up a part of their excess gains in relief of the unprivileged tax payer. President Coolidge keeps his conscience clear of such sophisms. The excess profits tax is a war tax: that is enough.

It is true that the tax was introduced in time of war, like the "nuisance taxes" still on the statute books, and like the chief weight of the income tax. But is there anything in the nature of the excess profits tax that makes of it a fiscal expedient peculiarly appropriate to war time and inappropriate to a time of peace? There are thousands of rock-ribbed Americans like President Coolidge who assume that there is. The assumption rests, we think, on an historical confusion.

Let us recall that at the time when we went into the war there was a strong sentiment among patriotic Americans for the adoption of the principle of the British war profits tax. When the British found themselves at war, they had to make over their industrial system in order to supply vast quantities of war material. There was no time to look for the lowest bidder. Every man's contribution was needed, whether he could produce at low costs or high, and the price offered by the government had to satisfy the high cost producer. The result was that the low cost producers were in a position to make immense fortunes out of their country's need—a hideous scandal in the eyes of those whose sons were dying on the battle field. Hence the war profits tax, which was designed to take from each favored producer of war supplies a good share of what he gained beyond a fair return on his capital. In theory the whole of the excess should have been appropriated by the state. In practice this was held inexpedient, as weakening the stimulus to maximum production.

The adoption of a similar tax, as we have said, was widely advocated in America. In our frenzy of war preparations, however, we had no time to work out an administrative plan efficient enough to isolate the profits of war. What we needed was revenue, and we went after it where it was to be found. We had among us a great variety of business concerns that were making an immense amount of easy money. There were corporations earning fifteen, twenty-five or even fifty percent and more on their bona fide capital. To pay in taxes a part of this easy money was no hardship to them. It could not drive them out of business, nor force them to restrict operations.

We taxed excess profits in time of war because they represented easy money—money the taxpayers did not strictly deserve, and did not really need. These reasons hold just as well in peace time as in war time, if easy money appears in one state as well as in the other. And it does. We shall, in a later issue, set before our readers some account of the volume of easy money afloat today. For the present we content ourselves with an appeal to the facts of common knowledge.

Every man who pays a coal bill knows perfectly well that a part of the sum extracted from him is easy money for somebody. Every one who is trying to build will feel the twinge of somebody's easy money in the prices of material. There is easy money in steel and petroleum, in leather products and woolens, and almost everywhere else except in the average consumer's pocket. Even where there is none of it, its presence is suspected, to the consumer's pain.

There was a time when we could have assumed that easy money was something that would eliminate itself. If profits were high in any industry, competition welled up and swept them away. We are living today under a new dispensation. Vast corporations, with which it is safest to compete humbly and apologetically, if at all, dominate an increasing part of our economic life. Where many competitors survive, associations with rules of greater or less legality have managed to introduce a mutual tolerance in business practices to the end that profits may be preserved.

We have sought, and are still seeking, to prevent by legal penalties any arrangements that assure the permanence of excessive prices and profits. How modest our success has been is indicated by the strength of the opposition to excess profits taxation. It can't be the men who are operating on a reasonable margin of profit that are proclaiming so earnestly the sanctity of profits beyond reason.

We need the excess profits tax as a source of revenue to supplant other revenues involving real hardship. We need it as a curb upon personal enrichment through monopoly or combination or even mere chance. We need it as a means of giving effective publicity to the practices of private enterprise. If extortion is common, we ought to know it; if the volume of excessive profits is small, we ought to know that, too. And sooner or later the great majority of the American people will discover that the characterization of the excess profits tax as a war tax is only a magical incantation. We needed the tax in war time. We need it even more in time of peace. For it is in peace that the main structural lines of our economic organization are set, whether for concentration of wealth and power among the few or their distribution among the many.

Laissez-Faire vs. Nation Building

WE publish elsewhere in this number an article by John Maynard Keynes on the issue involved in Mr. Baldwin's ill fated protectionist campaign. As always, the arguments of Mr. Keynes are clear and cogent. They dispose finally of the arguments of his opponents, as finally in logic as the electorate have disposed of them in political fact.

Have Mr. Keynes and the British voters disposed so finally of the underlying issue of national direction versus laissez-faire in foreign trade? We hasten to observe that Mr. Keynes dissociates himself explicitly from those who accept without qualification the principle of laissez-faire. He admits all the valid exceptions to the rule that have appeared in the textbooks. Nevertheless, he insists as strongly as any classical economist ever did that the relation between laissez-faire and governmental interference is essentially that of rule and exception. And the rule is based on "fundamental truths" which "no one can dispute who is capable of understanding the meaning of the words."

"It is better," begins one of these fundamental truths. Better to employ our labor and capital where they are most efficient, relatively. Yes; but "better" and "efficient" are words that the modern economic sceptic does not take on faith. Better in what sense? More efficient for what? One of our great American corporations produced last year $29,000,000 worth of chewing gum. Its performance was excellent, its work was efficient, in the production of gum, and in the acquisition of the money value of gum. Our producers of wheat march steadily up to take their turns in foreclosure proceedings. Clearly it is "better," from some point of view, for men to be driven out of wheat and into gum. Is it better from the point of view of the good citizen and clear sighted statesman, who looks before and after?

Mr. Keynes would no doubt say that this case is abundantly taken care of under one of his exceptions or another. But we are raising the question whether such exceptions are not really the rule. Mr. Keynes's "fundamental truths" are true only in so far as exchange values, as they exist, are an adequate measure of the usefulness of things to the individual and society. We who live like spotted deer in the happy hunting ground of the advertisers have seen how exchange values are built up, and are sceptical of their meaning. In the span of a generation we have seen advertising transform a childish impulse to masticate for mastication's sake into a mighty hunger for thousands of tons of chicle. Again and again we have seen the advertisers snapping their fingers at the rule that increased supplies mean lower prices, "other things equal." Other things are never equal when the advertisers are at large. Raisins are selling at five cents a pound, and producers can sell only 50,000 tons out of 200,000 on hand. Call in the advertisers. Presto, 200,000 tons sell at ten cents a pound. This is no mere fancy of ours. We have actually seen it done.

From the obvious, gross manipulation of our value system by the advertisers, our attention inevitably flits to the old, sound, easy going methods of trade. The old time merchant sold us what we needed and wanted, and let us go. Did he indeed? Or did he practise upon us, in his own subtle way, and shape up our values not especially to our good?

Let us look at results in the large. Under the current value system it is better for Americans to crowd together in great cities, though the stock grows neurotic and tends toward extinction. It is better for Englishmen to cluster perspiringly together on a small island though the vast plains of Canada and Australia lie open to them. The argument is simple and cogent. All things considered the Englishman in the slums of London, the American in the slums of New York is better off if he remains where he is. He gets more money, and more of money's worth, in terms of the current exchange value standard. His children may have rickets, to be sure, thin, crooked legs, pigeon breasts, palaeolithic teeth and jaws, but they will have their beer in England, their gum in New York.

All this, to be sure, has no relevance to the shallow protectionism of Mr. Baldwin, with its idle promise of relief from unemployment. But it will be decidedly relevant to the movement for nation and empire building that will come sooner or later if Britain is to survive as a great power. When such a movement gets under way, we predict that foreign trade, like domestic, will be handled with much ruthlessness. There will be comparatively little said of the "better" results from applying capital and labor to the opportunities offering the greatest possible pecuniary gain. Instead, it will be considered how each rood may be made to maintain its man and how each industry may be made to feed its folk and train them in the ways of survival and fitness for citizens' service. The British people will not hesitate to make some small sacrifice of money values in order that they may be more closely bound to their colonies and a unified economic empire created to play an imperial part in the destinies of the world.

THE NEW REPUBLIC

PUBLISHED WEEKLY AND COPYRIGHT, 1923, IN THE U. S., BY THE REPUBLIC PUBLISHING CO., INC., 421 WEST 21ST ST., NEW YORK. HERBERT CROLY, PRES. ROBERT HALLOWELL, TREAS. DANIEL MEBANE, CIRCULATION MANAGER.

EDITORS

HERBERT CROLY BRUCE BLIVEN ROBERT LITTELL
ALVIN JOHNSON R. M. LOVETT STARK YOUNG

CONTRIBUTING EDITORS

JANE ADDAMS JOHN DEWEY R. H. TAWNEY
DAVID FRIDAY H. N. BRAILSFORD LEO WOLMAN

RATES: SINGLE COPIES, FIFTEEN CENTS; YEARLY SUBSCRIPTION, FIVE DOLLARS; CANADIAN, FIVE DOLLARS AND FIFTY CENTS; FOREIGN, SIX DOLLARS; THREE MONTHS' TRIAL, ONE DOLLAR.

Free Trade for England

THE British Prime Minister's Protectionist campaign has ended in disaster. He contended that new facts have changed the significance of old proposals; and in the light of the result, the present moment is perhaps an appropriate one at which to remind ourselves of some principles which have certainly not changed.

Free trade is based on two fundamental truths which, stated with their due qualifications, no one can dispute who is capable of understanding the meaning of the words:—

I. It is better to employ our capital and our labor in trades where we are relatively more efficient than other people are, and to exchange the products of these trades for goods in the production of which we are relatively less efficient.

Every sane man pursues this principle in his private life. He concentrates his energies on those employments where his efficiency is greatest in comparison with other people's; and leaves to others what they can do better than he can.

There are four, and only four, recognized types of exception to this principle, which apply equally to nations and to individuals:

1. If, for non-economic reasons, a particular trade, or the conditions in which it is carried on, are degrading or unpleasant, or if, on the other hand, they are peculiarly desirable, we may recognize such facts by prohibitions and by encouragements. Such cases are certainly not to be found amongst manufactured imports or exports as a class. Many believe, however, that the encouragement of agriculture comes under this head.

2. If a particular article or service is of such a kind that it is not safe for nations or individuals to leave themselves entirely dependent on the services of outsiders, this is a reason for insisting that we should retain at least the capacity for providing it at home. This is the case of "key industries." It is already covered by existing legislation. The main objection to such legislation is that, under cover of it, Protectionists are apt to slip in articles which do not really satisfy the conditions.

3. Where relative inefficiency is due to a remediable lack of practice or of education, on the part of our own industries, it may be worth while to spend something on gaining the necessary experience. This is the case of "infant industries." Here again the objection is that Protectionists are apt to father on it elderly or unpromising "infants." It can hardly occur in an old industrial country, such as England, except in an industry based on a new invention. I do not know any important case of this, except possibly that of the motor industry—already heavily protected.

4. Where, for special reasons, the cheapness of the imported goods does not look like being permanent, yet may bankrupt and destroy our own organization so long as it lasts, temporary measures may be justified. This is the case of "dumping" and of imports from countries of depreciating currency. Generally speaking, the occasions for action under this head are not so common as may appear at first. We have to weigh the direct benefit of getting the goods cheap against the indirect injury done to our organization. It is not true, at present, that we are suffering seriously under this head; and in so far as it can be proved that we are suffering in particular cases, this is already provided for by existing legislation.

II. The second great principle is that there can be no disadvantage in receiving useful objects from abroad. If we have to pay at once, we can only pay with the export of goods and services, and the exchange would not take place (subject to the necessary exceptions just stated) unless there were an advantage in it. Every export which is not paid for by an import represents a decrease in the capital available within the country.

Thus an artificial interference with imports must *either* interfere with exports *or* involve an artificial stimulation to capital to leave the country. Now, if we are to interfere at all with the natural course of trade, surely it would be with the object of keeping capital at home, not of driving it abroad. With our shortage of housing and the need of factories and equipment to render efficient our growing supply of labor, we need to keep more capital at home, and so to arrange matters that our surplus resources are occupied in increasing our own equipment for future production and for the shelter of our own population. There is already, in my opinion, too much encouragement to the export of our capital. With our diminished savings and our increasing needs, we are not in the position in which we used to be for sending our goods to the rest of the world and getting back, for the time being, nothing whatever in return.

Our imports are our income. To put obstacles in their way is to be as crazy as a business man would be who tried to prevent his customers and his debtors from paying their bills.

Neither of these principles is in the least affected by whether or not foreign countries impose tariffs.

There is a third argument for free trade, but one far less absolute and more relative to changing circumstances than the first two,—namely, the principle of laissez-faire. This is never a final argument. The old view, that the self-interest of individuals, operating without interference, will always produce the best results, is not true. As knowledge increases and the arts of government