 Reece Committee, 165
 Regional Agricultural Credit Corpo-
 ration, 28
 Regional Credit Corporation, 28
 Remington Rand Company, 16
Republic (Plato), 145
 Resettlement Administration, 32

- Rhodes, Cecil, 129, 131, 168
 Richberg, Donald, 20, 21
 Riddleberger, 155
 Rifkind, Simon, 16, 17, 19
 Ripley, George, 148
 Roberts, Owen, 168
 Rockefeller Foundation, 164
 Roosevelt, Eleanor, 39
 Roosevelt, Franklin D., 10, 14, 32, 37–46, 50, 53–54, 60–65, 73, 74, 76–77, 88–89, 111, 125–126, 130–133, 141, 152–57, 166, 170, 182, 184, 190
 Roosevelt, James, 47–48, 51–52
 Roper, Daniel, 17, 45
 Rorty, Colonel, 16, 17
 RRA, 139
 Rural Electrification Administration, 32, 130, 182
 Russia, 47, 75, 85, 91, 110, 112, 114, 116, 124, 126, 151, 153–56, 159, 160, 163–164, 167, 169, 173, 188, 189
 Saarregion, 153, 156
 Saint Simon, Henri de, 146, 147, 149
 Sakhalin, 114
 Salvation Army, 24
 Schmidt, Carl T., 108
 Scrap Iron Institute, 92
 Scripps-Howard newspapers, 78
 Security Exchange Commission, 44, 45
 Seligman and Company, 43
 Senate Internal Security Sub-Committee, 160
 Shaw, George Bernard, 174
 Shenandoah Valley, 137
 Sheridan, Phil, 137
 Sherman anti-trust act, 10, 11, 13, 14, 19
 Shiel, Bishop, 161
 Shinwell, Emmanuel, 179
 Shylock, 26, 36
 Silvermaster, Nathan Gregory, 154
 Sinclair, Harry, 43
 Sinkiang, 114
 Sixteenth Amendment, 68, 69
 Smedley, Agnes, 164
 Smith, Adam, 133
 Smith, Alfred, 39
 Smith, Howard A., 168
 Smith, Thomas K., 43
 Social Security Act, 44
 Socialism, 54, 117, 144, 149, 173, 175, 177–178, 180–184, 188–190
 Solomon's House, 146
 Soule, George, 17, 182
 South America, 85, 86, 158
 South Africa, 169
 Soviet Union, 169
 Spanish Civil War, 52
 Sparta, 56
 Spence Act, 186, 187, 188
 Spence, Brent, 186
 St. Lawrence River, 152
 Stalin, 152–156
 Standard Oil Company, 14, 165
 Stanford University, 154
 Starnes, Joseph, 158
 Stassen, Harold, 168
 Stein, Gunther, 164
 Stevenson, Adlai, 161
 Stevenson, Willaim, 33
 Stiefel, David I., 34
 Stimson, 153, 155, 156
 Strachey, John, 177
 Stripling, Bob, 158
 Strong, Anne Louise, 164
 Sullivan, Mark, 9
 Supreme Court, 42, 71, 72
 Swanson, Neil, 43
 Switzerland, 86, 109
 Swope Plan, 13
 Taft, William, 72
 Taylor, Myron, 43
 Teagle, Walter, 14
 Teheran, 152

- Temporary Emergency Relief Administration, 39
- Tennessee Valley Act, 44
- Tennessee Valley Authority, 130, 185
- Thomas, Parnell, 158
- Thor, 109
- Thrace, 55
- Thucydides, 55
- Thysen, Fritz, 109
- Time, Inc., 165
- Tojo, 75
- Townsend, Francis, 27
- Trade Relations Committee, 12
- Transcendentalist Club, 148
- "Triumph of the Egghead," 144
- Truman, Harry, 53-54, 58, 60, 74, 111-113, 130, 160, 168, 185, 190
- Tugwell, Rexford, 9, 13, 19, 43, 142, 149, 182
- Tydings, Millard F., 159
- U.S. Steel, 43
- Union Pacific Railroad, 43
- Union Now, 168, 169
- United Nations, 151, 169-170, 171, 172
- United States, 10, 12, 24, 51, 58, 61, 68, 73, 85-86, 90, 95, 98-99, 101, 104, 106, 110, 113-114, 116, 125-127, 128-129, 134, 138, 141, 151-152, 157, 161-162, 164-169, 170-173, 175-176, 180-181, 183
- United World Federalists, 168
- Universal Military Training, 114, 116, 118, 121, 125, 127-128
- U.S. Army, 65, 88, 89, 118
- U.S. Congress, 15, 21, 26, 27, 35, 36, 61-62, 68, 71, 79, 88, 115, 125, 185, 186
- U.S. Congressional Committee on Un-American Activities, 184
- U.S. Constitution, 33, 51, 66-69, 72, 191
- U.S. Navy, 43, 65, 88-90, 118
- U.S. Supreme Court, 42, 71-72
- Utopia, 145-146
- Velde, Harold H., 160
- Wagner, Robert, 16, 17, 20
- Wall Street, 17, 18, 23, 26, 43, 87
- Wallace, Henry, 148, 182
- War Deal, 60
- War Finance Corporation, 32
- Warburg, James, 18
- Washington, D.C., 28, 42, 46, 93, 131, 142, 154, 157, 182, 190
- Washington State, 186
- Webb, Sidney, 174
- Webb, Beatrice, 174
- Wheeler, Burton, 20
- White, Harry Dexter, 113, 154-156
- Whitney family, 165
- Wilson, Woodrow, 27
- Wirt, William Albert, 16
- Woodin, William, 43
- Woodring, Harry, 43
- Works Progress, 37-38, 40, 45-46, 54, 56, 86, 122, 139
- World War I, 24, 49, 50-52, 73, 87, 100, 120, 122, 189
- World War II, 49, 55, 62, 64-65, 74
- Yalta, 152
- Yellow Peril, 106
- Yugoslavia, 94

About the Publisher

The Foundation for Economic Education Inc., was established in 1946 by Leonard E. Read to study and advance the moral and intellectual rationale for a free society.

The Foundation publishes *The Freeman*, an award-winning monthly journal of ideas in the fields of economics, history, and moral philosophy. FEE also publishes books, conducts seminars, and sponsors a network of discussion clubs to improve understanding of the principles of a free and prosperous society.

FEE is a non-political, non-profit 501 (c)(3) tax-exempt organization, supported solely by private contributions and sales of its literature.

For further information, please contact: The Foundation for Economic Education, Inc., 30 South Broadway, Irvington-on-Hudson, New York 10533. Telephone (914) 591-7230; fax (914) 591-8910.