AFTER THE WAR, WHAT?

By
HENRY M. WRISTON
President of Brown University
and Chairman,
CITIZENS EMERGENCY COMMITTEE
on Nondefense Expenditures

* An address delivered to the tenth annual convention of the Controllers Institute of America at the Waldorf-Astoria Hotel, New York City

AFTER THE WAR, WHAT? The answer depends upon your point of view regarding the validity and relevance of previous experience. Many people who hate Hitler blithely accept the major premise of his argument — the discontinuity of history. Hitler has no faith in the dynamic of continuity; he believes his will can prevail over the inevitable relation of cause and consequence. The chief characteristic of his "new order" is simply that emphasis upon discontinuity.

If we had to face only the willing allies of Hitler, our minds could be more nearly at ease. But just as he has military allies who are virtually captives, so also he has intellectual captives to assist him. One such group of collaborators are those who insist that the "old world" is dead, that we live in a "new world," that we must find not merely improved solutions but "new" solutions.
THE PAST FORETELLS THE FUTURE

SUFFERING from a reaction occasioned by the defeat of utopian hopes of permanent peace, they believe that the world never saw like troubles before, that our difficulties are different in kind from all previous troubles. Under the false premise that our situation is unique in history, they deal unrealistically with the problems which confront us. They insist upon a sharp discontinuity, and consequently complete irrationality in historical development.

Like Hitler, they deny the significance of human experience. Such a view produces chaos. If the past means nothing, there is no foundation for a framework of the future. Policy, on that hypothesis, must be the result of a series of ghastly accidents or must spring out of the brain of some one man under the "Führer Prinzip."

It is much more rational to say that the future will be the product of the past and the present, that the previous experiences of mankind are valid guides. Pace, scale, and other details will show differences, but the fundamental considerations remain the same.

WHAT ABOUT INFLATION?

LET us apply this test to one conspicuous problem. We are facing inflation. The Secretary of the Treasury says it "is a distant threat no longer," the Price Control Administrator says that "volatile and dynamic forces" are in action, the President of the United States, who has often said the only thing to fear is fear itself, speaks of "the facts today as frighteningly similar" to other periods of inflation.

If there is no validity in experience, how do they know that "we stand on the brink of inflation"? If there is no wisdom to be drawn from previous experience, how does anyone know what to do about it? With different scenery, in a different climate of opinion, with leading roles played by new actors we are facing what has been faced again and again in the history of the world. If we will look with perceptive
eyes at what has happened before, the essential elements in the cure will be reasonably plain.

Inflation has been under nearly continuous discussion for eighteen years. I think everything has been said regarding its disastrous financial effects. We know it wipes out savings banks and insurance companies, makes pensions and annuities worthless, dislocates business. We know, in other words, that economically it is an unmitigated evil. Nothing I could say would add either substance or clarity to that picture.

**THREE OTHER VITAL ASPECTS OF INFLATION**

I SHOULD like, therefore, to discuss three other aspects of inflation which have not had equal emphasis: first, the social consequences of delivering everything into the control of the state; second, the moral confusion that destroys human dignity and makes tyranny credible; third, the disintegration of political authority which opens the way for an adventurer to seize the institutions of government and establish a dictatorship.

*Totalitarianism*, to put my thesis in a few words, is *founded upon the destruction of private institutions, moral confusion, and the default of governmental integrity.*

1. **Destruction of Private Institutions**

IN GERMANY before the great inflation there were many private endowments in the universities. We think of German education as being wholly under public management, but until then a leaven of freedom existed in endowed university foundations. Experience has shown that academic freedom, the right of the original mind to do research and teach the conclusions based upon it, is best protected by independent endowments. It is not necessary that all professorships be privately endowed. It is essential, however, that there be a nucleus of such endowments so that those who are persecuted politically may find a haven of freedom.
American experience has shown that private foundations actually operate to protect indirectly the integrity of public instruction.

When, however, independent endowments are destroyed, not only do all universities fall into the hands of the state, but the relationship of the state to those which it has theretofore supported immediately changes. Restraints upon the abuse of political power vanish. Freedom is dead. That proved to be the case in Germany where endowments which had persisted for 700 years were destroyed by inflation. With them disappeared the Lehrenfreiheit which was the glory of the universities in the days of German intellectual leadership.

Charitable foundations, in like manner, lost their independence. Hospitals and homes for orphans and the aged had, nevertheless, to be maintained. But when public funds were substituted for private endowment, the normal complementary relationship between private philanthropy and public charity ended. Government support brought political control.

These developments laid a firm foundation for totalitarianism, one of the evidences of which is the monopoly of the state over functions and activities theretofore left in private hands or shared between public and private endeavor.

Those agencies which lost their freedom had not been rivals of the state or hostile to it. In the best sense of the word they had furnished assistance to the state. They had removed wide fields of activity from political tension. They had decreased public budgets. They had reduced the burden of bureaucracy. By restricting the scope of governmental responsibility, they had helped the state discharge its legitimate functions more efficiently.

Though not rivals of the state, they were effective instruments against tyranny. Universities and charitable foundations had their beginnings in days of despotism. They were thin wedges that for centuries helped split tyranny into fragments and destroy it. Being now themselves overwhelmed, the nation lost both the agencies and the symbols of the emancipation of the mind and soul of man.
2. Moral Confusion

The second great consequence of inflation was even more disastrous. It produced a profound moral confusion. In all well-regulated societies thrift is a virtue. To forego present extravagance and current pleasures in behalf of future security is common prudence. In all ages charity has ranked as a moral obligation; it is the explicit demonstration of love for one's fellow man.

But in a period of wild inflation, thrift is madness, philanthropy is footless, generosity is absurd. The scales of value which have been inculcated through the ages are suddenly thrown into reverse. That disaster comes at the very moment when the instrumentalities of enlightenment have been rendered impotent. The inevitable consequence is moral anarchy, which paves the way for totalitarianism. Democracy, the political reflection of unswerving belief in human worth, can survive only so long as moral values are dominant. On the other hand, only when moral confusion is desperate is tyranny tolerable. Only when the individual sees himself sinking into chaos will he surrender his God-given independence, his birthright of freedom, and accept the rough-hewn order of dictatorship. Then only can madness seem like sanity; then only can a tyrannous adventurer appear as a deliverer.

3. Default of Government Integrity

The third consequence of inflation completes the disaster. The state inherits enormously increased powers just when its irresponsibility has been demonstrated. It becomes utterly dominant just when it has shown itself incompetent within its own proper sphere. For let there be no mistake about this; it is government which not only permits inflation but which causes it by administrative ineptitude and political cowardice. Government, having failed to exercise self-discipline, no longer deserves respect or attracts support. Discredited, it lies open to capture and exploitation by a political freebooter.

If, after recalling these disastrous experiences, we do
not now forestall inflation, then those of us who have contended that a great war effort does not presage the end of democracy are betrayed. American experience in the Civil War and in the World War is proof that democracy can survive under stress. If the public had a deep confidence that it will survive once more, the heaviest piece of isolationist artillery would be silenced.

Whenever our government faces a crisis, we should recall a phrase from the Declaration of Independence: "Governments are instituted among men, deriving their just powers from the consent of the governed."

That phrase runs like a refrain through American history. It has been paraphrased by Washington and Jefferson, by Lincoln and Wilson. It distinguishes our government from totalitarian states, for it makes the bold assertion that the state is the instrument of the people, and not the people of the state. The primary flow of responsibility is from the government to the people. The duty of the people to the government is the secondary stream.

In moments of crisis, therefore, it becomes incumbent upon the government to make sacrifices before calling upon the people to do so. Unless it sets the example it saps the root of its own authority, it undermines its own leadership, it impairs its own capacity to serve the public when that service is most vital to the preservation of the basic rights of life, liberty, and the pursuit of happiness.

**WHY GOVERNMENT NEEDS SELF-DISCIPLINE**

At this moment the future of democracy depends not upon words, but deeds, upon whether the government accepts responsibility for self-discipline, for a really coherent and politically courageous effort.

Unless there is a profound consistency within the functioning of the government, its several activities destroy each other. It is now perfectly clear, for example, that in 1933 and 1934 our government was attempting to create a mild, controlled inflation. It failed precisely because of conflicts among its own policies. If now a wild, uncontrollable inflation is to be avoided, existing conflicts must be resolved.
SOME ACTION HAS BEEN TAKEN

THE CASE is not hopeless. Already some sound measures have been taken. The President killed the highway appropriation bill which would have spent $320,000,000 upon a wholly indefensible basis. He also vetoed the bill freezing the government's 6,100,000 bales of cotton and 172,000,000 bushels of wheat for the duration of the war. Withholding such stocks would destroy any effect they may have in restraining runaway prices. An important anti-inflationary step is the broadening of the income tax base through reduced exemptions. Another measure is the regulation of installment credit which became effective September 1. Now the reserve requirements for banks are to be increased. For these denials of self-indulgence upon the part of the government and attempts at coherence, we are grateful. But they are only a small beginning in the search for inner consistency.

REAL ACTION MUST FOLLOW

THE PRINCIPAL conflict within policy arises from the neglect thus far to reduce nondefense expenditures. Because of this failure the government engages in needless competition with itself, with Britain, and with private citizens. The result is to drive up prices, create unnecessary scarcities, and precipitate more and more drastic control of materials, goods, and prices. During the current year more than half of all governmental expenditures—federal, state, and local—will be for nondefense activities. These are expected to cost eighteen billion dollars as compared with sixteen billion dollars for national defense.

Of course the country cannot have business as usual, but neither can the government have political pap as usual. The present executive demand for the St. Lawrence Seaway furnishes a striking illustration. I do not intend to argue the merits of that project. When presented in treaty form, the scheme was defeated; each time the measure has come up for separate attention, it has been refused. Now it is thrown into the pork barrel—the Rivers and Harbors bill—in order to log-roll it through.

From the standpoint of the prevailing theory that the
government should spend money on public works in time of depression, the St. Lawrence Seaway is the perfect example of a project which ought to be postponed until the war boom is over. It could then employ much of the heavy machinery now needed in war activities. It could use the greatly increased manufacturing capacity for generators. It could absorb large amounts of labor displaced from war activities.

Now is an incredibly bad time to undertake it. Today the construction of the Seaway can operate only as a strong inflationary factor, increasing its cost to the government, decreasing incentives to production. It would stand in the way of the war effort and make a postwar depression both more certain and more precipitous.

The same considerations apply to the Florida Ship Canal. In fact the whole Rivers and Harbors bill should be abandoned; this is not the moment to roll out the pork barrel. Only specific projects of direct, immediate, and urgent relevance to national defense should be voted on—each one separately, without log-rolling.

I have singled out the Rivers and Harbors bill merely as a symbol. There are many agencies which were developed for the emergency of a great depression; yet those activities continue now in the midst of a war boom. Perhaps the NYA, the CCC, the PWA, the WPA, and dozens of others should, some of them, be kept alive with skeleton staffs to prepare for the reaction after the war. To maintain them in their present status, however, merely provides political patronage and saddles us with an overgrown bureaucracy. It betrays an unwillingness on the part of office holders to make any sacrifice in the interest of an effective war effort. It is an assault upon the government's own integrity. It makes mockery of the democratic thesis.

THE BOGEY OF POLITICAL EXPEDIENCY

Let us look at another example. Thus far the effect of temporary expedients upon the immediate farm vote has seemed more important to many political leaders than the long-range interests of the farmers.
Most farmers are far-sighted enough to sacrifice temporary price raises if by so doing they escape the ruinous effect of inflation. Yet funds for agriculture have been increased to the highest level in history.

The recent farm bill was specifically designed to raise prices and stimulate the inflationary trend. It was not predicated upon economic considerations but upon momentary political advantage. It is simply another illustration of the pursuit of contradictory and self-defeating policies. It makes price control both necessary and nugatory. At the same time it assaults the integrity of the democratic process.

Wages cannot be allowed to skyrocket if we are to prevent inflation. So far political leaders have not given labor credit for seeing beyond immediate and transient advantage. It is significant that the first government officer to discuss the wage problem with candor is an appointed officer whose term does not expire for several years. The politicians need not have been so timid; they should not show such contempt for the intelligence of the American workingman. The worker knows that inflation would ruin him.

The government's wage policy is utterly inconsistent with avoiding inflation. Wages are known to be one of the most volatile constituents in war production costs. The wage spiral is one of the principal forces which throws inflation out of control. Failure to develop a clear and consistent policy, therefore, is doubly disastrous. The reasons advanced for an unrealistic attitude on the subject of wages are political; indeed, some of them are crassly demagogic. Unless the realities are faced and a wage policy made a consistent part of the whole government policy, it is a clear default of responsible action.

PERIL IN LOW INTEREST RATES

Another major inconsistency is insistence upon low interest rates on government borrowing. There are many incentives to production now operating quite independently of a low interest rate. On the other hand, the maintenance of an uneconomic interest rate is a deterrent to savings, a drag upon the sale of government bonds, an encouragement to waste by the government
itself. It is therefore highly inflationary and defeats many of the government's other objectives.

If interest rates can be kept down by a mere act of power, the government can wipe them out entirely by simply printing money. Indeed there is now on the statute books a law which permits the President to issue greenbacks up to three billion dollars. Thus the government would pay no interest. It is safe to predict it would pay no principal, for the debt would be inflated out of existence.

There is, therefore, a moral obligation upon the government to establish the interest rate on economic rather than political considerations. Otherwise it insures the inflation it seeks to prevent by administrative pressure upon the public. The true course is to reduce both the pressure upon the public and the threat of inflation through governmental self-discipline.

The silver purchase act is economically indefensible. It constitutes a raid on the Treasury by a pressure group. There was an attempt to justify it during the depression as "reflationary." If it was reflationary in the original circumstances, it is grossly inflationary now. A billion and a third has been poured down a political rat-hole. The hole should be plugged.

EQUITABLE PRICE CONTROL

IN APPEARING before the House Committee on Banking and Currency on behalf of the Price Control Bill, Leon Henderson quoted a message on inflation by President Wilson in 1917; one phrase he asked us to fasten upon our minds: "Facts are our masters now." It is high time to emphasize that facts ought to be the masters of the government as well as the people.

The American people will accept attempts at price control if they do not see the government needlessly making price control more drastic. The war effort involves a profound dislocation of production and consumption. It will not be necessary for officials to scold the public, if those dislocations and distortions are not being made needlessly and dangerously great by the government's own policies. Whenever an office holder begins to scold public opinion, when he threatens to
crack down," when he asserts that the people are not aware of the gravity of the crisis, it is an indication that the government's own policies have not been clear, consistent, appropriate, or competent.

Direct control of prices cannot be effective if other governmental policies leave loopholes through which inflationary forces can escape control. "The lesson of the last war and all other experience . . . is to the effect that price-fixing can be but one element in restraining inflationary trends. It is not likely to be permanently effective unless the causes of cost and price advances are also dealt with." Mr. Eccles was right when he said yesterday, that there is "no good reason for attempting the impossible task of repealing the law of supply and demand altogether."

A price control bill in some form should doubtless be enacted, but too much should not be expected of it. It is an attempt to manage delicate but powerful living forces by a very crude instrument. It should be used as sparingly as possible. It is always better to deal with causes than to try to short-circuit consequences. The magic word "priorities" has not achieved perfect distribution. "Price control" is a similarly glib phrase, but even Mr. Henderson admits it is a grim and hazardous business. Vastly more effective would be a genuine effort to put the government's house in order, and to curtail nondefense expenditures to the bone. That would make price control both less necessary and more effective.

Thus far the want of consistency upon the part of the government has been largely due to political cowardice. It is precisely that type of default in the acceptance of responsibility, it is precisely that want of self-discipline, that lack of inner consistency which has produced heretofore in history most disastrous consequences. The damage has been wrought not upon economic well-being alone, but upon freedom and the democratic principle.

A Unified Front For Democracy

At this point may I say a word about one attempt to remedy the incoherence in our governmental policy. The Citizens Emergency Committee on Nondefense Expenditures was organized in the belief
that the interest of the whole public is more vital than the momentary advantage of any minority group. Our political representatives will vote for economy as soon as they are convinced that a vast majority of their constituents really want economy and will vote for those who practice it. The Citizens Emergency Committee believes that an intelligent and informed attack upon waste and inefficiency will enlist active support. Aroused public opinion will lead Congress to yield to the demand for elimination or drastic curtailment of non-essential, nondefense spending. Vigorous action on this issue will not only protect the economic stability and fiscal soundness of the nation; it will show that democracy is a dynamic way of life and not a decadent system as totalitarians assert.

AFTER THE WAR, WHAT?

AFTER THE WAR, what? The answer lies only partly in the defeat of Hitler. One vital element in the answer is a coherent and courageous domestic policy. No nation has ever deliberately chosen totalitarianism in place of democracy. Those who speak about the end of democracy as though it came through some catastrophic event are not using realistic terms. The democratic process never collapses; it is worn away by attrition; it is rotted by neglect; it is atrophied by lack of use. When it has gone, there has to be order and discipline. If the order of self-discipline is destroyed, there ensues the order of external discipline. Totalitarianism is a symptom of social, economic, and political disease; it follows the destruction of private institutions, profound moral confusion, and governmental in-epitude. Democracy can grow in strength by mastering those evils.

*—September 30, 1941