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*Are socialistic governments good loan risks?*

## Socialism — Abundance or Ruin?

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PROMISE or chimera, it is the golden message of universal abundance that is beckoning to a broken, disillusioned, near-starving Europe. There is little doubt that Europe is fast going socialistic. Elections in many countries—England, France, Hungary, Yugoslavia, Belgium—strongly indicate popular acceptance of this plea of socialism at face value.

Any all-out socialistic program has as its ultimate goal the ownership and management of industry; it differs from communism largely in that communism proposes instant and drastic conversion. But in whatever form you take your "isms," examine the various platforms and you find that, though ways and means vary, all converge on rosy promises of abundance.

Nor are Americans immune to a similarly seductive appeal; "plenty through politics" was the Magna Charta of the New Deal. During the last dozen years we have seen a marked tendency toward socialization—the practice of dumping knotty economic problems into Uncle Sam's lap. If unchanged, this trend must inevitably result in the very general participation of government in industry.

Let's ask a question or two. This

abundance? Will governmental operation produce it best, easiest, quickest? Or can private enterprise still do the job?

SOCIALISM assumes that the profit motive, which is one of life's strongest forces, is unmoral and that we should work for the common good rather than for individual betterment. Yet it is undeniable that the more each produces for individual good, the more society benefits. A doctor's income reflects the number of patients treated; the industrialist's profits reliably indicate that his product has filled a need. The salaries both of mechanic and manager come off the production line. The more we produce, the more we gain; yet the more we produce, the more there is for our fellow man.

Human nature being what it is, we don't work because we like to; we work to live and to have a little left over. We find that if the incentive of a maximum return is lacking, we work just enough to keep body and soul together. For this reason slave labor is inefficient. Conversely, if we hold a monopoly and are not subject to the discipline of competition, we also go soft on the job. It is the spurring force of competition that raises per-

formance standards. Each competitor, seeking greater favor in the market place, aims to better his product or, through more efficient production methods, to reduce prices; and presto—through these justifiable efforts to please the customer, we have as it were a by-product—the more abundant life. Thus it would seem that the greater the competition, the greater the fruits of our efforts.

But socialism assumes that competition, too, is unmoral and that it should be abolished, along with the profit motive, by prohibiting private enterprise. Socialism would accomplish this by outlawing private ownership and use of private capital. Under socialism there would be but one capitalist—the State. This is the theoretical *ne plus ultra* of most socialistic creeds, although some, as the more cautious British, do not go quite that far. The question of socialism versus the bread basket then comes down to this: Would the State make most effective use of capital? Would the political manipulation of capital, with "virtue its own reward," squeeze more out of government-operated industry than would the private operator motivated by expectation of profit?

JUST what is capital? Capital is a product of labor but differs from other products of labor in that it is not immediately consumed. It is thriftily earmarked for further productive use. Capital is a machine, a building, a truck. Capital is the stock on the shelves of a retail store. Capital is the railroad hauling goods

from factory to store to you. Man is the only animal who has learned to work for more than his immediate necessities and to invest the excess in reserve stores designed to increase his future output. This excess is capital. The seed the farmer saves for replanting is capital, as are also the savings he invests in farm machinery which increases his yield. The worker banking a surplus of wages is a capitalist who aids in total production by making this capital available to the businessman who borrows it and puts it again into production. Capital, then, is a labor product used to facilitate production; it begins with labor, and it soon vanishes after labor ceases.

Where, under socialism, will the State get its capital? The State does not produce. It therefore cannot accumulate capital except by *taking* from those who *produce*. This is accomplished by taxation. But if the prospect of return is denied, will people of their own free will save up capital for the State? The communists are right in assuming they will not, and entirely logical when they propose simply to take capital by force. It is reasonable to expect that, lacking the profit incentive, people would incline toward immediate consumption of all they produce, putting little or nothing aside for the future.

But the important point at the moment is not so much whether the State would acquire capital by force or by peaceful means, but whether it would use this capital to increase the abundance of the things we live by. Right now this question is of peculiar

importance to Americans because of proposed and completed loans to foreign powers. Due to wholesale destruction of their assets, our allies in the late war find themselves embarrassingly short of capital, and so their governments feel the necessity of borrowing from us. In making such loans, our government acts as banker, accommodating foreign governments with funds from tax deposits in the United States Treasury.

Since at present Britain and possibly some other countries are committed to a program of socialization, the question of whether these nations can, in the operation of basic industries, produce abundance is of more than academic importance. We want to know whether state capitalism—which is another term for state socialism—can come up with abundance sufficient not only for home consumption but for surpluses with which to repay our loans! Some day we want our capital back.

HISTORICAL evidence does not support the promise of plenty-through-socialization. In World War I our government took over and ran our railroads. The results were disastrous. Service deteriorated, rolling stock degenerated to a dangerous degree and financial losses were staggering. The public was only too glad to have the roads turned back to private owners. In World War II the railroads were left to private operation. This time, although under far greater strain, our railway systems acquitted themselves admirably and emerged from the or-

deal in more normal condition than after 1918. Official figures for railroad operation during World War I show a deficit of \$1,922,000,000. During World War II the railroads poured into the Federal Treasury the staggering sum of \$4,247,000,000 in taxes, exclusive of pay-roll taxes, and wound up with net profits of \$2,917,000,000.

There are other examples. In the 1930's the government took over the air-mail service. Immediately the number of accidents increased at such a rate that the public demanded the job be turned back to private contract carriers. Nor can we forget the government's pre-war efforts to relieve unemployment by financing housing projects, several of which had to be abandoned for lack of tenancy, and by building some towns which were never inhabited.

Then there is our experience with TVA. Granting that TVA is a worthwhile project, the fact remains that private electric power companies are now meeting TVA's rates for current and services and paying heavy taxes while TVA has no tax burdens.

Before we look into reasons for the comparative inefficiency of publicly operated enterprises, it should be pointed out that the usual practice of political institutions is to secure iron-clad monopolies. Why? Why, for example, is it a criminal offense for private enterprise to compete with the government in the delivery of mail from one city to another? Even when the government does not fortify its position by outlawing competition, it achieves substantially the same end

by obtaining special privileges which put private operators out of the running, as, for instance, when the government goes into the transportation business. Private competitors pay taxes, but government enterprises do not; in effect, then, private operators are forced to support their competition. Is this, or isn't it, cutthroat competition?

Competition automatically raises performance standards. The government, by removing competition, conveniently relieves itself of the necessity of meeting ever rising standards. The government can set its own standards and sell its products or services on a take-it-or-leave-it basis. Precise appraisal of the efficiency of the U. S. Post Office Department can never be made, for there is no absolute basis for comparison.

The verdict of the market place puts competitive private business very much on its toes. By acceptance or rejection, the public finally decides whether or not private capital is being put to the very best use. It is a reasonable application, unbiased and uncoerced, of the elective principle.

Contrast this situation with the *laissez-faire* prevailing in government-operated projects, where the concern is not so much the endorsement of the public at large as the favor of higher-ups. Here the aim of appointed and elected executives is less likely to be tireless devotion to efficiency than the buttressing of a political machine which will return them to positions of power. Government-operated projects need never fear bankruptcy; if

the returns are insufficient to meet operating costs, there are always tax funds to dip into.

CHIEF among promises of socialistic abundance is the prospect of higher wages. But since wages derive only from production, this promise cannot be met unless production can be greatly increased by the socialist state. Russia's experience proves that it cannot or does not. Though the commissars offer plausible excuses for their failure to produce an abundance of consumer goods during the past twenty or more years, the salient fact remains that in adjacent countries, poorer both in manpower and in natural resources, private capitalism has paid off with higher living standards, so much so that invading Russian armies are said to have been amazed by the contrast.

Both reason and experience nullify the rosy promises of socialism. Capitalism as we now know it has its faults, but when put to the severest test, as it was during the war years, it proved its worth as compared with all other industrial, political and economic systems. The experience of this nation throughout all its history has demonstrated that what we need is not less capitalism but more capitalism—of the right sort. We need capitalism shorn of the blighting monopolies which are so frequently associated with it. Nevertheless what has made this nation great is the extent to which we have had capitalism within the pattern of a free competitive system.