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Springboard for Discussion

Will Dollars $ave the World?

Condensed from the book by

HENRY HAZLITT

MOST of us favor substantial American aid to Europe. We do so partly because of inherent sympathy for peoples in distress, partly because we have been assured repeatedly that Europe can be saved from chaos and Communism only with our help.

The Reader's Digest believes it is salutary for both European countries and the United States to recognize that the contemplated plans will be disappointing in their results *unless the fullest consideration is given, both here and abroad, to the complex and diverse factors which affect a national economy.*

This book condensation is presented in the hope it may quicken interest and study on this vitally important subject.

WILL DOLLARS SAVE THE WORLD?

THERE IS a widespread belief that the United States has a duty to lend or give huge sums to other countries, principally in Europe, if it is to save the world from communism and chaos. This belief is held almost as strongly in the United States, which would make the sacrifices, as it is in the European countries that are expected to benefit from them.

It is also widely assumed that Europe's present economic difficulties are the consequences mainly of the destruction and dislocations of war. It is held that there is a definite deficit that America can and must make up if Europe is to recover, that Europe's recovery is essential for America's prosperity, and that therefore it is "good business" for America to make these gifts or loans, even if the loans are never repaid.

While it would be ungenerous to minimize the appalling physical destruction and the enormous economic and political problems that the war brought upon Europe, yet we must ask in all candor whether the war was primarily responsible for the present European crisis, or whether the governmental policies followed since that war have been responsible. And we must keep in mind that the central question is not what caused the crisis, but what measures are most likely to cure it.

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In 1934 Mr. Hazlitt became a member of the editorial staff of the New York *Times*, writing most of its financial and economic editorials. He remained on the staff of the *Times* for 12 years, leaving to write the "Business Tides" column for *Newsweek*. In 1946 he published *Economics in One Lesson*, one of the few serious economic works to become a best seller in recent years. This spring he visited Switzerland, France, Belgium, Holland, Sweden and Great Britain to gather material for his book.

1. The main obstacles to European recovery are the present economic policies followed by the governments of Europe.

In any economic survey of Europe it is most profitable to begin with Germany. Germany has become the economic cancer spot of Europe, producing a pitiable fraction of its prewar industrial output. The Ruhr was second only to Britain as the greatest prewar source of Europe's coal supply. Lack of production here has slowed down the whole economy of Europe.

And the surrounding countries — Switzerland, France, Belgium, Holland, Denmark, Sweden — whose economies were closely tied in with Germany's, have suffered through the German collapse. Holland's ports of Rotterdam and Amsterdam, for example, formerly serving the great hinterland of which Germany was the most important part, are now largely idle.

It is indeed grimly ironic that many of the same people who now tell us we must pour our money into Europe, because European revival is essential to our own, are the very people who have been the most insistent on keeping Germany an economic vacuum.

Thus the first key to the revival of Europe, and to the reduction of strain on the resources of the United States, is the economic revival of Germany. And the great obstacle to German recovery is not the destruction and dislocations of the war, huge as these were. It is the carving up of Germany and the present socialist policies imposed on her by the Allied occupation forces.

In the British and American zones the restrictionist policies imposed have reduced and disorganized production to an appalling extent. The "level of industry" plan prevents various trades from turning out more than a small percentage of their prewar output. Because of an untold number of economic prohibitions and requirement of a special license for almost every economic act, incentives are nonexistent, labor and materials are misdirected, and production is utterly demoralized. As the London *Economist* has put it: "What is planned is actually a series of bottlenecks."

From Germany, an example of production stifled by stupid controls from without, we turn now to countries which have disorganized and prevented production by unintelligent government interference from within. To keep from making this story too repetitive by discussing the remarkably similar interventions of each government in turn, let us examine a composite photograph of the situation in a single country, which we shall call Ruritania. This situation will be found to apply, with only minor modifications, to most of the countries of Europe.

Ruritania's budget is unbalanced. Heavy sums are being spent on armaments, on subsidies to nationalized industries running a deficit, on food subsidies, and on increasing pensions, family allowances, and other forms of social security. None of these expenses, the government insists, can be reduced. Tax rates have been kept up or increased on the higher incomes.

Yet the government blames all price rises not on its own inflationary policies but on "speculators" and "hoarders." It fixes ceiling prices mostly on necessities. The inflationary purchasing power thus hedged off from necessities expends itself on luxuries which are uncontrolled. Necessities are therefore underproduced, while luxuries are overproduced. A huge misdirection and waste of capital and labor result.

Ruritania wants to buy raw materials and machinery abroad as cheaply as possible. It attempts to do this by keeping the official exchange rate of its currency arbitrarily high and by making it a crime to buy or sell its currency below this rate. This makes Ruritania's own goods extremely expensive in terms of foreign currencies. The high rate for its currency, in short, encourages imports and discourages exports.

Ruritania tries to cure all this, not by allowing its paper currency to seek its natural supply-and-demand level, but by refusing to permit any import to come in except by special license. To encourage exports it makes bilateral trade treaties in which it forces its neighbor to take some of its luxuries along with its necessary products. In return it also agrees to import luxuries along with necessities.

Thus it is that each country in Europe is forced to take not the goods that its consumers want, and in the proportions that they want them, but the luxuries that its neighbor is most eager to get rid of.

It is hardly surprising, in the face of such regulations, that most European countries now buy more than they sell. This chronic excess of imports was not primarily brought about by the destructions of war. It is being brought about, on the contrary, by Europe's own governmental policies. It is being financed today mainly by American governmental loans. It will continue as long as those policies and loans continue.

2. *This brings us to the question of the much discussed "dollar shortage." This phrase has become extremely fashionable in Europe. It has even been accepted at its face value by many Americans.*

Now for Britain or Europe or Latin America to describe its plight as a "dollar shortage" is really a way of implying that the situation is somehow *our* fault. We are being blamed for not supplying enough dollars. The real trouble, however, is that Britain and Europe and Latin America wish to buy more goods and services from the United States than they sell to it.

The trouble at bottom is thus not a shortage of dollars but a shortage of goods and services to exchange for dollars. In the last two years the United States has contributed to the outside world cash and goods estimated at nearly $17,000,000,000. The gold and dollars now held by the outside world are estimated to reach the unprecedented total of more than $20,000,000,000.

Why, in the face of this, does Europe complain more loudly than ever of a "dollar famine"? Why has the world's trade become so drastically unbalanced?

The chief responsibility must be placed upon government controls. Nearly all countries refuse to accept the verdict of the open market as to what their currencies are really worth. They will not even allow that open market to operate. Nearly every currency in the world is overvalued in terms of the dollar. It is precisely this overvaluation which brings about the so-called dollar scarcity. For it encourages other countries to increase their buying from us at the same time as it discourages our buying from them.

This situation would long ago have corrected itself if it had been left free to do so. When Europe's imports exceeded its exports, the demand for dollars would have raised the price of dollars in European currencies. This would have made American goods more expensive for European buyers at the same time as it made European goods cheaper for Americans. The balance of trade would thus have been automatically restored.

But under the Bretton Woods agreements each member of the International Monetary Fund is *compelled* to forbid currency transactions within its own borders at other than the official rates. There can be no solution of the world unbalance of trade and of the so-called "world dollar famine" until this provision is revised to permit the restoration of free world markets in foreign exchange. We might find, indeed, that the restoration of free markets in exchange, especially if combined with the restoration of free markets in commodities, would make virtually the whole Marshall Plan unnecessary.

3. As the United States produces only 12 percent of the world's food supply, it is clear that America cannot feed the whole world.

America has 140,000,000 mouths to feed; but Europe has 350,000,000. The real solution to the food problem is not to distribute scarcity, but to restore production. This is prevented everywhere in Europe today — by Russian looting, by Allied policies in Germany, by socialism and communism, by "agrarian reforms" which seize land, break up farms and displace populations, by export and import barriers, by exchange controls, and by price-fixing which makes it unprofitable or impossible to grow, transport and sell food. Because of the small American food supply in relation to world demand, our effort to alleviate the food shortages in Europe is bound to cause soaring food prices here.

4. Help from outside to any country goes eventually to relieve its LEAST urgent needs. Aid from the United States will be futile unless the country aided discontinues restrictionist policies.

Those who tell us that if we do not send food to the Yugoslav Government we are starving its people forget that Yugoslavia conscripts an enormous standing army from men who would otherwise work on farms. To the extent that Yugoslavia's food problem is solved by outside gifts, therefore, it releases the manpower and financial resources to maintain this military establishment.

This elementary principle makes it pointless to insist that the proceeds of our loans should go only for some specified purpose. To the extent that we relieve a foreign government of the need of providing for this purpose, it can use the released resources to increase social security payments, to raise salaries of civil servants, to finance anticapitalist propaganda, or for any other purpose that it thinks desirable. Unless we undertake to control *all* the expenditures of the borrowing country, our particular contribution becomes an unidentifiable part of the general pool out of which that country's expenditures are made, like a bucketful of water poured into a partly filled tub.

A banker cannot lend the funds which others have entrusted to him to a manufacturer who is so incompetent that he is bound to fail, or who indulges in practices which make it impossible for him to repay the loan. This principle applies to nations as to individuals. Loans or gifts that merely subsidize or prolong policies that paralyze production are worse than thrown away. Yet we have the strange spectacle today of Europeans who tell us in effect: "It is your duty to pour your money into our countries; but you must have nothing whatever to say about its use. That would be interfering in our internal affairs; that would be undermining our independence."

Since any financial aid we extended to Europe would be futile unless accompanied by drastic economic reforms in the recipient countries, what are the *minimum* reforms that would be needed to bring recovery?

I. A balanced budget. Unless a government's revenues equal or exceed its expenditures it cannot prevent inflation; it cannot stabilize its currency.

Nearly all governments, of course, will argue that they are too poor to balance their budgets. The answer will be found in pointing to expenditures, in most cases enormously greater than before the war, for larger military establishments, bigger social security schemes, food subsidies, bigger subsidies to meet bigger deficits in nationalized industries, grandiose government building schemes, and what-not. If they are "too poor" to balance their budget, they may appropriately be asked, are they rich enough to afford these?

II. The elimination of exchange controls. The first step toward resumption of free and normal international trade is the removal of all prohibitions on the rate at which the existing paper currency is bought and sold.

III. There must be an end of price control, either for home-produced or imported goods, and an end of other regulations that prevent or unbalance trade and production.

IV. Excessive foreign-trade barriers must be lowered or removed.

V. As American loans or gifts would in effect be used to support the recipient country's military establishment (either directly or by releasing the resources devoted to it), excessive military establishments could not be permitted.

I should like to present here an instructive quotation:

"The United States is disinclined to entangle herself further (after recent experiences) in the affairs of Europe. . . . There is no guarantee that Europe will put financial assistance to proper use, or that she will not squander it and be in just as bad a case two or three years hence as she is now. . . . In short, America would have postponed her own capital development and raised her own cost of living in order that Europe might continue for another year or two the practices, the policy, and the men of the past nine months. . . .

"If I had influence at the United States Treasury, I would not lend a penny to a single one of the present governments of Europe."

These are not the words of some American "isolationist" in 1947. They are the words of the most influential British economist of the last generation. They were written in 1919 by John Maynard Keynes. They apply with startling accuracy to conditions today.

Many Americans recognize that financial aid to Europe will be futile unless European governments change their present economic policies. But most people assume that this difficulty can be met if our government attaches conditions to its aid similar to those just outlined. This view, however, faces grave dilemmas.

Borrowing governments will insist that any conditions imposed on them are impossible of fulfillment. Anything that goes wrong will be blamed not on their other policies but merely on whatever they have done to conform with the conditions of the loan.

The borrowing nation is certain to suspect that conditions imposed by the lender are primarily for the lender's benefit and not for its own. Thus, though the main purpose of the American government is the economic revival of Europe, the very fact that America insists on conditions will be enough to make them "humiliating" and unpopular in the borrowing countries.

5. The United States Government cannot consistently recommend sound policies to foreign governments as a condition for loans, when it is not following such policies itself. We can preach effectively only by example.

We can do more for world revival by making our own economy sound and free than by trying to put temporary props under economies built on the treacherous formations of totalitarian controls.

We must reduce our unparalleled federal expenses, still running at a rate five times as great as immediately before the war. We must reduce taxes to a level under which a healthy private enterprise can permanently function. We should reduce our tariffs further, *whether other nations do so or not.* We cannot restore the balance of trade unless we are willing to buy as well as sell.

The best help to an unemployed man is not a loan or a gift but a job. This maintains his self-respect and independence; it enables him to contribute services of a value at least equal to what he receives; it adds to the national income. For like reasons, the best way to help Europe is not to make doubtful loans or gifts but to buy her goods.

6. *Intergovernmental loans increase and prolong governmental restrictions on the economy both in the borrowing and in the lending country, and delay the return to a free economy.*

When a government makes itself responsible for bringing in more foreign exchange by borrowing, it also assumes responsibility for the way in which that foreign exchange is allocated. Hence import quotas and import licenses become an inherent part of the government borrowing program.

When the American government makes loans to a foreign government, it transfers purchasing power from the hands of its own citizens to that of the foreign government. In addition, unless the loans are immediately offset by the same amount of additional taxes, it creates inflationary purchasing power bidding for the limited supply of its domestic goods. Then, in order to make sure of keeping in the country goods needed by its own consumers or raw materials needed by its own manufacturers, it insists that it continue to have the wartime power to impose export quotas. Export controls by our federal government have been kept for precisely this reason.

7. *The bulk of our past and prospective government "loans" to foreign governments are little better than thinly disguised gifts.*

It would be unrealistic to adopt any other assumption in view of the history of intergovernmental loans, and particularly those we made in World War I. But if our present "loans" are really gifts, they must be treated like any other government expenditure. If they are not to be inflationary, unbalancing the budget, they must be met out of immediate increased taxes. When we are discussing how much foreign aid we can "afford," we must discuss how much additional taxation we can afford.

The most frequently urged reason for loans or gifts from the United States to Europe is that Europe is "poor" and the United States is "rich." But this simple statement conceals a very complicated set of facts. It means that the *average* income of *families and individuals* in the United States is higher than the *average* income of *families and individuals* in Europe. And that is all it does mean. There are many people in Europe richer than the average American. These wealthy Europeans will necessarily be beneficiaries, directly or indirectly, of loans and gifts from the United States. Under the program of gift-loans from America to Europe lower-income persons and groups in America are in effect subsidizing some persons and groups in Europe with incomes higher than themselves.

8. It is not true that the United States needs foreign loans to keep full production and employment at home.

We are told that our government must make these gifts or loans not only as a charitable duty but out of shrewd self-interest. As early as June 25, 1947, *Pravda* declared that the Marshall Plan was influenced by a desire to prolong a postwar "boom in the United States" and to "lessen the ripening economic crisis" here. This idea has been endlessly repeated in the French and British press.

That this idea should exist so strongly in the countries that wish to get more American loans and gifts is not surprising. What is much more strange is to find it endorsed by some American businessmen and even by some American economists. For it is unadulterated nonsense.

If it were true that we could create prosperity merely by making goods to give away, then we would not have to give them to foreign countries. Our federal government could order the goods made to be given away to the poor in our own country. It could furnish them with free overcoats, free lunches and free automobiles, and finance them by inflation or add it to the American taxpayer's bill.

It ought to be perfectly clear to the poorest intelligence that nobody can get rich by giving his goods away.

9. Our excess of exports of goods and services has already caused a dangerous domestic price rise, and cannot be maintained at the present unparalleled rate.

The outside world's monetary demand for our goods, increased and made possible by our loans and gifts, has mainly impinged upon American foodstuffs. As a result the wholesale price of foodstuffs here — which would have been high even without this abnormal foreign demand — had risen last fall to 259 percent of the 1939 level, and was still rising.

The United States is now in the midst of a tremendous inflationary boom. Our government's foreign aid policy can only intensify it. The basic cause of the rise in American food prices has, it is true, been the increase in domestic purchasing power, brought about by the wartime tripling of the supply of money and credit. But precisely when American consumers have become most concerned about the further rise in food prices in recent months, the federal government is expanding the very policy of food exports that has done most to cause that further rise.

10. Making heavy loans or gifts to European nations is not the most effective way to fight world communism.

One prominent argument for our policy of making huge loans and gifts abroad is that this policy is the only way to "halt the spread of communism" and that, if we allow Europe simply to stew in its own juice, it will surely go communistic. This is usually accompanied by the argument that if our loans, however large, succeed in stopping communism, they will have proved very cheap.

This simple argument begs all the real questions. In its usual form, it simply *takes it for granted* that loans to Europe will stop communism. Just how it will stop it is not made clear. The loans, it is apparently assumed, will make the recipient governments friendly and grateful to us; and by supporting them, by preventing starvation, we will make the communist ideology in those countries wane or die.

At most, loans could be only a limited and temporary means for combating the spread of revolutionary ideas. It would certainly seem much more effective, and incomparably cheaper, for our government to combat revolutionary ideas directly.

This could be done by taking the aggressive in the propaganda war Russia has launched against us and by answering systematically the lies that are published in Moscow and in the communist press abroad about American intentions and about the "failures" of the capitalist system. Instead of weakening ourselves by turning resources over to highly unstable and unreliable European governments, it would seem better to contrast the merits of our free-enterprise system with the hunger, terror and slavery under communism.

Certainly most European governments to which our loans would be made cannot be counted upon as ideal defenders of capitalism. Practically all consist of people who believe in a dictated economy: some consist of outright socialists, who do not believe in capitalism at all.

There could hardly be a more perverse and mistaken idea than the idea that you can fight communism with socialism. So-called "gradual" socialism is at best a halfway step toward communism. The economic ideals of socialism and communism are identical. Both believe in government ownership and operation of the means of production. Once this ownership and operation become sufficiently extensive, the government has economic life-and-death powers over the individual. It can say where he must take his job, what job he must take, or whether he can take a job at all. And once the government has this power, the liberty of the individual has in fact, if not in form, disappeared. As Alexander Hamilton pointed out in the Federalist Papers a century and a half ago, "a power over a man's subsistence amounts to a power over his will."

Socialism and communism differ only in their political methods. The socialists, it is true, talk of preserving the methods of democracy and the liberty of the individual, and most of them are no doubt sincere in their protestations. But they fail to recognize that in fact socialism does not and cannot permit economic liberty, and therefore in fact it must ultimately cease to permit any other important kind of liberty.

Under capitalism, in addition to the possibility of going into business for oneself, there are in the United States several million employers competing against each other for labor. Their competition not only raises the wages but protects the liberties of the worker. His situation becomes incomparably worse when he must bow to the will and terms of a single employer, the State. The history of the spread of socialism is in fact a history of the disappearance of peace, representative institutions, limited government, and personal liberty.

Postwar experience has already shown that, when American funds are turned over to socialist governments or to "planning" governments, recovery does not in fact take place. It is prevented by the very policies that these governments pursue.

What the American funds do accomplish is to make the dictated economy or socialism appear for a time to work better than it actually does. The loss of these funds by the United States, on the other hand, by promoting inflation and increasing the scarcity of goods here, appears to make our capitalism work worse than it actually does.

As the economist Wilhelm Röpke has put it: "Without a drastic internal reform of the national economy, to put an end to inflation and socialist controls, foreign credits can have no lasting effects, just as a man cannot be kept alive indefinitely by perpetual blood transfusions if the cause of his hemorrhage is not removed." And if this is what has already happened in the case of England, "whose dollar loan could not keep pace with the constant wastage of a socialist system which destroyed the price mechanism and its incentives," what are we to expect in the case of countries even more deeply infected by inflation and collectivism?

The argument that Europe will go communist unless it gets huge loans or gifts from us takes more than one form. On its most naïve level it is something like the threat of a poor relation to commit suicide unless she is given a handout. In its most plausible form the argument is that the communists will capitalize on starvation and economic chaos in Europe by attempts to seize governmental power.

But this argument takes it for granted that loans from the United States will actually play the decisive role in averting hunger and restoring Europe's economy. The really decisive role, however, as we have already seen, will be played not by American aid but by the economic policies pursued in Europe itself.

11. All this must lead us to the conclusion that the business of international lending should be returned to private hands.

When international loans are made by private lenders, either to governments or to private firms or projects, the dilemmas posed by intergovernmental loans disappear. In private transactions commercial considerations are certain to dominate. Loans will be made only if the lender believes that the borrower will be in position to repay. They will be made only for projects that promise to pay their own way. Capital invested in projects that pay for themselves assures that world resources are being most efficiently utilized and that borrowed capital is being used in the ways that do most to promote production.

Of course private lenders are not omniscient. They do make mistakes. But when a private lender makes a mistake in lending he pays for it himself. When a government official makes a mistake in lending, the rest of us are forced to pay for it.

The reforms brought about in the effort to conform with the wishes of private lenders are nearly always sound reforms. They are the kind of reforms that make for private or governmental solvency. They do not mix politics with economics. They are reforms that anyone in any nation should welcome, because they give increased confidence that loans will be repaid.

It is commonly said that private capital is "inadequate" to take care of the present world crisis. This argument is of course untenable. Governments have ultimately no funds but the funds they take, directly or indirectly, from individuals and business concerns. Government capital is not a net addition to private capital; it is merely the portion of private capital that the government has seized for its own uses.

Those who oppose heavy loans and grants from our own government to European governments are sometimes accused of being "isolationists." But those who believe that, in place of government loans, the barriers should be removed to private loans are in fact the true internationalists. They see economic internationalism as the freedom of individuals in all lands to deal freely with each other, to buy from and sell to each other, and to do all this without having to run to some nationalistic-minded government bureaucrat for a special license for every transaction.

It is a completely false internationalism that sees dealings between nations as primarily dealings between the governments of those nations, as dealings between different groups of nationalistic bureaucrats, each preventing their own citizens from buying in the cheapest market, selling where they can sell most profitably, lending where their capital can be wisely used and properly safeguarded, and being allowed to indulge their own charitable instincts instead of those of the bureaucrats in charge of them.

It is a false internationalism which can only interpret "international coöperation" as meaning that the United States must act toward other nations like a soft-headed Santa Claus; that looks upon "coöperation" as a wholly one-sided affair in which one nation must lend or give without having anything to say about how its loans or gifts shall be used; that assumes it to be the responsibility of the government, rather than of the individual importer, to get the foreign exchange necessary to make his purchases.

This sort of thing, which now parades as "international coöperation," is not internationalism at all. Its true name is statism. Its true goal is totalitarianism. Its true end is world impoverishment and the suppression of individual liberties.

12. If loans from our own government to European governments are not the solution to world communism and economic chaos, what is the solution?

Such a problem is obviously too big to be answered here in detail, even if the author had the presumption to attempt a complete answer. But perhaps it will help many readers if I outline some of the main points which I believe ought to be a part of any positive program.

1. Make our own capitalism free and strong. Remove the government wartime controls that still hamper output and free markets. Strengthen especially the incentives to production.

2. Lower our own tariffs immediately, whether other nations do so or not.

3. Stop imposing socialism on the Germans and Japanese. Permit them to restore their own economies. Prohibit production only of direct weapons of war and stay to see that the prohibition is effective. Remove all strangling restrictions and restore incentives to output.

4. Insist that the International Monetary Fund remove the compulsion on all member nations to control exchange rates. If this is not done, withdraw from the Fund altogether.

5. Return to a real instead of a merely technical gold basis for our currency.

6. Invite all nations to coöperate in returning to a world gold standard. Hold general or individual conferences with other governments to fix appropriate and maintainable parities.

7. Open our private financial markets freely to foreign loans.

8. Revise the charter of the International Bank to permit it to make stabilization loans under suitable conditions to countries contemplating eventual return to a gold standard.

9. Accept frankly the ideological and diplomatic challenge of Communist Russia. Defend capitalism without apology; attack the entire foundation of the Russian slave system. Recognize that appeasement of Stalin will be as disastrous as was appeasement of Hitler.

10. Expose the fallacies of European statism and socialism by our own contrary example. Do not attempt to impose free enterprise on Europe either by coercion or by bribes — and also show the folly of a bankrupt Europe's trying to preach socialism to us.

11. Respond generously as individuals to every justified European appeal for help.

12. If overriding emergency seems to demand it let our government *give* food (not money) to Europe. Demand no government reforms in exchange for it; but stamp an American flag, literally or figuratively, on every package. Insist that Americans share in administering the distribution abroad. Make sure that every European knows that it is a free American gift without strings.

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