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INSIGHT AND OUTLOOK

A STUDENT OPINION JOURNAL ON CURRENT AFFAIRS

Volume 1 Number 2 March 17, 1959

ARTICLES

DEPARTMENTS

"If the poor, for example, because they are more in number, divided among themselves the property of the rich — is this not unjust?"

— *Aristotle*

"The frequent and regular distribution of wine and oil, of corn or bread, of money or provisions, had almost exempted the poorest citizens of Rome from the necessity of labor - - - - and it was artfully contrived by Augustus that, in the enjoyment of plenty, the Romans should lose the memory of Freedom."

Decline and Fall of the Roman Empire,
Gibbon

INSIGHT AND OUTLOOK
Magazine

A STUDENT OPINION JOURNAL ON CURRENT AFFAIRS

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IN THIS ISSUE

No man can have freedom of thought or action without first having economic freedom. Beause of the importance of economics in attaining individual liberty most of this issue deals with this subject. World Outlook deals with the problem of inflation. Following this, editor McCone discusses the aspects of economic leveling. Then professor Robert J. Lampman presents the issues of governmental interference in the area of medical health and insurance. Gale Pfund shows the success of post-war Germany as a free as opposed to a planned economy. Finally, A. J. Heins presents citizens with a choice between economic security and freedom.

The Book Insight department features a critical analysis of the Economics 1 textbook showing its bias toward big government.

The next issue will deal with education.

CAMPUS OUTLOOK

APTHECKER FOLLOWING THE LINE

It has been truly said that communists like to fish in troubled waters. True to form, Professor Herbert Aptheckker, editor of the communist organ *Political Affairs,* in a Socialist Club sponsored speech used the problem of racial discrimination in the U.S. to serve the party propaganda mechanism.

The gist of his talk was that racism grew out of the development of capitalism and served the "ruling class" and the "forces of reaction" in their fight against "democratic and progressive political action." The cure, he told us, would eventually involve the violent overthrow of the "ruling class."

He pictured racism as an obstruction to "mass political organization" and to the maturing of the "classical American dream of democracy." It seems professor Apthecker has spent a great deal more time studying Marx than he has studying Jefferson and Hamilton; otherwise he would know that perhaps nothing was held by these men to be of greater danger to our form of democracy than "mass political organization." We believe we are correct in attributing the formation of the concepts of "classical American democracy" to men such as Hamilton and Jefferson rather than to some of our contemporaries who, like Professor Apothecker, seem to want to reinterpret those concepts. Apthecker's quotaion of Marx to the effect that the structure of capitalist societies was "cemented by African blood" was noteworthy not ony for its disregard of the truth but for its failure to consider the developement of communism in the U.S.S.R.

Every culture seems to have its share of barbarism, but we would have to look hard for equals of the leaders in the Kremlin who have cemented their totalitarian domain with the blood of the Hungarians, the Poles, the Bulgarians, the Lithuanians, the Latvians, and the Esthonians — an incomplete list to be sure. This does not include the huge number of their own people that the Russian leaders have executed wholesale.

Said Professor Apthecker: "I deny an anology between the oppression that exists here and in capitalistic societies and the manifestations of injustices that were directed at times toward varying groups of people in the U.S.S.R."

So do we, Professor. So do we.

A SURPRISE FROM MRS. ROOSEVELT

Mrs. Roosevlt gave a surprising speech on February 9. We've been reserved in our judgment of her in the past. But we found ourselvs heartily in agreement with much of the address she gave here.

She stressed the need to understand the wants of the people whom we are trying to win as allies to the free world. She maintained that in our ability to offer spiritual leadership to the world we held an advantage over the atheistic Soviets.

The objective of Russian education, Mrs. Roosevelt told her audience, was "t produce completely discipined persons . . . completely amenable citizens who can live comfortably if they forget certain things."

Perhaps it is because they live so comfortably that the American people have allowed themselves to forget many of their basic concepts of liberty.

THE WISCONSIN CONSERVATIVE CLUB

On March 22 Robert LeFevre, President, Freedom Schools, Inc., Colorado Springs, will speak.

The Conservative Club had received affirmative replies by March 5 from ten nationally known conservative scholars asked to speak after Easter.

April 8 — Father Edward Keller, Notre Dame, of *Chirstianity and American Capitalism* (see p. 14),

April 12 — David McCord Wright, economist (article by Gale Pfund and first book review in this issue

April 19 — Wm. F. Buckey, Jr., editor of *National Review,* and author of McCarthy and His Enemies,

April 22 — Richard M. Weaver, English professor from Chicago University who writes for *National Review,*

April 25 — Ludwig Von Mises, professor of economics, at NYU whose*Human Action* is reviewed in this issue,

April 26 — Wilmore Kendall, political scientist, and expert on academic freedom who writes for *National Review,*

April 28 — Anthony Bouscarin, political scientist from Marquette who lectured last year at the National War College in Washington,

May 3 — E. Merrill Root, English professor, Earlham College, who wrote *Collectivism on the Campus,*

May 13 — Russell Kirk, probably the foremost conservative scholar in the United States.

May 17 — Arthur Hobbs, pofessor of sociology at the University of Pennsylvania, author of *Sociology and Scientism.*

The Cultural Sequence of the Conservative Club Thursday night discussion series will begin after Easter. The first two of the six meetings are:

April 9 — "The Problem of the Heart and the Problem of Social Bordom,"

April 16 — "The Problem of the Community,"

The sequence is based on Russell Kirk's book *Prospects for Conservatives,* Gateway paperback, $1.25 at the Co-op.

WORLD OUTLOOK

THE SWING BACK TO SOUND MONEY

Although it is overdue an dnit as extensive as desirable, we are finally beginning to note a realization that the free market economy is the soundest assurance of prosperity. Western Europe's recent economic reforms are an example. The attempts of France, West Germany, Italy, Belgium, Luxembourg and the Netherlands to stablize their currencies and to promote free trade through the European Common Market indicate a definite trend away from rash experimentation toward sounder economic principles.

As *U. S. News & World Report* observed in the January 9th issue, "In taking all these moves toward stability last week, governments were serving notice, in effect, that inflation woud be resisted . . . that prices and values would be determined in the market place, that competion would rule once again, that labor and management would have to use restraint if goods were not to be priced out of the market." In the United States we have seen a shift in Eisenhower's policy to an attempt to balance the budget and a strong effort to curb inflation.

U. W's MORTON PEGS INFLATION CAUSE

Inflation as it exists in the United States today is to a large extent a measure of how far we have drifted from a completely competitive economy. Support was given to this idea by an extremely enlightening speech given by Professor Walter A. Morton of the University of Wisconsin Economics department at a joint session of the American Economic Association and the Industrial Relations Research Association held in Chicago on December 29, 1958. According to Professor Morton, inflationary trends since 1951 have been caused to a large degree by the existence of a wage-push by labor unions who create a non-competitive labor market able to influence wage rates. The general concept of wage-push inflation implies that inflation is the result of an increase in costs of production. When this occurs, business must either raise prices to maintain their profits or cease production. Morton maintains that since there has generally been no increase in the rate of profits during this period, business had no choice but to raise prices.

The problem resolves itself to a consideration not of how union power must be decreased but rather how unions should wisely use the power they possess for the benefit of the economy as a whole and for the consequent benefit to the workers. To determine the extent to which unions should use their power it is necessary to re-examine the reason for the existence of unions. As Morton stated, ". . . the original pupose of labor organization (was) to prevent monopolistic exploitation of labor but not to create a device for monopolistic exploitation of the unorganized sectors of society by pushing their real income below the competitive level. Although labor unions can therefore be justified as a means of redressing the balance of power, they cannot be justified socially as a source of arbitrary power exceeding that held by others." Hence ,when unions exceed their original purpose, they not only violate the public trust which allowed them to grow because unions professed interest in the public good, but also they act to upset economic equilibrium.

Morton believes that the solution lies in making labor realize that unreasonable wage demands do not result in an increased real wage for the workers. The nly result is inflation. Morton furthe calls for a moral responsibility on the part of unions. "For if labor is to be a political as well as economic power, it must assume its share of responsibility for the welfare of the nation as a whole and not use political power, as has been its wont, merely to reward its friends and to punish its enemies, and thus to simply assume that its own narrow economic objectives are good national policy.

"As an economic agent, labor unions must pursue self-interest within a reasonable institutional setting, but they, no more nor less than other groups, have a responsibility as citizens acting in their political capacity to protect the dollar against depreciation and to support legal institutions that are just and fair to all."

Morton also concludes that a sound monetary and fiscal policy with a direction toward price stability are essential to prevent inflation. However, he warns against governmental interference in other aspects of the problem. "But to propose at this time that Congress attempt to redress the balance of power in favor of the employer presupposes that hearings could establish what is a desirable balance of power, how it could be measured, and how the purported unbalance could be brought into a stable equilibrium by Congressional action. I have seen no proposals that would insure this result; indeed most of them would merely result in further politization of industrial relations and the substitution of a political wage for an economic wage."

"We may dismiss government controls of wages, prices and profits because in a free society there are no standards of administering such controls for the society as a whole," Morton said, appealing to the competitive market to establish stable wages, prices, costs and profits.

Professor Morton also attacks certain "Keynesian" doctrines which he believes create an inflationary atmosphere. "But an anti-inflationary policy to be effective would also need a change in the now all-pervasive inflationary sentiment obsessing this nation. The economic teaching of recent years, which supports the fallacious theory of underemployment equilibrium and places responsibility for full employment upon governmental monetary and fiscal policies rather than upon the action of individuals, is a strong intellectual support for inflationary forces. From this view arises the doctrine that, with full employment in our imperfectly competitive world, inflation can be controlled only by a policy of maintaining a reserve army of the unemployed, and that if this is not done some inflation is necessary."

EQUALITY VS PROSPERITY

By Alan McCone, Jr.

Rudyard Kipling was an arch enemy of British Fabian socialists who were trying to appeal to the English people with the doctrine of egalitarianism. He wrote:

In the Carboniferous Epoch we
were promised abundance for all,
By robbing selected Peter to pay for
collective Paul;
But, though we had plenty of
money, there was nothing our
money could buy,
And the Gods of the Copybook
Headings said: "If you don't work
you die."

In a university atmosphere debate should not be closed on any topic. So while some may consider the subject of this article a settled question, I think we could gain from a reexamination of the philosophy of economic leveling that has become more and more a part of our national thinking.

Especially, those alarmed with Soviet industrial advances should stop and consider our present policies. They should remember that in the early 'Thirties Stalin completely repudiated the Marxian policy of income equality that we seem bent on adopting. In spite of the bungling and inefficiency that attend a government-run economy, Moscow's realization that wage differentials are the greatest boon to productivity may be the compensating factor that will allow Russia to outstrip us. And while we are placing higher penalties on large incomes, the Soviets are enlivening their economy with a system of more extensive monetary incentives.

A few moments for reconsidering our course is certainly a reasonable request. And there is no better starting point than Kipling's little poem.

In four short lines Kipling observes first, that the utopian socialists offered leveling as a cure for all misery; second, that the redistribution suggested is actually a form of robbery, and that to regard it otherwise involves partial repudiation of our traditional concepts of morality; third, that the program cannot fulfill its promises; and finally, in the aftermath of the leveling upheaval an authoritarian regime must step in to keep things running.

The socialist equailty does indeed offer an attractive promise to the man who has not done as well as some. It appeals even to the well-to-do at times when they contemplate social justice. But what is the aim of leveling? Is it so all-important that no man earn more than his neighbor when there is no other form of equality than man's nature conforms to? Or is the proposal made in hope of increasing general abundance?

Probably there is a mixture of both motives in the appeal. The first idea, of course, shows the materialistic outlook of its proponents who can see no other form of value than wealth, and who will not be content until all have the same share. The second concept, that income leveling may improve the lot of all, is a legitimate stand to take. It demands a bit of social and economic analysis to evaluate, and we'll do that later.

But first, let us treat Kipling's second observation. We have had very few examples of the Robin Hood type thief in our age, so we have come to regard theft of any kind from any individual, no matter how wealthy, as antisocial, evil and unjust. Why? I think most solid citizens have been imbued with the belief that two wrongs don't make a right (that is, if wealth accumulation could be regarded as wrong), and also with the commandments "Thou shalt not steal" and "Thou shalt not covet."

Supposing now, though, that a Robin Hood emerges and begins looting the rich in behalf of the poor. Some of the solid citizens begin to let sympathy influence their ideas of justice, and we find that their moral code is only a relative thing. This is certainly true when the Robin Hood turns out to be the government. The latter agency enjoys a special advantage in playing Robin Hood in that it claims the law to be on its side when it "plunders" (if we would be so consistent as to recognize the act as being plunder). Thus, the not-so-sound thinker who has been content to regard moral and civil law as identical, can find a justification for ignoring moral law. Now the theft has government sanction and indeed is carried out by the government. "Oh, but to call income redistribution a form of theft is nothing but the plea of the reactionaries and the entrenched!" we will hear. I say that we must label it theft if we are to consider it in its proper place in the framework of traditional morals. And we must admit that if we endorse the leveling principle as a form of social justice, we have taken a step away from our old view of morality. This is not to be taken lightly, I'd say. And once this concept grips the public mind we can expect that making morals relative on this point justifies making them relative on other points in the minds of potential malcreants. It is difficult to explain the value of morality to a delinquent if one is fuzzy or reserved in one's own thinking on it.

One more thought on this point before we go on. Charity used to be one of the prime virtues in the doctrine of Christianity (recall the identity between Love and Charity in Bible translations). It is said that providing for the poor by taxing the rich is a charitable act. But here the "giver" (or better, the "decider") is not giving his own money, but someone else's. The personal decision that used to be so uplifting and valuable in the process of charity is now gone—because the generous ones have not had to give up a thing of their own (in fact, many, I believe, feel they would benefit from the transfer themselves).

But now we come to the third

point that Kipling made, which constitutes the economic analysis of whether leveling will actually increase the general wealth appreciably.

Before we get deeper, it might be well to point out that the Marxian idea that profits represent oppression and that a capitalist society makes the rich get richer and the poor get poorer has been proven definitely wrong by the progress the United States has made in the last hundred years. Moreover, if the leveling idea is to be put to the test in recent years, one should compare Britain with West Germany, as Mr. Pfund does in this issue. The conclusion should be that leveling does not improve much on incentive capitalism in making everyone richer. And finally, bear in mind that the arch-Marxians in Russia have completely repudiated the concept, and may, because of this, fulfill their promise of surpassing us.

There are two big arguments against using leveling as a tool for improving real wealth. The first depends on the nature of profits, and the second deals with the nature of governments. And we will make the whole analysis from the standpoint of the advantage of the common man, the average citizen. For it is the author's belief that the little man loses when he votes to expropriate his rich neighbors through taxation.

If profits are a form of oppression, as Marxians say, then a profit tax is justified. But it has been the central thesis of those who have studied how the free market has led us to prosperity that profits are actually the reward for good service to the consumer. Assuming the government is efficient in the area in which it is most qualified to act, namely prosecuting dishonesty, the only way in which a person can become rich is by offering something to the consumer that the consumer rates higher on his scale of satisfaction than the myriad other items on the market. And when the consumer parts with his money in exchange for some good or service, he does so because he believes it is to his advantage to do so.

Thus, in our specialized society, both buyer and seller gain in a transaction. And for all we may criticize the "robber barons" for their unethical practices and conspicuous consumption, one must admit that they generally got rich, not by making luxuries, but by channeling their produciton to goods for the masses.

Thus, profits in the market economy are a reward for serving the consumer well, better, in fact, than the many competing services which the consumer rejected in favor of the ones he bought.

How is it that a business man determines what will please the consumer best? He has to take a guess. Every new venture involves risk of losses due to guessing wrong. At any one time there is only a limited amount of labor and capital available in the economy, and to maximize the satisfaction to the public, it is desirable for the allocation of capital to be in the hands of men who have the best record of guessing right as to what will please the consumers.

In a market economy it is extremely easy to tell who are the best guessers. These are precisely those who have managed to accumulate a large amount of profits as token of their success in predicting consumer wants. Thus the market tends automatically to put funds for possible investment in the hands of the shrewdest investors.

Any sound study of the rise to affluence of capitalist countries will name capital accumulation and investment as the mainspring of economic advance. What I want to show now is that the average citizen gains rather than loses by leaving the wealth in the hands of the sound investors that have accumulated it. For the alternative, leveling taxation, proposes to lop off the major portion of large incomes and estates and turn them over to the mass of the consumers (either directly or by not taxing the consumer for government expenditures to a proportional extent.)

The buying habits of the general public are such that they consume the great bulk of what they acquire. The extreme of leveling would turn all income above an average over to the consumers, and there would be no capital even for plant replacement, and the resultant general economic decline would show the folly of the policy.

Now supposing the rich are not taxed progressively. They do not buy 200 vacuum cleaners because they have 200 times as much income. And most studies show that conspicuous consumption accounts for only a small portion of what the wealthy earn. What do they do with their money? The profit motive leads them to re-invest it, as they best know how. Thus, without even considering the incentive factor we can see how leveling money in the hands of the rich would lead both to more investment and better investment. This is the requisite of an expanding economy.

One other black mark against the leveling principle lies in the advantage it gives to governments bent on expanding their powers. It has taken less than 50 years for our own government to raise the income tax rate from 2 per cent to 92 per cent. And there is a good indication that it was only because politicians could point to the 92 per cent rate on the top bracket that they were able to get the lowest bracket citizens to hold still for a tax of 20 per cent on them. One axiom about the operation of governments seems to be that once they get power or a claim on funds they are very reluctant to give them up. Note how the federal budget multiplied in size as a result of emergencies such as the First World War, the depression, the Second World War, and the Korean War. Only if the citizens are strongly aware of the direct costs of government to them will they be able to choose with wisdom whether they want to finance federal project proposals. The income tax hides from the average man the fact that by far the great bulk of government expenditures are paid directly by them.

Our century has seen too many concrete examples for us to dwell on Kipling's fourth observation, the readiness of an authoritarian group to step in and use the powers that absolute control over the pocketbooks of the citizenry gives a government.

NOTES ON HEALTH ECONOMICS

By Professor Robert J. Lampman
University of Wisconsin
Economics Department

Few fields on the contemporary domestic scene are as charged with controversy as that of medical economics. Some of the many disputes in the field have to do with the appropriate role of government in financing or providing health care or in offsetting the losses of family income associated with illness or disability. Other issues turn around the possibility and desirability of expanding or modifying the present pattern of voluntary health insurance.

Present Role of Government

Since the failure of President Truman's big push of 1948 a system of nation-wide compulsory health insurance has not appeared to be a serious contender. But in less publicized areas of the health scene the facts show that the governmental role in this field has been important and growing. American Governments have for some time participated in the demand for, and to a limited extent in the supply of health care through public assistance programs, public health and other welfare services programs. Since 1911 the United States has had one social insurance program in this field, namely, workmen's compensation. In contrast with most countries, the United States has not used social insurance on any wide scale in meeting health problems. In recent years, however, four states and the railroad industry have introduced temporary disability insurance, and the federal government has added to Old Age and Survivors Insurance a quite restrictive provision for disability income insurance.

In contrast to the slow development of social insurance programs are the recent rapid expansions of assistance and public medical care programs. Most states now share with the federal government in a new categorical assistance program for the permanently and totally disabled. Public programs in mental health work, in care of veterans and other special groups have taken governments far into the direct provision of health care. Coverage of medical care costs for recipients of public assistance programs and of others found to be medically indigent is another important part of the medical care cost borne by government. Considering all the various programs together, about one-quarter of the nation's total health care bill is being met by or through government.

Currently before Congress is a strongly-backed bill which would add health care coverage for the old-aged beneficiaries of Old Age, Survivors and Disability Insurance. This would, of course, be considered by some to be a key experimental step in the direction of a general compulsory health insurance program and we may expect to hear again the arguments for and against such a broad program.

In the light of recent trends there would seem to be little point to debating whether or not government should have an important role in health care. More realistically, the several questions before us include the following: What should be the nature of the governmental role? Should it emphasize income maintenance or health care benefits? Should it be based upon the principles of social insurance or public assistance? How big a part should government play in the organization and direct provision of health care? Are there areas in which government now acts that could be handled by the private sector? How should government health programs be distributed among local, state, and federal governments?

Voluntary Health Insurance

Against the backdrop of the growing role of government another drama is being played and a related set of issues are being developed by the actors in voluntary health insurance. A generation ago the opposition to voluntary health insurance was so strong that few predicted the successes it has had to date. The change of heart by the American Medical Association removed a leading barrier to the growth of such insurance, and 80 per cent of Americans now have some degree of voluntary health insurance. About 20 per cent of all private expenditures for health care are financed by insurance. The established position of health insurance suggests there is wide agreement on the principle of using insurance. There are, however, several good reasons for public concern with the question: What kind of health insurance should be most encouraged?

In seeking answers to this general question one quickly comes to realize that health insurance problems tend to become inter-twined with fundamental issues in the organization and administration of health care. Some health insurance questions which lead us into organizational (as opposed to purely financial) questions are: Should voluntary insurance be sponsored by physicians and hospitals, or, alternatively, should commercial insurance be encouraged? Are service benefits superior to indemnity (cash) benefits? Should employers, unions, and other groups participate in the demand for, or supply of health care? Can volnutary health insurance meet some of the costs now handled by public programs? What role in health insurance should be claimed by government?

In appraising current issues it is helpful to picture three separate functional groups of suppliers, demanders, and intermediaries.

Further, it should be realized that shifts are occurring on both the supply and demand sides of the picture, and that a galaxy of intermediaries have risen to occupy important places in the over-all scheme of things. The general trend of these shifts in private as well as public health care is definitely toward "collectivization".

Collectivization of Supply

One of the characteristics of economic progress is an increasing degree of specialization, and a concomitant of specialization is an increasing number of intermediaries between the original supplier and ultimate consumer. Thus, in an early stage of exchange food is raised by an agriculturist who undertakes to market it directly to the household which consumes it; but in a more advanced stage the agriculturist (himself specialized in the growing of a limited number of food items and dependent upon a set of highly specialized suppliers) sees his produce pass through a series of middlemen (brokers, processors, retailers) before it reaches the hands of the ultimate consumer. By very rough analogy we may assert a parallel kind of development in the complex of industries that supply health goods and services. For here technological advance has been spectacular, and specialization has gone forward at an accelerated pace in recent years. One of the consequences has been a depersonalization of the supply side of health care in the sense that the consumer is frequently served by an array of persons or even by several organizations rather than by a single practitioner. Another consequence of the improving technology is a greater distance between the cost of minimum care and the cost of maximum care.

To return to our analogy, the standard pattern of industrial evolution includes the "rationalization" of supply (e.g., the efficient grouping of many individual suppliers) by some enterprising market intermediary or merchant capitalist. Something like the historical role of the merchant capitalist is being played by the intermediaries. This is true to the extent that the intermediaries bargain for lower rates, higher standards, and different methods of organization.

Collectivization of Demand

As discussed above, the provision of medical care has traditionally been offered on a direct supplier-consumer basis. However, there are two remarkable things about the consumption of health care which have always marked it off from most other consumption. The first is that health care, while it absorbs only about four per cent of consumer budgets, is an "unwanted necessity" with unpredictable incidence for the individual family. The incidence is, however, predictable for large groups and, hence, falls naturally in the category of insurable expenditure. The second is that it is a type of consumer expenditure often associated with loss of earnings.

These unusual characteristics of consumer demand were accommodated traditionally by a sliding scale of rates and by charity. (This tradition explains, perhaps, why physicians are less alarmed by the growth of public assistance than by the threat of social insurance.) More recently these demand characteristics have been related to financing by insurance. The lead has been given by non-profit organizations sponsored by hospitals and physicians, but commercial insurance companies have also played an important part. Some commercial insurance and most government insurance to this date have been aimed at maintenance of income through a period of disability.

The Future of Voluntary Health Insurnace

Voluntary health insurance in the United States has now reached a stage of development far beyond that ever achieved in any other country. However, even with most of the population covered there are some critical gaps. Some of the groups left uncovered are those in greatest need. Leading examples of this are the lack or losses of coverage associated with retirement, old age, unemployment, or chronic illness. Quite apart from the matter of extent of coverage is that of extent of benefits. A fair characterization would seem to be that voluntary health insurance has sought to meet a middle range of medical cost, with exclusion of most minor illness costs as well as exclusion of much of the top range of major illness costs.

It seems clear that the voluntary health insurance movement will close some of these gaps. Significant experiments are underway in various parts of the country in extending coverage to the old-aged and lower income groups and in adding to the comprehensiveness of insurance benefits. Forward movement of this sort is pushed by the fact that masses of people have gained experience with health insurance, and further by the fact that unions and employers have joined forces with consumers. Also vendor-sponsored health insurance organizations tend to assume an institutional identity separate from the sponsoring groups and hence to develop an expansionist spirit responsive to consumer wants.

In general, the pressure for more complete health insurance comes from the consumer side and suppliers will only go forward if pushed. From a recent survey with which the present author was associated it is concluded that most consumers want health insurance, preferably voluntary health insurance, which covers most of the family medical bill through most of the contingencies of life. Their emphasis is upon "security" and "better access to medical care." (It is obviously in the interest of consumers to promote arrangements which encourage improvement in quality of care and which accomplish more ideal levels of utilization, but these are difficult matters for consumers to make judgments about).

In the same survey study it comes out quite clearly that physicians have a quite different set of values in mind in evaluating health insurance. Physicians consider quality of care and freedom from outside interference with professional standards to be the prime value. The emphasis upon freedom is understandably related to the traditional pattern of organization of health care, and physicians' resistance to health insurance is part of a broader pattern of resistance to the collectivization of supply.

Conclusion

The American system of organiz-

(*Continued on p.* 10)

WHAT PRICE SECURITY

By A. J. Heins

It is time that Americans stop and reevaluate current trends in public policy that are taking them along the inevitable road toward collectivization. Having been reared in the spirit of majority rule, and recognizing many of its foibles, I will not quarrel with the right of Americans to select an economic system in keeping with their ideals and desires. But I feel very strongly that Americans have been inadequately informed as to the nature of the road that they have recently been following.

Capitalism, like every other economic system, has its strengths and its weaknesses. In this country we have experienced phenomenal economic growth in the past century and a half. We have experienced a level of social and economic freedom reached by no other people. Americans can direct the production of what and how much they want to a large extent. Then too, we have witnessed periods of unemployment and economic depression. Perhaps the distribution of wealth leaves something to be desired. As in so many things it is desirable to keep the good and eliminate the bad. If in elimination of the undesirable elements, the desirable things are destroyed, then success can be measured only by taking into account all changing factors. In essence, this has been happening in the United States in recent years. Americans have become so concerned with economic security, that in striving for that ephemeral paradise, they are destroying the very foundation upon which their only security rests, their individual economic freedom.

What is economic freedom? Perhaps the answer to this question can only be given in terms of basic individual desires and ideals. To me it means the prerogative of individuals in the market place to direct the production of goods and services that they as individuals desire. A loss of economic freedom occurs if we collectively agree through government what we ought to produce. In that sense then, any decision by government, or for that matter, the very existence of government, involves a loss of economic freedom.

The first thing we must recognize is the dual nature of government in relation to the economic system. First, government is in much the same position as the rule-makers and referees in a football game. In this sense government exists for the purpose of designing and enforcing the rules under which the economic game is to be played. We generally agree that government must exist for this purpose, and although many problems arise in this area, they are not our primary concern here. Secondly, the government is in a similar position to the participants in a football game. That is, government not only makes the rules of the economic game, it also enters the market place and decides how the game is going to turn out. It is this second role of government that should generate our primary concern, because every intrusion of the government into the market is one less decision that we as individuals are allowed to make.

Instinctively, Americans would agree to give up certain amount of economic freedom in order to attain a greater equality of opportunity. Witness our comprehensive public school system. Similarly with national defense and certain phases of public welfare. Notice that the primary encroachments by government mentioned are pointed at the problem of wealth distribution (except defense which is of concern to any society). Furthermore, it is doubtful that these collective activities have significantly limited our economic freedom, or that they have inhibited the operation of the market.

In recent years, however, a new approach to government has grown out of the intellectual thinking associated with the Englishman, J. M. Keynes, an approach that is related to economic security, and is an attempt to resolve the problem of economic instability. Lord Keynes in his analysis of capitalism concluded that collective economic action is necessary to offset the tendency of mature capitalist societies to suffer persistent and recurring economic depressions. This outlook has been embraced by a variety of influential Americans and has evidenced itself in the economic policies of the New Deal and subsequent administrations. It obviously shows up in our collective attempts to avert economic recession, and less obviously in our attempts to correct market decisions that we have collectively denounced as wrong. Perhaps it is best illustrated in the common phrase, "there ought'a be a law!" Currently in vogue is the notion that the government must sponsor "creeping inflation" through strong market support if we are to avert recurring recessions. The bulk of all controversy presently centers around the question of when and how much government action. But is this really the main source of concern? I think not. The basic concern should be whether this is the right approach to the problem in any degree.

The Keynsian approach, if applied with sufficient vigor, will certainly give us the economic stability and security that we desire. But then, communism, socialism, and fascism can accomplish the same purpose. Should we embrace one of these systems in that light? Most of you would agree that we should not, because these economic systems entail other features and problems alien to our desire for economic freedom. The Keynsian approach has been chosen because we have been convinced that we can have our cake and eat it too. In other words, we have been convinced that we can take collecitve action to insure stability and have our economic freedoms also. This is not possible.

Does this mean if we want to retain our freedom to direct the market as individuals, that we must accept some insecurity and instability? Certainly it does. Does it mean that we must experience recurring deep economic depressions? That it does not mean. Free enterprise capitalism is not subject to tremendous economic upheavals if it is permitted to work properly. As it exists today in the United States, however, it is so subject, because our economy is infested with so many rigidities and inflexibilities, institutional and governmental, that economically we are incapable of making the rapid readjustments necessary to prevent a prolonged downturn in economic activity. If we want to prevent deep depressions and to have our freedoms, we must correct these deficiencies. Certainly we can never hope to remove all instability, because resources are inherently immobile, but we can prevent wide variations in economic activity by removing the unnecessary social and institutional barriers to resource mobility; that is, the inflexibilities that prevent adjustment to economic changes.

Since Sputnik I, Americans have reevaluated their international position with respect to the Soviet Union in the military and economic fields, and arrived at the conclusion that Russia has been making rapid strides toward a position of economic and military equality with the United States. The by-word among Russians is to overtake Americans in productivity. People who say that it can't be done are naive. It most certainly can. The very nature of the Soviet economy permits them to realize greater economic growth than we can. In the Soviet Union the rate of national investment is collectively decided, and if the government is sufficiently powerful, as it seems to be, that rate of investment can be very high. In the United States, the national growth is basically determined by the desire of individuals to save and invest. Under these conditions there is no way for Americans to assure the realization of comparable economic growth. The only way this impasse can be surmounted is to adopt a collective economic program in the United States directed at fostering greater capital accumulation. In other words, to beat them we may have to be like them. This makes no sense to me whatsoever. Recently Wisconsin's Senator Proxmire stated that Americans need not fear that the Soviet Union will ever overtake us in national productivity, because the government will not permit that to happen. Does Senator Proxmire mean that the government is going to assume the responsibility for economic decisions that heretofore have been left to us as individuals? Does he mean that you and I must undergo a government imposed "program of austerity" in order that we may collectively amass great physical quantities of investment goods to stay ahead of Russians in economic productivity? That is to say, will Americans have to give up their economic freedoms to maintain world economic leadership? This is a price I do not wish to pay. If we cannot accomplish that task without imitating the Soviet Union, then I would prefer that it go unaccomplished.

In this brief discussion, I have attempted to point out the basic alternatives that Americans will have to choose between in the near future, and the things they should consider in making their choices. If Americans are to assure the realization of predetermined economic goals, such as complete economic stability and world economic leadership, they will have to sacrifice many of their economic freedoms. This is not a choice to be taken lightly. It is my fervent wish that Americans stop and ask themselves, what their economic freedom means, and then realize that it is that freedom that must be sacrificed to achieve the goals that I have outlined.

HEALTH

(Continued from P. 8)

ing and financing health care is a "mixed system." Moreover, it is a dynamic system featuring a pronounced trend toward collectivization of both supply and demand. The most notable changes of recent years include an increase in government's share in health care mostly through public assistance and health service programs (the latter involving direct provision or "socialized medicine") and the great rise in voluntary health insurance. These changes raise conflicts among the goals and purposes of consumers and suppliers.

Reasonable men, even when they share the same political outlook, may sensibly have different views of suggested policy changes, with regard to the economics of health. The following would seem to the present writer to be an appropriate strategy for conservatives at present. (1) The point should be made that the best accommodation to competing sets of values may be accomplished by a group of programs rather than by one master scheme. This would include emphasis upon private, state, and local government rather than on federal programs. (2) Voluntary health insurance should be encouraged to seek maximum numerical coverage, but with more attention to the costs of major illness. (3) Socialization of medicine means governmental control over medical care supply. Such control is less likely to occur with governmental insurance to offset income loss due to disability than with insurance to pay the cost of medical care. Hence, if there is no alternative to some kind of government expansion in this field, insurance of the first type is less objectionable than the latter type. (4) Any addition of compulsory health insurance protection should be confined to some of those health care costs which government now heavily shares through public assistance and public provision and which voluntary health insurance is unable to meet. Pursuit of point (2) would enable a reduction of government's role in the health field. Points (3) and (4) will reduce somewhat the large part of health care costs now borne by government in the realm of public assistance and public provision, without impairing opportunities for private enterprise.

GERMANY: A FREE ECONOMY

By Gale Pfund

West Germany's post war recovery is regarded by critics from all points on the political spectrum as nothing short of miraculous. What was the cause of its phenomenal economic growth and prosperity in the years since 1948? Even Socialist observers admit that West Germany's recovery is related quite a bit to her adoption of a free market. Certainly, since she lifted post-war price controls Germany has experienced her greatest economic growth. And the merits of unimpaired capitalism became even more apparent when Germany's dynamic and expanding economy is compared with the disappointing record of Britain under a welfare government.

In 1947 when poverty and starvation were prevalent in Germany, there was little sympathy for the free market economy. Popular opinion seemed to favor the programs of Dr. Agartz, one of the socialist leaders who proposed politically-controlled producer's cooperatives. The complete reversal of this trend, which came about in 1948, was, in fact, somewhat of a political and social accident. Doubts as to the desirability of socialist equality as a means to increasing the real wealth of all began to be raised when the government dominated economy failed to pull out of an industrial standstill. It became plain that capitalistic incentives had to be introduced. Conrad Adenauer's Christian Democratic Union party, which advocated decentralization and a free market economy, was then voted into power, and the road to a relatively free economy seemed to be open.

Quite opportunely, the elections came at a time when a nation-wide opposition to allied control was at its height. The American, British, and French policies which tightened government controls on the German economy became issues of dissent. Under the intellectual leadership of Wilhelm Ropke and Walter Eucken, and with the political genius of Ludwig Erhard, Germany evolved into a capitalistic country.

The new government faced a big challenge in meeting Germany's economic problems. Before the war Germany had been relatively self-sufficient. Eastern and central sections of the country had supplied the foodstuffs and raw materials to support the manufacturing complex in the western part. When the allies carved up Germany, this economic independence was no longer possible. In order to replace her former internal supply of base products, West Germany had to move more into foreign trade. And in order to attract trade, Germany badly needed to raise her productivity.

When Adenauer and Erhard fell heir to the country's financial miseries, West Germany was suffering from repressed inflation. The unstable money market was pushing prices and values up, while the government's economic controls were trying to shove them back down. Chaos impended. The new government effected the monetary reform of 1948 which decreased the money supply and gave a more favorable relationship between the amount of goods available and their government-set money value.

However, the most important step in establishing a healthy market economy was the lifting of wholesale and retail price controls. Only then could a completely natural price-money relation appear. The necessity of combining monetary reform with the abolishment of controls is shown by the failure of currency reform operating alone in the French and Russian zone to produce economic order. The governments of these zones were forced to follow the American and British lead in abandoning price control to avoid disorder and corruption.

Just removing price controls is insufficient if there is to be an increase in productivity, however. Investment capital must be accumulated. The absence of arbitrary control over investment now has allowed West Germany's capital base to double during the period from 1949-1956.

Also important is Germany's liberal tax system which provides more money for investment purposes. David McCord Wright in his pamphlet *Post-War West German and United Kingdom Recovery* offers the following analysis:

> "West German income-tax rates were at first of the usual steeply progressive nature. But even then the government recognized the need for encouraging capital and investment. By an elaborate system of exemptions the high rates were in effect largely nullified. After 1950 there was a general overhauling of the structure. The special exemptions for saved and invested income were mostly removed, but on the other hand the rate of income progression was greatly lowered. The top rate is now about 50 per cent—much lower than in the U.S. and greatly lower than in the U.K. Thus, unlike most of the rest of the world, West Germany has been willing to allow the recipients of large incomes to retain a generous share of their earnings."

The growth of the German economy was possible partly because of the attitude of her labor force. It realized the benefits of modernization and therefore welcomed improvement in plant, method and equipment. Strikes were few and of short duration. Thus, man hour loss did not dangerously curtail production.

It is important, also, not to slight the role of Governmental fiscal policy in strengthening the economy and providing a sound basis for further growth. The budget was kept balanced and a surplus was accumulated. Interest rates are kept high and the currency is almost free.

However, to fully appreciate Germany's remarkable achievement and its implications as to the effectiveness of the free market economy it would be valuable to make a comparison with England from the time she began experimenting with socialism.

Britain had a big head start on Germany in national product, production, employment, and exports in 1948. Germany has managed to catch-up with Britain and surpass her in these areas. And the fact that Germany still maintains higher growth rates is another tribute to the strength of the free market approach.

Prof. W. O. Thweatt, in the same pamphlet with Wright's study, shows some significant figures on economic growth in the two countries. In 1949 German per capita income was only three-fourths that of Britain, while by 1956 Germany had surpassed the British level. Per capita gross national product (adjusted to constant prices and measured in dollars) rose in West Germany between 1949 and 1956 from 433 to 757. During the same period the British figure increased from 580 to only 717. The increase for Britain was only 19% while that for Germany was 42%.

Using 1946 as the base year for England and 1948 for West Germany, (these dates mark the beginning of post-war expansion in the two countries) industrial production has increased 68% in England while it increased 245% in West Germany. And although industrial employment rose 64% in Germany against a rise of 25% in Britain, productivity per worker outpaced that in Britain 114% to 34%. The figures all show Germany to be ahead of Britain in economic growth.

There are still some economic areas under governmental control in West Germany, and the case for the unhampered free market can be given further support by contrasting the progress in the controlled and decontrolled sectors of the German economy. Housing is an excellent example. With one-fourth of her homes destroyed by air raids and with a growing population due to an influx of refugees from eastern countries, Germany faced an acute housing shortage after the war. The Adenauer government decided for political reasons not to remove rent controls along with the general control lift. However, no rent controls or building quotas affecting business buildings were adopted. The contrast between the effects of the two policies appeared immediately. In bombed villages stores were rebuilt rapidly while wrecked homes remained in rubble. Throughout the country those houses that were rebuilt were only worth half their construction cost upon completion because their income potential had been diminished by rent control.

Thus, as Prof. Wright argues in his pamphlet, a desire to improve the welfare of the common man is one thing, and the means to achieve it is another. The evidence in Germany shows that a free market economy with liberal incentives has done more to lift the income level of the people of Germany than welfare schemes have done for the British.

BOOK INSIGHT
COLLECTIVISM IN ECONOMICS

It is sometimes said that elementary texts should be judged only on the information they present and on their clarity, not on their point of view. It should be remembered, however, that many students never get beyond the basic courses in such subjects as economics and political science. And the general orientation and value framework with which they emerge from an intrductory course often takes on more significance than the command they have over details and complex concepts.

This is why the editors feel justified in critizing the textbooks currently used in Economics 1, which happens to be written by a professor from our own university. The volume, *Introduction to Economics,* by Theodore Morgan, must definitely be classed as an apology for the present status quo of ever-increasing government control and participation in the United States economy.

And before it is said that all recognized beginning works must fall into this class, the editors want to offer for consideration a very fine one that does not. It is very easy to see how the arguments in *A Key to Modern Economics,* by Professor David McCord Wright, of McGill University, pull in directions just opposite from those in Morgan's book on many crucial issues. This difference shows that opinion on government's role in the economy is not at all unanimous. And it also leads us to question seriously whether students taking Econ 1 get a fair presentation of the view on economics that most so-called "conservatives" take.

Where do we see the government-centered approach dominant in Morgans book?

Conspicuous as a start is Morgan's quick defense of government "inefficiency" by pointing to routinist tendences in big corporations (p. 96). In the next three pages he then explains the rapid recent expansion of the federal government as the natural consequence of the closing frontier and economic crisis with a little more flavor of inevitability than some might like to see. The vested interest bureaucrats have the ballooning of government did not seem important to the good professor.

Moreover, it becomes apparent that most of Morgan's orientation on inflation and unemployment is government-centered. — or, to state it another way, personal liberty often is relegated to a position of secondary importance. Compulsory savings are suggested. Moderate price ceilings and rationing are suggested as possible checks on price spirals, even in peace time. Farm props and social security benefits are painted as good slump cushions. Quite a bit of discussion is given to possible measures for stimulating consumption by artificial manipulation of the currency.

Morgan must be given credit for admirable objectivity in his consideration of many of these matters, but it is hard to miss his underlying assumptions — emphasis on consumption rather than job-creating investment, for instance — which place him in the camp with most big-government proponents.

Two other attitudes the book betrays identify it with the 'liberal" or generally collectivist view. One comes away with a rather sympathetic feeling about labor unions, and where Morgan is quick to point to other social injustices, political activity of labor groups does not concern him. Finally, if Morgan drops objectivity on any point it is on the question of income equality. Again and again he stresses the injustice of disproportionate income, driving home the ethical justification for progressive tax rates and taxes on 'unearned" income.

And also conforming to the pattern, Morgan would have his students emerge with little concern about the extent of the national debt.

It takes very little time when reading Wright's book, on the other hand, to discover that the *Key* takes an entirely different approach to economics.

Wright drives home the dynamic picture of a free market, and makes a definite case for capitalism as against radical proposals and planning schemes. As an answer to recession, Wright looks first to removal of rigidities that hamper investment and slow recovery. In treating inflation, he is not so soft-spoken as Morgan in pointing to labor demands as a frequent cause of rising prices. Athough quick to criticize all abuse, Wright appears to have a fundamental trust in businessmen which Morgan at times seems to lack.

On the issue of income distribution the difference between the two books is most striking.

Wright places his highest premium on fairness of opportunity, and shows with much logic how obsession with income equalty often leads to less wealth for distribution and less opportunity for comers with little capital to start.

Concentration of wealth in the competitive climate of our economy can occur only as a result of efficiency, and if the system remains dynamic, persons with accumlated wealth find it constantly being competed away. Progressive income and corporation taxes, on the other hand, act to stifle challengers who cannot amass enough capital to compete with established firms. Thus the progressive rates often encourage wealth concentration rather than alleviate it.

Finally, Wright points out a truth that devastates a longtime argument of socialists and planners. In capitaism even the mst powerful moguls lack the economic control and influences that sociaist central planning boards and communist heads of state possess. And when power and prestige replace profits as incentives to the capable, as in a collectivist state, here seems to be as much or more chance of abuse as when wealth remains in the hads of capitalists in a competitive free market.

The purpose of this camparison has been to show that there are indeed two schools of economic thought. And although Professor Morgan's intoductory text is clear, complete, and relatively objective, we feel unquestioning students will come away from his book convinced that big government is the solution to all our economic ills.

SOCIAL CRISIS OF OUR TIME,
by Wilhelm Ropke

Ropke in the latter three-fifths of the book describes a free economy and its basic premises with an unequaled clarity. His central thesis is that the shortcomings that attend capitalism are rooted in "giantism" (of both government and industry) and in economic privileges granted and enforced by government. He would re-orient existing business law, to give small businessmen, artisans, and farmers a fair chance against larger enterprises. He bases this on the contention that giant industries, with their extreme specialization of labor degraded the individual. He would abolish tarriffs, which prevent the free movement of goods in the world market. He would keep government *out* of the market, limiting the role of government to a source of technical advice and of justice.

It is unfortunate that Ropke wrote his book in 1940, before three very promising phenomona had manifested themselves in modern capitalism, answering many of his objections. The first of these is the worker-oriented concept of labor-management relations, involving features like premium pay or above-average work and more importantly, programs for letting the workers own a part of his company, through stock-distribution programs. The second development is concerned with the "breaking" of patent monopolies, as in the governmental order compelling DuPont to share its nylon-making process with Chemstrand, now DuPont's chief competitor in the nylon market. The third phenomenon is the growth of the use of automatic control in modern industry, putting the emphasis on the repair and service worker, eliminating the mere button-pushes so typical of industrial drudgery. — CLINTON AYER

ECONOMICS IN ONE LESSON, *by Henry Hazlitt*

According to Henry Hazlitt, economics can be summed up in one easy lesson. Unfortunately, this idea sounds so much lika a ridiculous oversimplication that many people will pass over a book that more than likely would do them quite a bit of good. Although *Economics in One Lesson* puts forth the theories of classicism in a modern light, it is still done in a maner that can easily be understood by one who is not well versed in economics. But the real worth of this book is that it presents theories regarding economics that too many people have found it easier to overlook in their quest for selfish ends.

"The art of economics consists in looking not merely at the immediate, but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for a group but for all groups." This may be somewhat of a disappointmet to persons who were looking for the earth shaking panacea implied by the title, but if this idea would receive a wider application in the United Sates it would be found that it possesses mor power than is readily apparent. Possibly if our Government leaders understood this one easy lesson they wouldn't try to solve our economic problems by making it an accepted fact that it is right for plumbers to first cut off the threads on a pipe and then put in new threads where the old ones were, electricians to be drawing a top wage for turning on the power in the morning and turning it off at night, and painters to be forbidden to do the best job possible by making it against the rules to use the new and more efficient spray guns. If this one easy lesson, can, through a wide readership, destroy the universally accepted opinion that the goevernment owes the people a living, then it definitely does have the power promised in its title. — BILL HELLERMAN

CHRISTIANITY AND AMERICAN CAPITALISM, *by Rev. Edward A. Keller*

Christianity and American Capitalism is an attempt by Rev. Edward A. Keller to clarify the stand that the Cathoic church takes on social, economic, and political philosophy. Using numerous quotes from the papal encyclicals to substantiate his stand, Father Keller shows how the church is in complete agreement with the American concepts of private property, freedom of competition, freedom of enterprise, and freedom of contract which are essential to a totally competitive free market economy.

Although these concepts are consistent with natural law and the wishes of God, they must be carried out in a framework of individual moral and social responsibility. Hence, definite reservations are made with regard to unrestricted laissez-faire policies because they exclude moral law in establishing justice.

Father Keller attacks socialism and totalitarianism because they undermine the highest goods, human dignity and the salvation of the soul. In place of these ideologies a constructive program of social reconstruction is advocated. This includes, – – – "The reform of morals; the substitution of a moral spirit of cooperation for the class-struggle; the elimination of the evils of unrestricted Capitalism by the revitalization of capitalistic institutions through the infusion of social justice and social charity; and the social reconstruction of capitalistic institutions by the establishment of a system of voluntary, self-regulatory bodies in each industry and profession." — GALE PFUND

HUMAN ACTION, *by Ludwig Von Mises*

Human Action, by Ludwig Von Mises, is regarded as one of the most comprehensive treatments of modern economics based on the classical liberal approach.

A system of eonomic thought must be built from the individual, the basic acting unit, Von Mises begins. Systems which begin with a collective purview cannot yield reliable results. He then shows how the acting man enters the market by buying what he wants most and rejecting items he values less. The demand expressed by the individuals then directs production to satisfy most urgent wants first: If the government alters the course of production, individuals must be content with satisfaction of less urgent wants. To that extent they are impoverished.

Von Mises lays principal blame for the 1929 world crisis not at the feet of bankers and businessmen, but at the door of the United States government. In his analysis, he shows how the prime cause of depressions is the misallocation of capital that arises from periods of easy money, periods during which currency is introduced into the economy through the loan market, that is. An illusory prosperity moving into a crackup boom and finally a bust has resulted from each easy-money policy in recent history, Von Mises demonstrates.

The socialists receive a specially heavy drubbing at his hand. Socialists, in essence, believe they can improve upon the price structure as influenced through the money medium. Von Mises shows, however, that they have no criterion for choosing the best of several alternatives if they reject money calculations. Socialist planners must make their selections arbitrarily and are doomed to failure. Present socialist economies survive only by copying production patterns in capitalist countries, Von Mises maintains.

—ALAN MCCONE, JR.

WHY WAGES RISE, *by F. A. Harper*

Increasing the economic welfare of the nation means raising the real wages of the workers. F. A. Harper, in *Why Wages Rise,* explains the causes behind a rise in real wages, and in doing so points out the fallacies in the present day application of wage theory.

Harper's main thesis is that real wages cannot rise without an increase in productivity. He shows that wages in the United States, contrary to popular opinion, have not risen in proportion to increases in the strength of labor unions. Wages have, however, increased in proportion as productivity has increased.

Union demands or increased wages without a corresponding rise in productivity will only have the effect of raising prices. Thus, the buying power of the wage earner remains unchanged. Inflation and a false illusion of prosperity result. — GALE PFUND