

If There Were No Capitalism

BY WILLIAM HENRY CHAMBERLIN

“If there were no God it would be necessary to invent Him.”

Thus the witty and skeptical Voltaire’s phrase could also be applied to the economic system known as capitalism, often buried with much pomp and circumstance by communist, socialist, and assorted left-wing theorists, but so resilient that it will most probably outlive the memory of most of its critics.

It is a familiar theory among collectivists on both sides of the Atlantic that capitalism is a luxury which only a rich country like the United States can afford. Advocates of this theory usually leave in obscurity the question of how America became rich in the first place. They simply assert dogmatically that poor countries can become rich only by following roads with signposts pointing to communism or socialism.

This line of thought was once being expounded by the late Harold Laski, one of the most persuasive of British Labourite spellbinders. It was very neatly punctured by William Yandell Elliott, one of Harvard’s few outspokenly conservative professors.

“Isn’t it a boon to the collectivist economies of Europe,” said Professor Elliott, “that there is an individualist economy in the United States with enough surplus wealth to cover all their deficits and give them an annual subsidy of several billion dollars a year?”

Laski was normally quick and nimble in the cut-and-

thrust of debate. But that question left him gasping for air. There simply was no convincing retort.

Now the question as to which economic system an impoverished nation, struggling for recovery, can best afford has been put to a decisive test in Europe. The war which ended ten years ago left behind an unprecedented

amount of physical destruction because of the indiscriminate use of bombing against cities. Vast areas of large cities were turned into wastelands of shapeless rubble. Factories, port installations, railway stations were special targets of attack.

An outlook that was already bleak was made still darker by the rancorous spirit of the Morgenthau Plan which seriously affected American occupation policy in the first postwar years. With the contemplated dismantling of industrial plants and the forbidding of some industries and the severe limitation placed on the output of others, there seemed every likelihood that Germany would be reduced to a vast slum in the heart of Europe, dragging down the rest of the continent in its poverty and destitution.

Europe in 1955 looks like another planet. The scope and depth and sweep of the recovery have confounded the prophets of gloom and doom, who seemed to have only too many arguments on their side ten years ago.

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When I visited Munich for the first time after the war, in 1946, the city was so wrecked by bombing that one could hardly make out the shape and direction of the principal streets. The physical restoration in Munich now is little short of miraculous, even though many beautiful medieval and baroque buildings have perished forever. And it is the same story in Frankfurt, in Hamburg, in all the cities and towns of West Germany. The old episcopal town of Wurzburg, up the river Main, east of Frankfurt, was so completely destroyed by war bombings that it was called “the grave on the Main.” It was proposed to rebuild the town on a new site. Now there are almost as many dwellings in Wurzburg as there were before the war. And the city has remained where it was.

“It is remarkable how fastidious people are becoming,” said a Frankfurt banker. “In the last years of the war and the first years of the occupation they were glad to get coarse bread and potatoes. Now they shop around, discussing whether Spanish olives or California olives are better.”

Only a few years ago the new German mark, created out of thin air by fiat of the occupation powers and without gold backing, sold at a 40 percent discount on the Swiss free market. Now the mark is backed by some three billion dollars of gold and dollar reserves and travelers may freely bring the mark into Germany and take it out. It has become one of the hardest currencies in Europe.

Submerged by a tidal wave of refugees and expellees, people who had fled from their homes or been driven from their homes in the eastern provinces of Germany (now annexed by Poland and the Soviet Union), in the Sudeten area of Czechoslovakia, and in other German settlements in Eastern Europe, it seemed that the Federal Republic might face permanent heavy unemployment. But unemployment has now been reduced to a minimum of a few hundred thousand, in a population of fifty million. In the booming Ruhr, industrial heart of Germany, there is a shortage of skilled labor.

Germany is now building new housing units at the rate of 550,000 a year, more than any other country except the United States. Wherever there are ruins—remains of war bombing—bulldozers and other wrecking apparatus are apt to be on the spot, clearing the ground for new building.

It would be inaccurate to convey the impression that Germany has been transformed into an earthly paradise. The social and economic wounds of the war are deep and some can be healed only after many years. Although Germany gives the impression of working at a feverish pace, there are many old people, widows, war cripples who must eke out a living on small pensions. In spite of the pace of building, housing is still very short; several

years will be needed before the war destruction can be fully made up, to say nothing of providing for the needs of a larger population.

The German “Miracle”

But what has been achieved, measured against the bleak background of the end of the war, is nothing short of miraculous. The average German with whom one talks recognizes this. The German voters placed their stamp of approval on what has been done when they gave Chancellor [Konrad] Adenauer a decisive majority over the Social Democ-

cratic opposition in the election of 1953.

There are two points of special interest about this German recovery. First, it has been a triumph for the ideas of capitalism, for the free-market economy over socialistic planning. The man most identified with economic policy since the German recovery began is chubby dynamic minister of economics, Ludwig Erhard, a passionate believer in the ideal of the competitive free-market economy which he defends with equal energy against collectivist planners, rapacious trade unionists, and monopoly-minded businessmen.

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many in fifteen years. Social Democrats at home, New Dealers in the American and Labourites in the British occupation administration raised warning voices against the prospective dire consequences of a scrapping of wage and price controls. But these controls and many others were scrapped, and Erhard went on to throw German markets open to foreign goods, luxuries as well as necessities.

Sitting in his office in the Ministry of Economics, puffing endlessly on Cuban cigars, one of the fruits of his trade liberalization, Erhard briefly outlined in a talk with me last summer the main lines of Germany's recovery and the prospects for the future:

“My first concern was to restore competition, the urge and the incentive to work. Foreign goods appearing on the market were a spur to German manufacturers to produce more efficiently. Freer trade meant more goods in shop windows, more for people to buy with the new money. And I was sure that the more we bought the more we could and would sell. It seemed to many a risky thing to bet on economic freedom. But the bet has been won.

“Now we would like to see the widest possible convertibility of currencies. We have already dropped most restrictions on the use of the mark, and we are ready to make it fully convertible as soon as Great Britain takes the same step with the pound. Of course, convertibility begins at home. A currency must be sound, with the water squeezed out, before it can stand the test. And there must be some unity of aim and purpose before convertibility or more ambitious forms of ‘integrating’ national economies will work successfully. One cannot merge a free with a planned economy, any more than one can mix oil with water.”

The second point worth noting about the economic revival in West Germany is the tremendous object lesson which it offers in the relative merits of individualism and collectivism, when compared with what has happened in what is officially called the German Democratic Republic. This is the dictatorial socialist-communist regime installed by force in the Soviet Zone.

Soviet Foreign Minister Molotov at Geneva expressed much solicitude about maintaining “the social and economic accomplishments” of the workers in the Soviet Zone. But the effect of these “accomplishments” has been to induce over two million people, sometimes

at the risk of their lives, and always at the price of losing all their possessions except what they could carry with them, to flee to West Germany during the last ten years. To start from scratch in the overcrowded Federal Republic, where housing is a desperate problem, looked better to this host of fugitives than to endure life under Soviet conditions of political tyranny and economic rationing and other hardships. I have traveled extensively in West Germany on several trips since the end of the war, and I have yet to meet one German who had a favorable impression of conditions in the Soviet Zone.

On my most recent trip, last summer, I found myself on a train bound for the Soviet Zone. In my compartment was a forester with his wife and child, returning to his home in the East after a holiday in the West. To a question of how the two regions compared he replied: “Like day and night.” He went on to emphasize the vastly greater quantity and better quality of goods available in the West, the fact that most workers could buy motorcycles and some automobiles, and the freedom from fear and espionage. He was returning to the East himself, he said, only because he hadn't been able to find housing in the West.

What makes this German informal plebiscite especially impressive is that here two sundered groups of the same people, with the same former standard of material well-being and education, have been living for a decade under two contrasting social and economic systems. The result: a difference “as great as day and night” and a mass migration, that at times has almost assumed the proportions of a stampede from East to West.

The Case of Austria

It is not only in Germany that capitalism has proved itself a dynamic motor of economic recovery and progress. In one European country after another one finds that the pace and vigor and promise of the general economic revival (Europe outside the Iron Curtain is today far and away more prosperous than at any time since the war) has been in clear and direct proportion to the degree to which such socialist measures as rationing, “fair shares” (which are always very low shares), rigid planning, and artificially cheap money have given way to reliance on the free market, flexible interest rates, and liberalization of international trade. The case of Austria deserves special

mention. Here living conditions are better than they were between the two wars, better than they have been since the dim, far-off days when Vienna was the capital of an empire with fifty million inhabitants, not of a little mountain republic with seven million.

Much of the credit for Austria's present ability to remove currency restrictions and straighten out the chronic deficit in its balance of international payments belongs to the old-fashioned economic medicine prescribed and administered by Dr. Reinhard Kamitz, minister of finance. It was a popular theory in American foreign-aid administration circles that Austria could never pay its way, that some means would have to be found to continue subsidies even when grants to other countries were terminated.

Then Kamitz stepped into the picture in 1952 and proved that there is no help like self-help and a good deal of virtue in certain old-fashioned economic remedies. He set the Austrian currency, the schilling, at a realistic exchange rate and pushed through a balanced budget, at the same time squeezing a good deal of inflation out of the national economic system by stern measures of credit restriction. There were wails of protest, caused by a temporary rise in unemployment. But Kamitz, like Erhard in Germany, held firmly to his course and he has been abundantly vindicated by later developments. The low exchange rate of the schilling stimulated exports and the potentially valuable tourist trade. Investments at home were made with more confidence because of the feeling that the schilling had become "hard" money again. Now Austria has full, almost over-full employment, and the index of industrial output has been going up substantially from year to year.

It is not only in the free countries of Europe that capitalism has proved its pragmatic value as a stimulus to revival and progress. The best testimonial to the proposition that if it did not exist, it would have to be invented is the growing application in communist countries of certain elements of capitalist technique.

I still remember blinking a little in Russia 20 years ago when I read Karl Marx's description of the horrors of the piecework method of payment and then the glorification of this method in Soviet newspapers. One of the casualties of the Soviet drive for high-speed indus-

trialization, along with the kulak and the private trader, was the last vestige of Lenin's original ideal of substantial material equality.

Every conceivable device was used to stimulate individual effort: piecework payment for the workers, bonuses for engineers and industrial managers. As the personal income tax in the Soviet Union is very low, with a top rate of 13 per cent, the distribution of salaries and wages shows greater variation than in Western countries. In the collective farm system it was found necessary to leave the peasant at least some "capitalist" incentive in the form of his garden plot and household animals. A silent "cold war" has been going on ever since between the peasants, who wish to devote most of their time and work to these personal possessions, and the state authorities, who want to make them work harder on the collective farm land.

Last summer I found, on visiting Yugoslavia, a communist country politically independent of Moscow, still more acknowledgment of the merits of capitalism, even of the free-market system. There, collective farming has been reduced to small proportions because of the bitter resistance of the peasants. And a high state-planning official with whom I talked, Mr. Kiro Gligorov, expressed preference for indirect methods of taxation and credit policy over rigid centralized planning orders. Yasha Davicho, an editor of an economic magazine, and a communist since his student days, declared: "We are trying to practice capitalism—but without private capitalists."

When the doctrinaire extreme communism of the Russian civil war years led to famine on a gigantic scale and the Soviet leaders, militarily victorious, saw themselves confronted with complete social and economic collapse, Lenin sounded a retreat to certain elementary capitalist principles in his New Economic Policy.

So, in the countries which deliberately set out to destroy capitalism, as well as in those where it has survived, more or less eroded by socialistic and welfare state encroachments, there is abundant evidence that such features of capitalism as individual incentive, stable currency, monetary discipline, and some use of the free-market principle have been found valuable in keeping industrial production going. Capitalism has proved itself a pretty tough old bird, even in an age when it has come in for rough handling.

