



## On Economics and Morality

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by Hans Sennholz

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TOWARD THE END of 1966 the Johnson Administration launched a concerted effort to "build bridges" to Communist countries. On August twenty-sixth, in a speech at the National Nuclear Reactor Testing Station near Idaho Falls, Idaho, President Johnson told the American people that the United States and the Soviet Union could enjoy amicable relations despite the Vietnam War. And he assured the Soviets that his Vietnam objectives were "local and limited . . . and do not threaten the vital interests of the Soviet Union, or the territory of any of her friends."

On October seventh, in an important foreign-policy speech, President Johnson announced specific steps towards improved relations with the entire Soviet bloc. To increase trade, travel, and cultural exchange with the Communists, the President said the following steps are to be taken:

- (1) Hundreds of industrial items, formerly classified as "strategic" are to be freed for export to the Soviet Union and all of its East European satellites, except East Germany.
- (2) Commercial credits to the Communist governments of Poland, Czechoslovakia, Hungary, Romania, and Bulgaria, in addition to Yugoslavia, are to be guaranteed by the government-owned Export-Import Bank, which has a total lending authority of 9 billion dollars. (In his Budget Message the President asked Congress to increase the Bank's lending power to \$13.5 billion.)
- (3) The Export-Import Bank is to underwrite the Soviet purchase of \$50 million of American machine tools to equip an automobile factory being built in the Soviet Union. Fiat Company of Italy is building the factory at a cost of \$800 million, with a capacity of some two-thousand cars a day.
- (4) The President proposed an "East-West trade bill" that would give him the authority to extend "most-favored nation" tariff treatment to all Communist countries of Eastern Europe, except East Germany.

Several treaties or agreements have already been reached with the Soviet bloc. For example, there is a new civil air agreement permitting direct flight between New York and Moscow, a fishery agreement, a two-year extension of the cultural-exchange program, a consular treaty negotiated in 1964 and finally ratified by the U.S. Senate in March 1967, and a treaty prescribing peaceful uses of outer space. Other agreements are pending, as, e.g., a "nonproliferation" treaty that is supposed to prevent the spread of nuclear weapons to countries that have none today. President Johnson is going all out to come to terms with the Soviet. He reportedly would like to end the Cold



War before he leaves the White House. He refuses to be discouraged by the failures of his predecessors. Lyndon Johnson's great idol, Franklin D. Roosevelt, dealt with Stalin in a generous and openhanded manner in order "to create a peaceful and orderly postwar world." But the result of an \$11 billion Lend-Lease investment in the Russian economy was merely a series of broken agreements and rapid advancement of Communism in Europe and Asia. It triggered the Cold War which has cost us more than \$500 billion since 1947. President Eisenhower also proclaimed his desire to end the Cold War despite Korea, and to secure "permanent peace with justice." When he left office after his eight-year term he confessed his failure with the remark that the greatest problem facing his successors is "the intransigent, unreasonable attitude" of the Communists.

It is always difficult and problematic to speculate on motivation. But an intelligent explanation of President Johnson's course of action requires that we seriously attempt to comprehend his immediate objectives.

Having risen to the Presidency, Lyndon Johnson is, of course, competing with the achievements of our other Presidents. Those around him say that he is struggling for an honored position in American history; that he realizes that he is enmeshed in an unpopular war in Asia that is consuming the material substance of his Great Society, which he has declared to be his means to earn his personal mark of distinction in history. On the basis of this argument, the President's friends contend he would like to bring about an end of the Vietnam War. They say that he realizes he is in serious political trouble; that, in fact, he is so desperate to get out of the war before the 1968 election that he is fervently seeking Soviet cooperation. He is appeasing and cajoling the Soviet Union, they claim, in the hope that the Soviets may exert their peaceful influence on their Vietnamese comrades at arms.

Giving him the benefit of our own doubt, let us view L.B.J.'s moves and maneuvers in this light of Presidential distinction. His defeat at the 1968 polls would end rather ignominiously his claim to historical significance. He therefore may be expected to use his vast Presidential powers either to end the Vietnam War before the election—or to make it so much bigger that he can emerge as a great wartime leader. Few Americans would cast their votes against him in a national emergency.

President Johnson's concerted bid for Soviet-American friendship and cooperation rests on certain philosophical and political assumptions. If these reflect truth and reality, the President's policies are consistent and realistic. However, if it should be found that his basic assumptions are false and naive, dishonest and self-deceiving, his drive for Soviet-American friendship may be suicidal.

He ostensibly assumes that the Soviet Union would like to see a settlement in Vietnam. He plays down the Russian involvement in the war, in the apparent hope that the Soviets will bring Hanoi to the conference table. He is holding out the Soviet Communists to be peace-loving world partners with aims and objectives similar to our own. Past tensions and conflicts, he argues, resulted from cultural differences and personal misunderstandings, or from old-fashioned diplomatic power struggles.

Our basic assumptions differ diametrically from the President's whose policies we therefore deem ominously harmful and even suicidal. We sincerely believe that the civilized world is locked in a



fateful struggle with all Communists regardless of race or nationality. The conflict between Communism and the Free World is a collision of two irreconcilable moral, political, and economic systems. Communism is attacking and destroying the bases for the intellectual and moral existence of man — it is moral-spiritual destruction of mankind. It is the most extreme and dangerous form of totalitarianism that subjugates man's conscience and sacrifices to the State his convictions of all that is right, humane, and true. Communism has made cruelty, spite, and malice its instruments of a perverse philosophy that denies man as a moral being.

If this critical view of Communism is nearly correct, and if the Kremlin leaders are not at all representative of the Russian people, and the people are not the constituency of the Soviet Government, then we cannot escape the conclusion that President Johnson misjudges the true intentions of the Soviet Communists and that his policies must lead us from defeat to defeat.

In intellectual confusion and moral lethargy the President tries to talk away any and all differences with the tyrants of the Kremlin. He is doing practically all of the bidding, making numerous conciliatory gestures towards Communist officials while at the same time millions of people in those countries try to escape wherever possible, or suffer in serfdom. Just since the end of World War II some 3.73 million desperate people have fled from Communist East Germany, 590,000 from Poland, 530,000 from Hungary, 3.2 million from Red China, 5.4 million from Communist North Korea, 1.2 million from North Vietnam, and 520,000 from Communist Cuba. Only God knows how many millions died braving wire fences, walls, dogs, machine-gun guards, and patrol boats trying to escape. Or how many millions of human beings died under Communism of starvation, or in slave labor camps.

If this view of the Communists is nearly correct, then President Johnson's promotion of East-West trade must properly be called "aiding and abetting the enemy through credits and trade."

## Some Economic Facts

Political totalitarianism can thrive only in the soil of a regimented socialist economy — a completely politicized economic system. Communism politicizes everything, every business transaction, every import from the West. This is why trading with Communist goods is always politics that aims to strengthen Communism and weaken the Free World. Are we unreasonable to demand a rigorous restriction of trade with this deadly enemy?

Without our direct help the Communist economic order can never be expected to achieve anything near the level of capitalist productivity. A market economy with its millions of private owners of the means of production continuously adjusts to changes in demand and supply, technology and methods of production. Competition forces everyone to adjust to the wishes and commands of consumers who are the sovereigns of the market order. Competition may radically change production technology, the use of capital or labor, command a change in location, introduce new products, alter the distribution process, or revolutionize whole industries. In the Communist economic order the central government is the sole owner of the means of production, i.e., land, factories, shops, the means of transportation, communication, education, and such. Market prices have been abolished and replaced by central orders, allocations, priorities, and rationing. But



without the help of prices the calculation of production costs is impossible. Without the common denominator of price it cannot be ascertained whether certain production is economical or is inflicting losses. How can a manager compare his production costs with the value of his output without calculation of prices and costs? This is why a socialist economy that by definition operates without market prices is basically chaotic and irrational. The central planners are fumbling in the dark.

A Communist-socialist economy can never be expected to effectively compete with a private property-market economy in economic productivity and output. And the standards of living of the people under Communism will always be dismally lower than the living standards of people enjoying private property and individual enterprise. But it is conceivable that we ourselves may realize the Communist boasts by building the Communist factories and supplying the equipment while our own governments cause our production apparatus to degenerate and disintegrate into collectivism. If we render our own system inoperative through confiscatory taxation and inflation, through shackling controls and regulations, through government oppression and tyranny, while we are forced or led to build up the Communist apparatus of production, the Communists may indeed compete effectively. This is the only possibility for Moscow to win the economic race.

The only Soviet industries that can be assumed to adjust quickly to changing demand and technology are those supporting the vast military and space program. After all, the political leaders and military strategists must know that any failure to keep up with Western arms development would make the Soviet Union a second-rate power trembling before capitalist might. Therefore, they labor fervently, with highest priorities, allocations, rationing and proscription, slave labor and espionage, in order to keep up with the West. Yet, their successes in even this area are open to considerable doubt.

Certainly their nonmilitary industries are hopelessly stagnant and outmoded. There is no research and development in civilian-industrial areas. The Communists are decades behind in construction, transportation, and all civilian industry, such as synthetics and plastics, new lightweight metals, automobiles, communications, electronics, and automated equipment. Why should the Soviet shirt industry, the tie or shoe makers, the box and container factories, the plants manufacturing bath tubs, paper towels, or cosmetics change their age-old production methods? Why should they suddenly discard their working equipment and, without the benefit of any priority, replace it with the most modern tools of production? Only in a competitive private property economy does the manufacturer of boxes and containers search feverishly for better tools and equipment—competition forces him to make painful investments and employ the latest technology.

The only way for Communists to get advanced industrial plants, modern machinery, and the latest technical data is to steal or buy them from the West. But in order to buy from us the Communists must be able either to sell some of their products to us or secure long-term credits that will pay for themselves in the future. The main trouble is that Communist countries have very little to sell to the West.



Communist-made goods are limited by their poor quality and the utter lack of after-sales service. Exports therefore consist merely of raw materials and simple products the production of which does not require high levels of knowledge and capital investment. In order to increase their foreign exchange earnings, for example, the Soviets now plan to pipe oil and gas to Western Europe. In search of foreign exchange they are even now selling off antiques and jewelry and historical works of art.

Red countries buy only what their national plans call for. Industrial equipment and technological processes top their lists. Consumer goods are completely ignored unless a serious shortage, such as that of grain and other foodstuffs, causes political problems. This means that the prospects for big sales of consumer goods remain very dim. Altogether Communist Russia and her European satellites can afford only \$4 billion worth of goods a year from the entire non-Communist world. The United States alone buys more than 825 billions worth of foreign products.

Of course, individual American companies may earn sizable profits on sales of essential goods to the Communists. And these profits on a few American sales are dangled in front of our hungry businessmen. Their eager reaction alone provides the Kremlin with important propaganda material.

An example of this aspect of trade with the Communists may illustrate the case. Not long ago the Soviet government granted a franchise for the sale of Russian automobiles to a New York dealer. Six demonstrator cars were actually delivered, many more were promised. The event was carried by all television networks, many radio stations, and thousands of newspapers. The dealer probably earned a few dollars on the sale of the six cars, but the Communists in return reaped a million dollars worth of publicity and propaganda. For no one pointed out that the Soviet automobile production is negligible, that we have by far more thefts of cars every year than they can manufacture, or even export to and service in the United States. Not one of the news media called attention to the obvious fact that this transaction was no trade in the customary sense, but a propaganda maneuver designed to impress a gullible public.

## A Matter Of Morality

Even if our trade with the Communists were negligible in both the economic race and propaganda war, it would be highly objectionable on purely moral grounds. It reveals incredible intellectual confusion and moral lethargy. The Soviet Union and its East European satellites are providing more than eighty percent of the strategic war materials used by the Vietnam Communists. At a cost of more than one billion dollars a year they keep the war going that is costing us more than one thousand casualties every week and more than \$25 billion a year. According to Representative Glenard P. Lipscomb of California, "practically every American plane that has been shot down over North Vietnam has fallen victim to Soviet-made and Soviet-supplied surface-to-air missiles or anti-aircraft batteries. American planes have been tracked by Soviet radar; American ground forces have been subjected to substantial casualties caused by Soviet and East European equipment; and the Vietcong and North Vietnamese have been supplied in the South by trucks made in these countries."



Our trade with the Communists must be seen in this light. While thousands of American men lay down their lives in a cruel jungle war, our own President is urging us to trade with the Kremlin that is financing this war and providing the main source of supply to the enemy. If this war cannot teach us anything, is there any degree of malice, cruelty, and inhumanity that can bring our pious co-existentialists and appeasers to their senses? Or did they irredeemably succumb to this weakness that is not political and military, but primarily intellectual and moral?

Our incredible blindness, intellectual confusion, and moral lethargy were evident also in the Senate's ratification of the U.S.-U.S.S.R. Consular Treaty. Time and again Secretary Rusk urged, and finally won, ratification on grounds that it would "increase trade between our two countries." We were told that Soviet consulates opened up in this country would promote trade transactions, as would American consulates in the Soviet Union. Surely Secretary Rusk, or at least his advisors, are aware that in the Soviet Union no one but the central government, i.e. the Kremlin, is authorized to embark upon foreign trade. To trade with the Russians means trade with the Kremlin. Soviet consulates in the United States are Kremlin agencies that directly negotiate and deal with American enterprises. On the other hand, American consulates in the Soviet Union cannot possibly trade with Russian enterprises as the Russian economy is a monolithic concern owned and operated by the Kremlin. Every trade is made in Moscow.

We do not deny that Soviet consulates in the United States will be most useful to the Soviet Communists. Consulates will, of course, make Soviet espionage far simpler, especially since their personnel will enjoy—for the first time—"unlimited exemption from criminal prosecution." Soviet consulates will, of course, launch numerous drives of trade promotion that promise huge profits to eager industrialists. They will graciously grant franchises and licenses for area distribution of Soviet goods, which, like the Soviet automobiles, will never arrive. They will negotiate in great length with area enterprises about breathtaking projects that will never materialize. They will promote tourism for people who must not, under penalty of death, leave the country. But for every dollar spent on consular personnel, the Kremlin will reap a thousand dollars worth of Communist propaganda and an incalculable amount of espionage.

President Johnson is going all out to come to terms with the Soviet Communists. He is doing practically all of the bidding, making all of the conciliatory gestures. Meanwhile, the Communists continue to wage their war on the West, alternating the fronts that are psychological, economic, and military. They are fighting under ideal conditions, for their opponents simply disregard the declaration of war in spite of its continuous repetition. The West acts as if the incessant blows and injuries simply do not exist. Under such conditions how can we escape from ultimately falling like a ripe fruit into the Kremlin lap?