

Maintenance of Recovery in Totalitarian States.

Democratic states may achieve full employment by means of public works, based on deficit expenditures, almost as well as totalitarian ones ; the only differences seem to be the pace which is somewhat slower in the democracies due to the slackening effect of the rise of wages and prices, and the residue of a number of unemployed in the democracies who prefer unemployment to the changes in place and branch of work made necessary by shifts in the economic structure.

But democracies seem to be unable to retain the status of full employment, at least if the status has been achieved by state intervention and not by "voluntary saving". On the contrary, totalitarian states can continue under full employment for a considerable time.

There are two reasons for this advantage.

- 1) Totalitarian states can because of their complete mastery over foreign trade and foreign exchange isolate their economic system against the influence of international cyclical movements. The machinery of this mastery and the price paid for it in form of losing many advantages of the international division of labor are well known and need not to be discussed.
- 2) Totalitarian states can because of their complete mastery over wages, prices and investments prevent the inflationary effects and therefore the ultimate breakdown of the deficit policy. The necessity of such a mastery is one of the strongest links between politics and economics in any totalitarian system.

Under a democracy, wages must tend to rise at last when full employment is achieved. Even if the leaders of the trade unions could be convinced that such a rise would lead to new unemployment, the pressure from the rank and file would prove irresistible. And even without this pressure, the employers themselves would raise the wages if they did not

stop expansion exactly in the moment when full employment is reached. To prevent this tendency, the dictators were from the very beginning compelled to dissolve and annihilate all labor organizations, those of their own adherents as well as those of their opponents, and to fix wages through government agencies instead by means of collective or even individual bargaining. Furthermore, they were compelled to abolish the freedom of choice, both for employers and workers, in respect to labor conditions aside of wages. In every respect, contract had to be displaced by a quasi-military system of orders. This system is loathed by all parties concerned, and it is almost inconceivable that it could be introduced in a democracy except in war-time. Even in the totalitarian states, it could hardly be maintained without the help of, i) an ideological propaganda that a war-like status was necessary in order to defend the fatherland against a conspiracy of internal (Jewish, Trotskyite) and foreign enemies, ii) the abolition of all obstacles to the complete and instantaneous enforcement of administrative decrees ("due process of law", self-government, trial by jury, etc.).

Under a democracy, the influx of fiat-money without a corresponding increase in the output of consumers goods must lead to a rise of prices, at first of consumers goods and then of producers goods as well. The seizure of the entire amount of this money by taxation has proved impossible even in the totalitarian states as such an exorbitant increase in taxation would seriously impair the standing of the dictator ; Germany has, e.g., refrained so far from raising the tax-schedules in Austria although she had planned this raise for six months, and the fact that Italy was forced to introduce a new tax a few weeks ago shows her plight better than all the statistics she does not allow to be published. Therefore, the flow of the new money must be regulated so as not to interfere with the existing price-

level. This can be done, i) by a system of (invisible) rationization of the consumers goods most in demand, ii) by a propoganda creating a demand for future goods (People's car, to be paid in long installments before delivery), iii) by inducing saving which is ultimately used to finance the government spending.

The savings must be prevented to be used by private investors. In general, democratic governments are inclined to put more or less mild pressure on investors and bankers too if need be ; but totalitarian states can resort to some means not available to democracies. Dictators have widely used the power to "sterilize" the funds of foreigners, emigrants and Jews. In Germany, I estimate these funds to amount to almost one half of the increase in the public debt between 1933 and 1938. In Italy, some observers suppose that one of the main reasons for the recent anti-Jewish legislation was to force wealthy Jews to emigrate and to leave their fortune as a "loan" to the state as in the case of Germany. Of course, the anti-inflationary methods of sterilizing funds ~~are~~ not restricted to those measures : another one which is politically quite neutral but has frequently been overlooked, is the restriction of credit not only for investment purposes but also in the normal trade. The German cartels, e.g., have in some cases practically abolished the sale on credit between manufacturer and retailer as well as between retailer and consumer. This policy - the counterpart of the "inverse credit" in the case of the People's car - has restricted the velocity of money circulation and, at the same time, checked the demand without a formal rise of prices.

Of course, also in totalitarian countries there must be somewhere an end to deficit-spending. But as long as the public debt does not rise to a staggering amount, this end seems to be far ^{away} ahead, at least in the case of Germany. And if the state is able to make state expenditure

less burdensome, e.g. by forcing other states to bear at least part of it by exchanging the obsolescent war-materials against consumers goods, the inflationary effect might further be reduced. In case of a lowering of the rate of interest, the budgetary burden of the debt-service might become negligible, as Mr. Balogh has pointed out in his recent paper. Therefore, a breakdown is to be feared only if the ~~staggering~~^{enormous} amount of organization and discipline needed to enforce the program is lacking. This seems to be true in Italy, but surely not in Germany.

However, the idea that the democracies had only to imitate some of the purely economic measures of totalitarian states in order to get rid of their unemployment, is untenable. The totalitarian system is indivisible : either ~~we want its~~^{if} ~~guaranty~~^{a totalitarian} of stable full employment, then we must accept its political consequences as well ; ~~or~~^{but if} we prefer ~~the democratic political system,~~^{find another way} then we must face the fact that ~~business cycles and unemployment~~^{of fighting unemployment} might be mitigated but not abolished. >