

# THE **A**merican

SEPTEMBER 1949

## We need

## a *Fifth*

## Freedom

That is the freedom from regimentation, which more and more is restricting enterprise and adventure—the lifeblood of our nation . . .

A leading industrialist warns of dangers ahead on the road we are traveling

*by Herman W. Steinkraus*

PRESIDENT, U.S. CHAMBER OF COMMERCE

**M**ANY Americans today are deeply concerned about our future. We are living in changing times. Some changes are being forced upon us. Others are in our control. The degree to which we use our common sense in this transition period will determine whether our nation will remain strong, or slide down the path of socialistic folly whereby, step by step, we give up our freedoms in return for a false feeling of security.

Are our people thinking clearly, and are our leaders taking us up the path which will keep us strong? Are we developing our young people into a nation of self-reliant people? Or are we permitting ourselves to be carried down the road to serfdom by encouraging a stronger and more powerful federal government to do for us what we should be doing for ourselves?

Some people like to believe that our government can do things better for us in all fields than we can do either individually or in our own communities and states. There is plenty of evidence that we look to Washington every time things go a little wrong. . . . Is it a temporary slowdown in business? Write to Washington, ask for help, and make it quick! . . . Is it a question of some differences between a union and the management of a plant? Get Washington to do something about it!

While the people look more and more to Washington to do everything under the sun for them, the Federal Government hasn't been discouraging them at all. On the contrary, the Administration has been repeatedly asking for more and more powers to use when it may see fit. At first it asks for powers to be used against possible inflation. But when things go the other way, the same powers are asked to prevent deflation.

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**I** AM not one of those who believe that all of the changes introduced by the New Deal were unsound. Changing times call for changing regulations, and some of the restrictions under which industry now labors were unquestionably brought upon it by its own misbehavior in the past. But the function of government is to regulate, not to control, and if we delegate much more power to federal authorities we shall lose our freedom of action.

There are groups both in and out of government who spend their time figuring out how to get the Government more and more into power projects. Flood control is the usual approach. So, today, about 20 per cent of all electric power created in this country is already owned by government, with many new and elaborate projects now being pushed for the future.

There is another powerful group which thinks that the Government owes everyone a home, and that private capital should be forced to build as many houses as government figures show it wants built. If they don't, this group believes the Government should step in and build them.

The list is all too long. We all know the pressure for socialized medicine, the federal threats to build steel mills, and there are many others. Agriculture is already very close to full control by the Government.

It is a startling fact that our government right now owns 24 per cent of all the land in this country. That is equal to the area of 17 Western states. And, remember, the Government charges no taxes against itself. Each time the Government enters another field it removes from the sources of taxable income some more potential taxes, putting a heavier burden on the rest of the people. In other words, the bigger and more powerful the Federal Government becomes in the fields formerly handled privately by our citizens, the fewer people are left to carry the burden of financing our government.

So taxes go up and up as the Government acquires more and more control.

**T**HE history of other nations over the centuries is that when the national government of a country takes over 25 per cent or more of the people's total income in taxes, it virtually becomes their master instead of their servant. In England, the taxes are now at the rate of about 40 per cent of national income. That is why everyone today who is at all well informed is most deeply concerned about the immediate future of England. We should also be concerned about our own nation, for our total taxes in this country are now 26 per cent of national income, and up to only a few weeks ago our National Administration was demanding that taxes be further increased by \$4,000,000,000.

Why has this been happening? Well, somehow the naïve idea has gotten around that the Government in Washington can do everything for everybody and do it well. Neither notion is true. It reminds me of my little daughter, some years ago, who really believed in fairies. Her mother told her to go and wash up for dinner. She went, but when she came back her face and hands were still dirty. When we asked her for an explanation,

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she said, "I asked the good fairies to wash my hands and face for me—and, see, they did!"

In the same naïve spirit all too many people honestly feel that government is a kind of fairy godmother who can magically give them regular jobs at high wages, low-cost housing, free medical care, security for old age, and many other blessings of life. They are doomed to the disappointment experienced by the people of every other nation who believed such promises.

We find there are many other popular misconceptions just as hazy as the childish belief in fairies. One of these is the idea that the Government, and not industry and agriculture, is the source of all the nation's wealth. This may come from the fact that the Government prints all the money. But that is not real wealth; money is only the convenient medium of exchange between our citizens of the things they want to exchange. The farmer exchanges grain for machinery, clothing, and comforts for his family, such as radios and household appliances. He does it by exchanging his wealth for other things on the market, by using money instead *(Continued on page 124)*

of the physical goods themselves. The Government controls this money so that it is a fair medium of exchange.

Some people may think that the United States Treasury is self-filling; yet every dollar which is drawn out of it for the benefit of one American has to be put there first by the taxes paid by some other American. It is an equally fallacious notion that Uncle Sam can spend us out of a recession. There is no difference in the consequences whether the people squander money or their government squanders the money; the results are equally disastrous.

The Government does not produce wealth, and no man or group of men in Washington can provide us with riches, steady employment, or insurance against poverty. In fact, the more controls they set up to do so, the more surely they will fail.

The wealth of today is produced by hard work, as it always has been, and by the ability and initiative of millions of Americans who produce on farms and in factories the things we need. We delegate certain things for our government to do for us jointly. This works only as long as we, ourselves, continue to work and produce the wealth, and prevent our government from taking too much away for its uses.

Every time the Government enters some new field formerly in the hands of private owners, it does two things: First, it removes one more source of income from which it can collect taxes. Secondly, it adds one more possible source of cost, which the people must pay for by more taxes.

That is not mere theory. Right now there are over 100 important business enterprises in which the Federal Government is financially interested or which it owns outright. They range all the way from large institutions for lending money to the smelting and sale of metals. The Federal Government is now in business to such an extent, as a recent survey shows, that our biggest private manufacturing concern looks like a bicycle shop in comparison.

The Government's direct investment in its 100 or more enterprises is already more than \$20,000,000,000, and Congress has authorized another \$14,000,000,000. In addition, the Government guarantees about \$90,000,000,000 of deposits and mortgages, and has written about \$40,000,000,000 of life insurance. There are

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40 government agencies engaged in lending, guaranteeing, and insuring, with 300 branch offices over the country.

History has demonstrated over and over again that a welfare state which tries to furnish everything to its citizens cannot prosper or long survive. Without the incentive provided by our system of free competition, experience shows that a letdown in effort is inevitable. Then initiative languishes, industrial production drops rapidly, and standards of living follow downward.

Even those in government service will tell you of the great difference between the output of federal employees and private employees doing the same identical work. Ex-President Hoover's commission gave some examples where private output of the same identical work was 4 *times* as great as federal job output. An important official in Washington recently stated that the very minimum which can be figured on in federal employment is 5 people for each 4 jobs. There is always one worker away either on vacation or sick leave. So the transfer from private to public handling of any business, be it what it may, can be stated practically as a transfer from actual competitive efficiency to probable bureaucratic inefficiency.

Hitler and Mussolini led their nations down the paths of Naziism and Fascism by promising orders to industry, jobs to labor, and security for all. The only way they could give their promises even a semblance of reality was to prepare for the waste of war. To be sure, the Germans and Italians had steady jobs for a few years, but the price they had to pay was insecurity of life in a police state, with war as the inevitable and catastrophic finale.

Today everyone is interested in the experiment in Socialism which is being tried out in England. The results are far from happy. Let me quote from an article by the distinguished writer, Charles Morgan, which appeared in the *London Sunday Times*. He wrote:

"England is a prison . . . there is no department of life, public or private, in which movement, action, and decision are not beset. . . . If Drake were alive, he would be given a pension. . . . Socialism, as now interpreted, is competition without prizes, boredom without hope, war without victory, and statistics without end. It takes the heart out of man. It is not only politically false, but morally destructive."

**C**ERTAINLY the majority of Americans do not want to see here the kind of economic system which England has now. Perhaps even the majority of Englishmen don't want it. But they have gone so far now in the nationalization of things—like their coal mines, transportation, medicine, and so forth—that there is no clear way to turn around and back out of it.

That is the big danger here, too. If we get in so deep, without knowing what we are doing, it may be too late to pull back. It's like the hunter covering unknown territory who suddenly finds that he has walked out on quicksand, which looked perfectly safe on top. Unless his calls bring help he may sink to his death. But calls for help by a nation present quite different problems. We are getting the calls for help from England, but we have only so much strength of our own left and we must carefully consider how much we can do for others without being pulled down ourselves.

If the proposal for our country to go Socialist were put up to our voters at the polls tomorrow, the proposal would be defeated by an overwhelming majority. Our danger is not that we accept Socialism deliberately. Our danger is that, step by step, we may be walking into it

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without knowing it. What we would not permit to enter by the front door we may permit to sneak in by the back door, if we are not more watchful.

Certainly if we permit more and more federal control over labor, over agriculture, and over industry, as you can read in the papers every day in the discussions in Washington, the time will come when we can no longer control the situation, and then it will be too late. For, much as the people may like the idea of the Government doing all these things for them, it is an absolute certainty that all-inclusive government service eventually leads to all-inclusive government control. The so-called "welfare state" becomes the autocratic state. That is why right now we must sound the alarm, because legislative hoppers in Washington are full of bills proposing things which will tickle the palate but ruin the digestion of a nation which must remain strong.

The strangest thing is that we should be faced with this situation. For the past 150 years the American system, worked out so carefully by those who came from the Old World with a dream of a better way, has justified their greatest expectations many times over. Yet here we are now, facing the fact that we have been veering away from our successful system of the New World, and steering in the direction of the very unsuccessful system of the Old World.

How did this happen? No doubt, largely because what we have we have taken too much for granted. We have not always understood the simple principles on which our success has rested. So, when we have become a little tired from a depression or a war, we have fallen into the very human attitude of wishing that someone else would take our troubles off our shoulders; and that's where big government is always ready to step in.

Then, too, a lot of well-meaning citizens have taken to criticizing our system for some of its faults—and every system has faults. Take, for example, the present attitude of lots of people about profits. The profit-and-loss system in our business setup is at the very heart of the incentive to invest money in something new, with the hope of making a profit. But many people today seem to think that making a good profit is a sin. Not long ago I was talking about this important subject with a United States Senator from a dairy state, where there was some antagonism to industry.

Every smart dairy farmer in your state, I pointed out, does his best to keep his cows fat and healthy. He doesn't do this because he loves cows. He may even hate them. But he knows that if he fails to take good care of the animals, and denies them ample pasturage, they will fail to produce the milk on which he depends for a livelihood.

The same thing applies to industry. We do not have to love it for itself alone, but we must recognize the fact that it is the source of our prosperity. If we deny industry free pasturage, and fence it in with all kinds of restrictions, it will grow lean and sickly and fail to produce the wealth upon which we depend. A highly profitable industry is essential to high wages and high tax receipts, and history shows that only a highly industrialized nation can be highly prosperous.

**ALREADY**, government interference has made our industry less productive than it might be. There can be no standstill in business. It must constantly move forward to new fields if it is not to stagnate, but double taxation on corporation earnings and stockholders' dividends has made investors much more timid about backing new products and new ideas than in former years. Individuals and organi-

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zations with money will not risk losing it in untried enterprises when they know that, if successful, these ventures will pay them no greater returns than they can get from government bonds or tax-free municipals.

An enterprising friend of mine recently approached a man of means with a new product which he wished to manufacture and put on the market. If the man with capital would back him to the extent of \$100,000, my friend told him, he felt he could assure him of a 10 per cent annual return on his investment. The wealthy man was interested in the proposition but soon turned it down.

"It's not that I don't think you have a good idea," he explained. "In fact, I think you've got a very promising one, but I happen to be in the 80 per cent income-tax bracket. That means that if I put \$100,000 into your business and it did yield me \$10,000 a year, I could keep only \$2,000 of it. Since I can get the same income from 2 per cent government bonds, I would be foolish to risk losing my capital on your proposition."

As a result, my friend never went into production. The jobs which his little plant might have created never materialized, and not only his community but the nation is that much poorer. The same kind of thing is happening all over the country.

**I**T is doubtful, indeed, if the great automobile industry, or many other large industries, could have developed as they have if business had been as heavily taxed and restricted during the early years of the century as it is today. Because of the heavy penalties which are placed on making a profit, a number of potentially important industries never get started, and others are unable to continue operations after they get off to a fair start.

In one Middle Western city three manufacturing companies employing a total of 600 persons are in danger of closing right now, I am told, because of a shortage of investment money.

How many young men have hesitated about going into a little business of their own because they have heard more about the desirability of security than they have of opportunity! We know that starting a business is taking a chance; both money and time can be lost. But the very backbone of this nation consists of great enterprises which were started through the courage of young men who were willing to risk, and who expected to win rewards in profits and wealth if they succeeded. Much of that spirit is still around in our neighboring country of Canada, but we are in danger of smothering it here.

I recall a young major of the Marines, a successful young advertising man before the war, who came in to see me after his discharge. He was talking over his future with me, trying to make up his mind what to do. He said, "I've learned a lot in the service. I know that the most important thing in life is security, and I am satisfied with a modest outlook that will guarantee me that security."

I said to him, "No one and no institution can guarantee you absolute security. You, yourself, must control your own destiny if you don't want to be disappointed later in life." He decided to start a new advertising agency and is doing very well at it. The *opportunity* which the American system gives the young man is the single greatest asset he has, and if he throws that away for a mediocre security he is foolish.

Look at the poor people who still come to our country from other lands, and in a few years acquire greater success and wealth than they had ever dreamed of. Why? Just one reason: They recognized this as a land of opportunity,



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and seized the opportunity which has been here all the time for those to see who will see.

As long as these opportunities in business attract the finest young men and women graduating from our schools and colleges, the future of our country is secure. But if they begin to look for government jobs in preference to private jobs, it is a danger signal. It shows that private opportunity has been made to look so bad that it can no longer attract our brightest young men to it. That would be a catastrophe, and yet it can happen if we criticize business unjustly and pile up more and more restrictions on its method of operation.

**E**VERY thinking American has a stake in this, and certainly should put much thought on the broad picture of the general direction in which this nation is going. No one else will do it for us.

I do not say that we as a nation have the oldest traditions, the greatest natural wealth, the greatest arts and culture in the world. But I do say with pride that we have the greatest manufacturing ability, the greatest system of producing goods, the greatest industry the world has ever seen. In it lies our strength in time of war or peace. And we have arrived at it through our own free-enterprise system, born in the few simple, common-sense principles of our fathers who came here to get away from the mistakes of Europe. When some other country produces some better system—not theory—which really works better than what we have now, then we can afford to listen. But there is nothing like that on the horizon yet.

Because we in this country have been fortunate, and because we are human beings with souls, I believe we should give that help within our ability to do so, for the sake of civilization and humanity. But we shall have nothing to give if we do not remain strong, ourselves.

If we want to help that fellow out of the quicksand we want to be sure we stand on firm ground, ourselves, and not jump in there with him.

**THE AUTHOR** of this article is the son of German immigrant parents. He was born in Cleveland, Ohio, worked his way through Western Reserve University, enlisted as a private in the Army in World War I, received the Distinguished Service Cross for gallantry in action, and came out a captain.

After the war, he went into business for himself, starting a small metal and chemical manufacturing company, which did so well that it was bought by the Bridgeport Brass Company in 1928, and Mr. Steinkraus was invited to join that company as vice-president in charge of sales. He has been president since 1942. During World War II he served as adviser to the Army's Chief of Ordnance.