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Stop Thieves!

Two years ago this month, E. C. Harwood, the founder and Director Emeritus of AIER, died at his retirement home at Montecito, California. As many of our readers know, Col. Harwood's energetic devotion to finding lasting solutions to society's problems remained undiminished through the final days of his life. This article is adapted from an address presented by E. C. Harwood not long before his death. It summarizes the issues E. C. Harwood had concluded held the key for whether Western civilization would progress or decline: the degree to which liberty, freedom and justice is provided; the obstacle to economic advancement from the misinformational and distorting effects of inflating; and the development and implementation of procedures of inquiry that hold great promise for humans to develop more quickly the knowledge needed to facilitate more progress.

Beavers build dams, birds build nests, bees construct cells for honey, and spiders weave webs, but these activities have become programmed in the genes that they inherit from their ancestors. Infant beavers, birds, bees, and spiders, even if separated from their parents at an early age and denied an opportunity to learn from their kind, nevertheless will build and weave as their ancestors have done, no better and no worse.

Humans, however, are greatly different. Humans are so little equipped with such inherited behavior programs that it is difficult to imagine the primitive crudeness in which a lone human might survive. Humans have the capacity for learning to a unique degree. This capacity is far more complex than the simple desire to imitate that perhaps inclines a dog to bark when he hears a chorus from canine neighbors. Language is an important aspect of the learning process, and humans have barely begun to know scientifically about language.

Nevertheless, by means of language and other developments humans have learned how to learn from their fellows. Moreover, by writing and by constructing lasting artifacts humans have learned how to teach their youth. The learning achievements have become, in effect, a means of giving a "head start" to each generation. As the development of scientific inquiry has shown, this is a process of cumulative advancement that opens doors to widening fields of knowledge and opportunities for human achievements.

Everywhere and at all times humans have exhibited this learning faculty. The varying degrees in which it is used cannot be ascribed to differences in original capacity

among different races of men. All, whether black, white, or yellow, and wherever they may reside on the face of the globe have this faculty. The people today who exhibit the greatest degree of development attributable to learning were savages within historic times. In many instances, former cradles of learning and the arts are today inhabited only by barbarians. All these differences evidently are related to social development. Beyond the more primitive achievements, humans progress only as they live with their fellows.

How to Assure Progress of a Civilization

Under what circumstances will human social arrangements foster the optimum efforts of each individual in better satisfying the needs and desires of all? In short, how can progress rather than decline of a civilization be assured?

Most of the principal religions of the world have offered suggestions that seem applicable, but none has as yet proven that it has *the* correct prescription. Some religions, now largely outmoded, demonstrated that they did not provide the means for preventing dissolution and decay. Time after time, art has deteriorated, learning has waned, population has decreased until people who had built great temples and large cities, cultivated the earth like a garden, and introduced many refinements into the affairs of life finally were survived by squalid barbarian descendants.

For the purpose of this discussion we choose again between conjectures or philosophical theories on the one hand and, on the other hand, consideration of the facts as we know them. This is not to belittle the sincere efforts of human beings to commune with a God or the Gods as may have been prescribed in the several great religions. But we shall not ignore lessons to be learned from the known facts of human experience.

About 800 years ago, when our present civilization was beginning to arise from the dark ages that followed the decline and fall of Rome, a segment of the new civilization existed on an island west of Europe. For reasons that we may never understand fully, the humans in that developing social order focused primary attention on justice as a means of ameliorating and improving their condition. They developed procedures and principles that were embodied in a succession of court decisions and became known as the Common Law.

The Common Law established the rights to life, liberty, and justice. Freedom for each individual provided opportunity to use his abilities. Physical harm to anyone as well as harm by coercion became a violation of law, the increasingly respected Common Law. Liberty implied freedom to travel, to make contracts, to manage one's life. Justice meant protection of one's rights to property whether self-created or obtained by exchange. As the

*Season's Greetings
and
Best Wishes for the New Year*

Common Law evolved, it terminated many special privileges of feudal lords and kings.

Here there is space only to mention in passing Magna Charta (1215) and the much later abolition of Star Chamber proceedings. These were landmarks in the search for justice and social order.

By the time of the American Revolution, several of the colonies that later became the thirteen original states had adopted principles and procedures of the Common Law in their respective Constitutions. These were known as the Bill of Rights, which subsequently became the first ten amendments to the Constitution of the United States.

Thus was initiated the most remarkably successful experiment in social order that human beings have devised. True, chattel slavery in some of the states was protected by the Constitution, and there can hardly be a greater denial of justice than chattel slavery. However, that situation was remedied during the Civil War.

Various Forms Of Slavery

Perhaps chattel slavery was the earliest device developed by some human beings for the purpose of expropriating the surplus product of others. The economic significance of slavery is that the masters preempt for their use whatever the slaves produce in excess of their basic needs for food, shelter, clothing, and health care. Ordinary greed for wealth and power is the all-too-human motive of the slaves' masters. Few can resist the opportunity to grasp something for nothing, especially when the process is legally valid and approved by many religious leaders as part of the natural order.

Any form of slavery (which is to say legalized expropriation of the producer's surplus product) is more significant than as a mere technical violation of the basic principles of justice. Slavery has the direct effect of hampering and inhibiting the producer. It denies to him the surplus product of his manual skill, of his potential managerial ability, and of probable wealth-producing capacity as a man who otherwise would be free to develop the full potential of his learning ability. Necessarily, and in the degree to which it is effective, slavery prevents the optimum cooperation in free competition among men, retards the advance of a civilization, and eventually contributes to its decline and fall. This is clear from the historical record.

Consider another form of slavery still widely prevalent. In India for countless centuries the land was owned in vast estates by landlords, the Rajahs, who combined in their persons the tax gatherer and the rent collector. For the hapless ryot, the Indian peasant, the Rajahs had no legal or, in their view, moral responsibility. In good times, tax and rent collectors took, with pitiless rapacity, one-third or more of the ryots' meager product scratched from the soil with wooden sticks and ploughs and by back-breaking labor. In bad times those who could not beg successfully or find some other degrading means of support simply starved. Millions starved nearly every year, and even in the present century starving humans have been a common sight along the roads of India.

In Ireland also, ownership of the land had been given to the Norman invaders. The Irish peasant was free to starve or to compete with his fellows in renting land. During the great Irish famine that resulted from partial failure of the potato crop, starving families lined the roads along which trundled farm carts full of produce to be sent overseas as rent to absentee landlords, descendants of the Norman conquerers. With biting irony, Dean Swift suggested that the famine might have been alleviated if the landlords had acquired a taste for roasted Irish babies.

The people of Ireland had been reduced to such abject slavery, that is to say, their surplus product has been so systematically expropriated by rack rents, that they had no accumulated capital to exchange for the plentiful produce being exported from their own country.

In contrast to the situation in India, in Ireland, and in many other countries, the United States had a vast area of fertile agricultural land and other natural resources freely available until the early years of the present century. Not only the increasing numbers born in the United States but also many millions of immigrants from Europe found freedom from the enslaving consequences of especially privileged private monopoly of land and other natural resources. But after free land no longer was available in the United States, why did not wages decrease to the product of labor at the margin of production? That is what had occurred in India, in Ireland, in England after the Enclosure Acts, in much of Europe, and in most areas of the world for which records are available.

Based on his comprehensive review of developments throughout recorded history, the eminent American sociologist, Henry George, had confidently predicted in 1880 that the same distressing conditions found in India and Ireland would become increasingly apparent in the United States. He predicted that the takings of special monopoly privileges in the form of land rents and natural resource royalties would increase greatly as a proportion of total production of wealth leaving to labor only a decreasing share.*

Increasing Use of Energy and Inflating

How has it happened that Henry George's prediction has not been fulfilled? In some respects it has, as the plight of New York and of some other large cities clearly reveals. However, two developments apparently account for postponement of some consequences foreseen by Henry George:

1. Until about two centuries ago, the energy available to humans for producing wealth was provided by the muscles of domesticated animals and of men, with relatively minor contributions by wind and water power. However, in the last 100 years alone, during which the last free land in the West was allocated to homesteaders, the nonhuman energy potentially available to aid producers of wealth has increased about one million times. One consequence has been an increase in marginal productivity by several times. In the meantime, ownership of agricultural land and natural resources was so widely diffused among the population of the United States that the takings of monopoly privilege increased less rapidly than did the production of wealth. That the trend described by Henry George is occurring hardly can be doubted, but the combination of a social order providing

* Henry George, *Progress and Poverty*, Twenty-fifth Anniversary Edition, Robert Schalkenbach Foundation, 50 East 69th Street, New York, N.Y. (1956). At a time when racial and religious prejudices as well as class distinctions were far more invidious than they are today, Henry George wrote with convincing clarity about human nature and the function of justice in social order. That he could not have foreseen the extent to which the application of vast energy resources would multiply marginal productivity and that he never completed his attempted research on money-credit matters does not detract from the usefulness of his extensive study and fruitful insights. *Progress and Poverty* is said to be second only to the Bible in the number of copies sold. Although published nearly a century ago, it is one volume that anyone striving to become well educated in economics or sociology should read. Like many writers of his day, Henry George believed that he had found all aspects of vitally important "TRUTH," but that is a characteristically human failing. Only in more recent decades has the "Quest for Certainty" been replaced to some extent by more modestly useful objectives of inquiry.

an approach to justice, vast increases in the availability of physical energy, and the march of invention stimulated by relative freedom and justice have postponed until recently the deterioration now apparent in Western Civilization.

2. Inflating has falsified many of the rental and royalty contracts not indexed or adjusted for a depreciating dollar. For the time being many contractual takings by monopoly privilege have lagged behind, but that situation will not continue indefinitely as new contracts are written.

Moreover, the process of inflating has introduced a new form of slavery, a fourth lawful process for expropriating the surplus product of all who work.† In less than four decades, the inflating process has robbed the American people alone of more than \$2 trillion of their surplus product that they supposed had been saved for their declining years or as life insurance for their dependents. The process of embezzling the surplus product of producers in Western Civilization has been systematically applied by the politicians and money managers, who are the principal beneficiaries of the process.

The resulting economic distortions have become so great that most leading nations are suffering economic anemia. The money-credit muddle becomes worse, industry languishes, and pressure on the standard of living of producers apparently accounts for an unprecedented decrease in births by nearly one-third during only 18 years in spite of a nearly twice as great increase in the number of women reaching the age of child bearing.

Useful Procedures Of Inquiry

As it happens, during the past 100 years when the potential benefits of a more nearly just society were reflected in astonishingly increased production of wealth, a great advance also occurred in the field of philosophy. After many centuries of failure, success was attained in describing useful procedures of inquiry. For this development we can thank a succession of American philosophers, Pierce, James, Dewey and his translator Joseph Ratner, and last but far from least Arthur Bentley.** Now, human beings have not only the success achieved largely by trial and error in the physical and physiological sciences but also a description of how progress may be made in the social sciences. For the first time in 14,000,000 years of man's existence a demonstrably useful procedure for inquiry into the problems of men in society is available. Resumption of progress toward the more complete justice in social order by continuing more systematically and more effectively the advance reflected in the Common Law and in the Constitution of the United States seems possible.

Is it not almost as certain as anything can be for human beings that the advancement to a higher and better civilization depends primarily on such inquiry and

† In addition to the first process, chattel slavery, there is the slavery made possible by monopoly privileges as with the Rajahs of India or the landlords of Ireland, and there is a third form of slavery devised by Karl Marx and effected by the Communists in Russia. Except for the party leaders, nearly all the Russian citizens are wage slaves, not free to strike or to change jobs, free only to subsist (if they are docile) at whatever living standard the party leaders choose to permit. Ironically, the distorted vision of the great protestor against the alleged wage slavery of capitalism provided the rationale for the most comprehensive wage slavery the world has seen.

** Rollo Handy and E. C. Harwood, *Useful Procedures of Inquiry*, which includes Joseph Ratner's *Introduction to John Dewey's Philosophy* as well as Dewey and Bentley's *Knowing and the Known*. Behavioral Research Council, Great Barrington, Massachusetts 01230 (\$12.50).

the implementation of its results? But the fruits of such inquiry are not immediately available. Not for some decades, at least, can we expect application of enough useful solutions to reverse the retrogression that seems to have begun and to initiate new progress.

Yet every day the process of enslavement via the inflating-embezzling syndrome continues. Encouraged by the Keynesian dogma, the politicians and central bankers seem to have only one aim — to continue as long as possible the depreciation of currencies that facilitates the politicians' search for votes and the leading bankers' quest for solvency. But this is suicidal madness. No nation and no civilization has survived the combination of increasing economic slavery for its citizens and depreciation of its money.

Those who suggested I prepare this discussion requested that I comment on the moral aspects of the Nations's monetary problems. However, I do not feel qualified as a teacher of morals generally; I have a sufficiently difficult time trying to guide myself on the straight and narrow path without purporting to guide others. But there is one aspect on which I shall comment freely. Unless the retrogression can be halted and time can be gained for further inquiries into establishing more nearly perfect justice in our social order, this civilization is doomed. Perhaps it is doomed in any event. Human beings may fail even if given a further chance this time. But surely we must try, and to have that opportunity there must be an end to the inflating-embezzling-enslaving syndrome. As long as that continues, many social problems will not even be recognized, let alone solved. The time has come to shout from every forum and from every housetop, from every telephone and in every letter to legislators, in language that no politician and money manager can misunderstand: STOP THIEVES!

But let us not delude ourselves. Even if the American public could be awakened to what is going on, even if most citizens would join in the hue and cry, there is no assurance that the politicians and money managers would heed them. Perhaps those persons never will alter course until they are forced to do so.

How to Force the Embezzlers to Stop

How can the embezzlers be forced to stop? If more and more American citizens use the freedom they now have to buy gold and to write contracts specifying payment in gold (or its equivalent in depreciating currency) the embezzlers eventually will have to become honest men as far as money is concerned in order to hold their jobs. When enough of the public has said by its actions, "We no longer shall accept your depreciating paper as a standard of value for our savings and life insurance," re-evolution of a gold standard will become a practical necessity.

Then there would be another opportunity to resume the search for an increasingly just social order. The present civilization is unique in having two features that no earlier civilization had. First, it has well-documented evidence that the search for justice with a resulting large degree of freedom from artificial restraints and with liberty for individuals to choose among courses of action can create a social order capable of advancing with giant strides toward satisfying the expanding desires of human beings. And, second, an understanding of useful procedures of inquiry has at last been obtained, which should facilitate great advances in social order.

Surely every human being capable of understanding the present situation, if he has a modicum of self-respect or of concern for his descendants, will join in the effort to stop the destructive inflating fostered by deficit-prone

governments aided by short-sighted money managers. When the retrogression already evident is retarded, perhaps ended, every human being should be willing to devote some of his time and resources to aiding the research and education that can foster the advance to a more just social order. No one can foresee how far such a further advance of civilization can go, any more than our forefathers two centuries ago could have foreseen a landing on the moon. Nevertheless, they were wise enough to choose the right direction. By the light of all knowledge available to them they sought to create a just social order.

Their work remains unfinished. Perhaps human beings never will achieve a perfectly just society. Nevertheless, the facts of experience show the direction in which to advance. We should seek the guidance of justice as the early Britons did in their evolving Common Law. In that direction lies the hope of mankind; to aid in the advance is, I think, the highest to which human beings can aspire, and humans need the satisfaction provided by such aspirations. Men and women differ from hogs fattening at the trough; most yearn for an answer to the question, What is worthwhile in life? I suggest that the answer is found not only in carrying your personal and family responsibilities as you should but also in the realization that in some small degree to the extent of your ability you have helped to foster a more just social order for those who will come after you.

BOOK REVIEW

The International Monetary System 1945-1981, by Robert Solomon, New York, Harper & Row, Publishers, 1982, 432 pp., \$26, hardbound.

This book is a somewhat revised and updated version of an earlier work, *The International Monetary System 1945-1976*. The author was for many years a high-ranking analyst and official of the Federal Reserve Board, and he has served as U.S. representative and negotiator at numerous international conferences and committees. Thus, Mr. Solomon is in a unique position to describe changes in the international monetary system, particularly the developments that led to today's worldwide fiat currencies and floating exchange rates. He was there.

Mr. Solomon is able to present the story in a highly readable form. From his experiences he "fleshes out" the events with descriptions of the personalities involved. Perhaps more significantly, he provides analyses of the issues involved, not only as they were viewed by the participants at the time but also in retrospect. The resultant picture is most discouraging.

Despite virtually continuous negotiations concerning desired changes in the international monetary system, nearly all actual changes (one hesitates to call them reforms) were thrust upon the participants by "crisis" events. The entire history of the international monetary system during the past 3 decades has reflected a refusal of government and monetary officials to respond to market signals with responsible and disciplined actions. We are left with the present international "system" of floating rates, competitive devaluations, and other "beggar my neighbor" policies, of rising protectionism, and a legacy of gigantic international debts that can be repaid only by further depreciation of currencies.

Mr. Solomon portrays sympathetically the central bankers and politicians who are the main characters in his book. Mr. Solomon, after all, was once one of them, and he might be again. (He is now at the Brookings Institution.) As his story unfolds, officials meet again and again to "reform"

the system. Sometimes they even think they have done so, as with the creation of the SDR and of the Smithsonian Agreement of 1972. President Nixon called the latter "the most significant monetary agreement in the history of the world." The Smithsonian Agreement lasted less than 6 months, and the SDR now is an embarrassing reminder of efforts to "demonetize" gold and drive its price down to, say, the \$10 per ounce that Keynesian economists such as James Tobin believed would be its price once it was "demonetized." Moreover, as the author reveals, perhaps unconsciously, all such discussions were dominated by short-term considerations: "What will this or that proposal mean for my country's balance of payments next year," for the next election, or for unemployment, etc? These seem to have been the questions preoccupying those supposedly attempting to design lasting reforms.

A recurrent issue, which the author seems to regard as the essential cause of the breakdown of the international monetary system, was the lack of "symmetrical responsibilities" on countries that acquire reserves via payments surpluses. In this view, countries that run payments deficits lose reserves and eventually have to take action to correct them (such as "belt tightening," capital controls, devaluation, etc.), but surplus countries (and if some nations experience deficits others perforce are in surplus) never view their reserves as excessive and seldom take steps to reduce their surpluses. The key issue, which the author does not even address, is that this difficulty is the result of worldwide state interventionism, of "wise" men such as Robert Solomon using the force of law to try to "improve" on market actions. If currencies were weights of gold and currency claims were convertible, and if markets were allowed to function, surplus countries eventually would experience outflows and vice versa. Furthermore, this would happen without central management, or the entire panoply of high-level negotiations, emergency measures, currency swaps, etc.

Instead of a return to sound currency and banking practices, the officials' attempted remedy has been to find more ingenious means of increasing worldwide reserves, so debts reflected in prior deficits need never be repaid and future deficits can be added to the earlier ones. The gold held by central banks and national treasuries has been largely immobilized (few official transactions today involve gold), but its value as a reserve asset has increased enormously. Meanwhile, the amount of currencies, SDRs, and other paper assets held by the monetary authorities around the world also have risen enormously.

The first edition of Mr. Solomon's book, published 5 years ago, cost \$17.50. The new edition costs nearly 50 percent more. We wish Mr. Solomon would devote his considerable talents and energies to learning about the fact of inflating and to the fact that worldwide unemployment has risen to postwar highs as officials refused to take the needed steps of genuine monetary reform "for fear of increasing unemployment."

PRICE OF GOLD

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