

## THE TESTAMENT OF HENRY SIMONS\*

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THE old economics," wrote Henry Simons a year ago in his devastating review of the Beveridge program, "is commended by its normative implications. . . . Its strength is in its implied political philosophy. Its wisdom is that of seeking solutions which are within the rule of law, compatible with great dispersion or deconcentration of power. . . . Certainly another kind of system, ruled by authorities, *might be* more efficient and more progressive—if one excludes liberty as an aspect of efficiency and capacity for freedom and responsibility, among individuals and among nations, as a measure of progress. Discretionary authorities, omniscient and benevolent, surely could in some sense do better than any scheme involving democratic, legislative rules. . . . But some of us dislike government by authorities, partly because we think they would not be wise and good and partly because we would still dislike it if they were."

Henry Simons, professor of economics at the University of Chicago, is dead but he has left behind him an enduring testament. It is a testament of the worth of political economy—the type of thought, so conspicuously absent in our times, that marries economic analysis to political values. It is a testament of liberty profoundly prejudicial to all collectivist solutions. Simons took up that fight early when the majority of the American intelligentsia had lost faith in American tradition and were looking to Moscow if not to Berlin to point the way of the future. Now that the folly and inhumanity of all-out statist planning are apparent to all but the blind, it is perhaps unnecessary to labor the negative contribution of his philosophy. But the fact is that the prodigal sons, who are currently coming home from the world of totalitarianism, have no positive program for the U.S. in their pockets. American liberalism is in a state of complete confusion if not collapse.

It is in this context that the work of Henry Simons takes on profound importance. For it was his privilege and duty to reassert in an age of doubt the truth of libertarian doctrine and to adapt it to the needs of the times. For his pains he was called a reactionary by professional leftists and a dangerous radical by some conservatives. But the more his writings are studied, the more it will be found that he was a conservative in the best

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† Board of Editors, *Fortune*.

sense of that word (*conservare*—to conserve) and a radical only in the sense of a man who goes to the roots. "A political movement," he wrote, "which is conservative in its objectives must be radical in terms of its means. Those who hope for dictatorship, whether under proletarian or fascist symbols, may rather fittingly refer to us as the impractical visionaries."

#### CAPITALISM AND THE POLITICAL STATE

The vision that Simons offered to this country was old, and it was new. It was old in that it rested on the dignity and worth of the individual and on the belief that the bulwark of individual liberty cannot be disassociated from the preservation of the free competitive market. "The great enemy of democracy," wrote Simons, "is monopoly, in all its forms: gigantic corporations, trade associations and other agencies for price control, trade unions—or, in general, organization and concentration of power within functional classes." But it was likewise his business to reassert what is implicit in all liberal thinking but too easily forgotten, that free competition cannot be preserved without a government able and willing to lay down the rules of the road. "The representation of laissez-faire as a do-nothing policy is unfortunate and misleading. It is an obvious responsibility of the state under this policy to maintain the kind of legal and institutional framework within which competition can function effectively as an agency of control." For Simons this meant on the one hand the rigorous prosecution of antitrust policy, and on the other hand an honest and effective monetary policy designed to prevent boom and violent deflation. His indictment of American government was that it had done neither: "The so-called failure of capitalism may reasonably be interpreted as primarily a failure of the political state in the discharge of its minimum responsibilities under capitalism."

#### A MIDWEST PRODUCT

The issue that Simons drew was therefore not between plan and no plan but between planning for freedom and planning against it. When he died June 19 in Chicago at the age of forty-six he stood at the height of his intellectual powers but had scarcely come into his own. A twenty-five-line obituary in the *New York Times* was deemed sufficient to tell his story and no doubt accurately reflected his popular fame. New Deal prophets, who had felt the whiplash of his invective, of course knew of and respected him. Businessmen busy about the work of the world were largely too busy to understand his contribution to the system they never tire of eulogizing.

Simons was a midwest product. He was born October 19, 1899, in the

little mining town of Virden, Illinois. He was educated at the universities of Iowa, Michigan, and at Chicago where he was closely associated with that profound scholar of liberalism, Frank Knight. Students remember him not for his platform manner but for his quiet, ever persuasive conversation. In appearance he suggested at times the capable man of affairs, and his interest in practical political questions was intense. But Simons made few trips to the nation's capital, holding that scholars are lucky if they have some little influence not on day-to-day events but on basic ideas. His energy flared within.

Simons left behind him one completed full-size book, *Personal Income Taxation*. His lasting influence will also rest on a small tract, *A Positive Program for Laissez Faire*, published by the University of Chicago in 1934, and a handful of great reviews and articles largely published by the *Journal of Political Economy*. These include "Rules vs. Authority in Monetary Policy" (February, 1936), "Hansen on Fiscal Policy" (April, 1942), "Some Reflections on Syndicalism" (March, 1944), "On Debt Policy" (December, 1944), and finally "The Beveridge Program: An Unsympathetic Interpretation" (September, 1945). Other occasional essays will be included in a forthcoming book. But the above articles, scattered fragments though they be, are enough to give the drive and power of his thought.

Rereading these articles today, one is struck with the brilliance of Simons' expository power as well as with some glaring defects. As a writer Simons never sufficiently distinguished between those phases of his thought that were fit material for the "mighty line" and those phases that called for more sober presentation. He wrote at full gallop whether his subject was the sins of collectivist philosophy or whether it was the sins of "fractional banking." He scaled the heights of rhetoric only to fall at times heavily into the depths of maddening obscurity. In his review of Dr. Alvin Hansen's book, *Fiscal Policy and Business Cycles*, Simons loses many a trick by dealing with the intricacies of monetary theory in the tone of a Cicero denouncing Catiline. Yet few essays touch Simons' opening where eulogy of Hansen's skill as writer and thinker wickedly leads up to the paragraph beginning: "But I come to bury Hansen—albeit respectfully and despairingly." And few drive on to more devastating conclusions: "There is no sense in designing elegant financial appurtenances for an institutional structure whose foundations of free exchange, free enterprise, and free occupational migration are disintegrating rapidly—unless one is prepared to give some attention to these foundations too. Hansen's prescriptions seem excellently contrived to hasten the disintegration."

## RULES VERSUS CHAOS

Simons' quarrel with Dr. Hansen and "that substantial company of intellectuals, following Keynes and recklessly collectivist, whose influence grows no less rapidly in academic circles than in Washington" can be understood only in terms of his broad indictment of the New Deal. While posing as a liberal "reform" movement, bent on saving the enterprise system, the New Deal in fact stood for a series of improvisations reactionary in their long-run implications. As early as 1934 Simons wrote: "One cannot criticize the policies of the present administration without seeming to approve those of its predecessors. In fact, one must condemn the Democrats mainly for their wholesale extension of the worst policies of the past. The NRA is merely Mr. Hoover's trust policy and wage policy writ large. The agricultural measures and many other planning proposals are the logical counterpart and the natural extensions of Republican protectionism. The gold policy and the silver legislation, like the Federal Reserve System, lead from a bad monetary and banking system only into something worse."

As the above passage indicates, Simons was the first to argue that the debacle of 1929 called for strong monetary reform. Indeed, a properly functioning money system might have greatly mitigated, if not prevented, the excesses of the twenties. What appalled him as the thirties wore on were the temporizing measures undertaken in this field by the Administration, and their political consequences. Undertaken first as an emergency measure, deficit financing was soon justified as necessary on the ground that the American economy had achieved permanent "maturity." What was begun out of humanitarian motives degenerated into the cynicism attributed to Harry Hopkins: "We shall spend and spend, and tax and tax, and elect and elect."

Clearly here was no new fiscal morality worthy of the name. Sound monetary policy, Simons held, must be based on some kind of rule and principle. The proper rule for government action, he came to believe, was not the maintenance of this or that level of employment (a criterion peculiarly subject to "politicking") but the maintenance of a tolerably stable level of prices, or what amounts to the same thing, a tolerably stable American dollar. To this end he held that government must assume primary responsibility for the money supply, taking this crucial power away from the commercial banks. But at the same time government itself must be far more economical in its exercise of power than at present—and far more honest.

Specifically, Simons hoped that the clear-cut assumption by government of responsibility for money might in itself greatly reduce the need for

positive fiscal action. Whereas spenders constantly emphasized bigger and bigger federal appropriations as a means of stimulating the economy—dreaming up all manner of work projects and so-called “investments”—Simons pointed out that the money supply can be just as well increased in time of depression by reduction of taxes. Finally, he saw only obfuscation, if not dishonesty, in the constant financing of government deficits through enormous borrowing operations. If the state wishes to increase the money supply let it openly print. If it wishes to decrease the money supply let it retire currency through either taxes or the issue of long-term bonds to the public. Under an ideal system, Simons held, the government would deal in only two kinds of paper: currency and consols, or perpetuities, selling in the free and open market. “I have never seen,” he wrote in “On Debt Policy,” “any sense in an elaborate structure of federal debt. The national government must, of course, provide and regulate the currency—a task it has never faced. . . . In wartime and in peacetime we should issue currency and (or) bonds. We should never disguise currency as bonds or conversely.”

These necessarily technical suggestions should not obscure Simons’ main point. What distinguished him from most “new economists” was his insistence that if the state is responsible for maintaining over-all stability it cannot proceed on an *ad hoc* and discretionary basis. There must be a true “monetary constitution.” “An enterprise system cannot function effectively in the face of extreme uncertainty. . . . We must avoid a situation where every business venture becomes largely a speculation on the future of monetary policy.” But to his everlasting credit he also saw that monetary prescriptions were not enough. Sticky prices and wages played their part in intensifying the crash of 1929. Conversely a government bent on arresting depression must always see its hopes dashed unless it follows through with other measures to encourage enterprise. In the event, the New Deal never was able to generate full recovery until the exigencies of war put the whole American population to work. But the experience of war, as Simons pointed out, proves if anything too much. War spending “worked” but only at the cost of the institution of direct control over rising prices and wages. Without these controls—as Beveridge in England has now admitted—unrestricted spending to produce full employment becomes simply an invitation to perpetual inflation.

#### TRADE UNIONS

Simons believed in the very antithesis of direct price and wage controls—i.e., in the beneficent forces of competition to keep prices in line and to hold wage rates where employment will be maximized rather than

fatally restricted. In the end his emphasis on competitive doctrine, and his courage to apply it without let or favor, is therefore his lasting contribution. Simons' corporate reforms would, if applied, be about as popular among U. S. industrialists as were his ideas in the field of banking. He was suspicious of the vaunted internal economies of "bigness"; at least he wanted to be shown. For natural monopolies he proposed outright socialization as better than government regulation. But for the great run of business enterprises he proposed simple if far-reaching measures including transfer to the federal government of the exclusive power to charter, limitation upon the total amount of property that any corporation can hold, and limitation on control of subsidiary corporations.

But it was not in industry, he correctly saw, that the crucial problem of monopoly must be faced in our day, but in organized labor. His reluctance to tackle the subject—his hope that somehow the problem might right itself—is instanced by the fact that though he wrote "Some Reflections on Syndicalism" in 1941, he held up publication until 1944. The opening paragraph of the essay is sufficient explanation of his hesitancy. "Questioning the virtues of the organized labor movement," he wrote, "is like attacking religion, monogamy, motherhood or the home. . . . Discussion of skeptical views runs almost entirely in terms of how one came by such persuasions, as though they were symptoms of some disease. One simply cannot argue that organization is injurious to labor; one is either for labor or against it, and the test is one's attitude toward unionism."

Simons was in the deepest sense pro-labor and openly skeptical of the worth of powerful trade unions. "If unionism were good for labor as a whole, that would be the end of the issue for me, since the community whose welfare concerns us is composed overwhelmingly of laborers." But trade unions of course do not represent the community as a whole but rather a special-interest group in the community. They are, no less than trade associations and other monopolies, organizations of producers, and "all the grosser mistakes in economic policy, if not most manifestations of democratic corruption, arise from focusing upon the interests of people as producers rather than upon their interests as consumers, i.e., from acting on behalf of producer minorities rather than on behalf of the whole community as sellers of services and buyers of products."

As might be expected, Simons laid stress on the adverse effect of unionism on new investment, dearth of which according to most New Deal economists was the reason for the prolonged depression of the thirties. "The phenomenal deficiency of private investment in recent years requires for explanation no recourse to factually unsupported (and, I believe, gross-

ly false) conjectures about 'real' investment opportunities. I believe that investment opportunities were never so large as now; that our highest thrift would not for generations permit enough investment to lower interest rates substantially, if owners of new capital assets could be assured of free-market access to labor and other complementary factors (mainly indirect labor). But the prospect of such access has diminished everywhere. Every new enterprise and every new investment must now pay heavy tribute to labor (and other monopolies) in acquiring its plant and equipment; and it faces the prospect of increasing extortion in its efforts to utilize facilities after they are constructed. (Labor monopolies are highly concentrated in construction and in capital-goods industries generally; they are also peculiarly characteristic of the more capital-intensive industries.)"

But trade-unionism in its present form is not only bad for the free flow of capital, and thus indirectly harmful to labor, it is directly harmful to labor itself. Labor's interest is obviously to have free entry into and egress from any and all occupations. And presupposing a sound and stable currency, Simons argued the proper wage is "the lowest wage that will bring forth an adequate supply of labor in competition with other employment opportunities." Trade unions block this process. They can and do prevent entrance into specific trades. They can and do put wages in specific industries so high as to cause not more but less employment. "The semblance of struggle between labor and capital conceals the substantial conflict between . . . established workers in more remunerative occupations and workers elsewhere. The masses of unorganized and unorganizable lose as consumers; they lose by being denied access to higher-wage areas; and they lose by an artificial abundance of labor in the markets where they must sell, i.e., by being forced to compete with workers who should have been drawn off into the higher-wage occupations. And let no one infer that their problem would be solved if they too were organized. The monopoly racket, like that of tariffs and subsidies, works only so long as it is exceptional—works only to advantage minorities relatively, with overall dis-economy and loss."

#### THE EXAMPLE OF EUROPE

Simons' case against unionism was the same as his case against monopoly everywhere. Corporate organization is justified where competition acts to establish prices. But what curb, Simons asked, could be found for strong, entrenched unions? The question, arising in the course of economic analysis, led him as always out into the broader field of political conse-

quences. "Unionists are much like our communist friends. They are good fighters and like fighting for its own sake. They are extremely effective at undermining the political and economic system which we have but are surprisingly unconcerned and inarticulate about the nature of the world which they would create afterward." The tendency of unions to get into politics is natural, but it may be no more amicable to democratic institutions than the appearance in Washington of other powerful pressure groups. Nor, Simons astutely argued, does socialism offer a way out. "A socialist government, faced with numerous functional minorities, each organized to disrupt the whole productive process unless its demands are met, would be exactly in the position of recent Chinese governments faced with great bandit armies continuously collecting ransom from the nominal sovereign. It would either deprive such minorities of the power to act as units in withholding services or be displaced by a non-democratic authority which could and would restore monopoly of violence."

The experience of Russia would more than bear out Simons' contention. The experience of postwar England yields little evidence either way since the Labor government's socialization schemes remain largely on paper. But Simons saw no reason to follow European example: "I do not maintain that German trade unions caused I.G. Farben and the Nazi revolution, or that French labor caused the disintegration of the French army, or that I.C.I. and the awful state of English industry are attributable to national collective bargaining. I do hold that large and powerful labor unions are integral elements in a total institutional complex whose development is everywhere antithetical to economic freedom, to political liberty, and to world peace; that we should here stop the development short of the German or French denouement and short of the awful mess which is now the English economy; and that we cannot import and retain the labor-organization component of this complex or trend without importing the rest of it too. If western Europe had maturity in collective bargaining and labor relations and if England has it still, these facts argue strongly against abandoning our democratic adolescence. We must alter our labor policy or abandon our antitrust policy—as English businessmen recommend."

#### FEDERATION AND FREE TRADE

Simons' views on trade-unionism lead, naturally, over to his internationalist position. Despite his profound dislike for the cartelization schemes espoused by British businessmen and for the multiple planning measures proposed by British labor, and despite the fact that working and



teaching in the heart of the Midwest he was everywhere subject to isolationist pressure, Simons was an early interventionist. He saw the war for what it was: an attempt to save what we know as civilization from unmitigated evil; and his doubts on European socialism and his hatred of communism did not throw him into the error of seeing something good, or at least something one could be neutral toward, in Hitlerism. The scholar who drew his principal inspiration from that long line of British liberals from Adam Smith and Mill to Marshall, and who derived so much stimulation (to put it mildly) from the writings of Lord Keynes, was not likely to miss the mutuality of interest holding Britain and the U.S. together.

He went further. Deploring the nationalist tendencies of British planners, he equally applauded the true internationalist tendencies inherent in the British Empire, whose unity through *decentralization* formed a pattern for the only kind of world unity he could understand. In so far as he allowed himself to speculate on the ideal of a world order his thought turned not to some monstrous superstate—itsself an intolerable monopoly able to destroy its members—but rather to a federation of equal states drawn together by common ideals of political justice and bound one to another through free and unfettered trade. “The peace will be won or lost on the simple issue of economic disarmament. The extreme nationalism of high protection, quota limitations, exchange controls, and bilateral trading must be swept away, at least among the leading protagonists of the present conflict. But movement in this direction cannot come unless there is wholesale economic disarmament also *within* these nations.”

For Simons, free competition at home and free trade abroad were two sides of the same coin. And precisely because of the weakness of the British position (to say nothing of the statism of Russia) he came back again and again to the question of American leadership. In his article “The U.S. Holds the Cards” (*Fortune*, September, 1944) he set out a monetary policy that might make the dollar, in conjunction with the pound sterling, a stable currency for over half the world. But his principal emphasis fell, as might be expected, not on money but on the free flow of goods across international borders. “American protectionism is simply done for. It is *the* utterly unrealistic prescription for the future. If we try to maintain it, we shall find ourselves with an institutional anomaly wholly unsuited to its world environment. . . . Surely conservatives would repudiate Congressional manipulation of trade via tariffs if they knew it must lead to creation of a federal authority that would administer

all our purchases and sales abroad and, in effect, prohibit all private negotiation of such contracts."

Simons died before the outlines of the peace were clearly defined. Perhaps for his own state of mind, never too peaceful, it was just as well. But who will doubt that with his passing a star, if not of the first magnitude, at least of the second, has fallen? His monetary theories remain to be tested; his strictures against erring tycoons and labor leaders will be re-sented; all this will be matter for Ph.D. theses for years to come. But in its grand outlines his testament will stand the test of time. He came to maturity when it was particularly necessary that *some* American stand up for the principles on which the republic was founded and fit them to the complexities of the day. In proposing that we render unto government the things that are government's and unto the free spirit the things that only freedom can accomplish he fulfilled his task. That—and one thing more. In taking his stand for liberalism in a day of reaction, Simons tried to reverse the malignant tendency that made many believe that first communism and then Hitlerism represented some kind of "wave of the future"—the tendency to bow to the inevitable.

"It is easy," Simons wrote, in full consciousness of all that his position implied, "to argue that the whole problem is so hard and ominous politically that no effort should be made to solve or even to see it—that the real choice lies between a certain, gradual death of economic democracy and an operation or treatment which would cure if successful but is almost certain to kill. I am no forecaster and am not in direct communication with the Almighty. Consequently, I can only maintain that it is immoral to take such absolute dilemmas seriously. Democracy would have been dead a thousand times if it paid much attention to historical extrapolations; and it is perhaps unnecessary to discuss now the shortcomings of temporizing expedients or appeasement."