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I, Pencil Revisited

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But, first, it takes a considerable effort to disembody the valid economic principle from Read's context, which clearly presents the actual capitalist system of the 1950s and its institutions as examples of a free market, based on voluntary exchange between free people, in action. If you also take into account the fact that the biggest players in the violent, larcenous capitalist system of power in the real world of the postwar period played a leading role in organizing and funding Read's think tank, and that "I, Pencil" was written to sell that very system to the public as "free enterprise," there's really no way to polish it into something other than what it is.

Second, there is no such thing as an immaculate or neutral price system. Many alternative sets of initial property rules and institutions for organizing production are all compatible with the unhindered formation of market-clearing prices.

Third, the bare existence of unhindered price formation is not a sufficient criterion for the existence of "voluntary action" by "free men and women."

In short, if you want to promote a market price system as the most efficient method of coordination, get yourself a new pamphlet and stop peddling this disingenuous dreck to students. It's long past time to retire "I, Pencil."

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ative know-hows freely to flow. Have faith that free men and women will respond to the Invisible Hand.

In the real world the rest of us inhabit, capitalism — much like the previous feudal system of extraction it replaced — is utterly dependent on the inhibition or coercive channeling of creative energies in a thousand ways. And a great deal of violence is involved in creating the background power structures on which that illusion of an Invisible Hand depends.

A great deal of effort has been spent in the ideological realm concealing this history of violence behind the facade of “voluntary exchange.” We already saw above, in the case of marginal productivity and time preference, the ways in which modern economic theory does this.

Chomsky, noting the role of the state in virtually every aspect of corporate capitalism — in funding new technologies at taxpayer expense, subsidizing long-distance shipping, etc. — argues that “invocation of market forces, as if they were laws of nature, has a large element of fraud associated with it. It’s a kind of ideological warfare.”⁹⁵

Just so.

A Final Note, in the Interest of Steel-Manning

One might argue that, regardless of the validity of his specific examples, the basic principle he states — the superiority of coordination by a price system over central planning — is still valid.

I would agree, or at least stipulate, as far as it goes.

⁹⁵ Noam Chomsky, “How Free is the Free Market?” *Resurgence* no. 173 (Nov/Dec 1995). Reproduced at <https://lafavephilosophy.x10host.com/chomsky_free_market.html>.

would never have existed without the government's heavy bomber contracts. The production runs for the civilian market alone were too small to pay for the complex and expensive machine tools.⁵¹

...they deliver gas from Texas to one's range or furnace in New York at unbelievably low rates and without subsidy; they deliver each four pounds of oil from the Persian Gulf to our Eastern Seaboard — halfway around the world — for less money than the government charges for delivering a one-ounce letter across the street!

Well, if there's one place we'd expect to see just a bunch of freely cooperating men and women, without any government involvement, it's the fossil fuel industry! Sarcasm aside, the model of federal land preemption followed by preferential treatment for extractive industries that we already discussed in the case of the lumber industry, also applies to the oil, gas and coal industries. Add to that the use of eminent domain for pipeline construction, liability caps for environmental contamination, and regulatory preemption of tort liability law. To that, add the history of colonialism in oil industry (among many other things, British and American backing for the House of Saud, and the U.S. overthrow of Mossadegh after the nationalization of British Petroleum). And on top of all that throw in all the wars the United States has fought for access to Persian Gulf oil on American terms, and the role of the US Navy in keeping sea lanes open for oil tankers at taxpayer expense. Add them all together, and all that cheap oil the industry delivers doesn't sound so cheap after all.

The lesson I have to teach is this: *Leave all creative energies uninhibited.* Merely organize society to act in harmony with this lesson. Let society's legal apparatus remove all obstacles the best it can. Permit these cre-

Introduction

There is probably no libertarian polemic more widely distributed and more familiar, or held in higher esteem, than "I, Pencil: My Family Tree as told to Leonard E. Read." It originally appeared in the December 1958 issue of *The Freeman*. It has since been circulated as a pamphlet by the Foundation for Economic Education to generations of secondary and post-secondary students, as well as to the public at large. This study takes the FEE's pamphlet version as its text.¹

The essay purports to illustrate, exemplified by the production history of a humble pencil, the superior efficiency of coordination of "millions of tiny know-hows" by the Invisible Hand of the market compared to "human master-minding."² More than anything, it sought to imprint on its readers the importance of a "faith in free people" — and, by implication, the capitalist system that produced the pencil as an exemplar of such human freedom.³ It has received fulsome praise from such right-libertarian eminences as economists Milton Friedman and Donald Boudreaux, as well as Lawrence F. Reed (the latter currently president emeritus of FEE). In his Afterword to the FEE pamphlet, Friedman lauded it for its emphasis on the dispersed knowledge of millions of market actors coordinated by the market price system, going on to quote from his own television series "Free to Choose":

None of the thousands of persons involved in producing the pencil performed his task because he wanted a pencil. Some among them never saw a pencil and

¹ Leonard E. Read, *I, Pencil: My Family History as Told to Leonard E. Read* (Atlanta: Foundation for Economic Education, March 2019).

² *Ibid.*, pp. 8, 9.

³ *Ibid.*, p. 9.

would not know what it is for. Each saw his work as a way to get the goods and services he wanted....

It is even more astounding that the pencil was ever produced. No one sitting in a central office gave orders to these thousands of people. No military police enforced the orders that were not given.⁴

In an Afterword to the version hosted by the Online Library of Liberty, Boudreaux gushes: “No newcomer to economics who reads ‘I, Pencil’ can fail to have a simplistic belief in the superiority of central planning or regulation deeply shaken.”⁵

* * *

Lawrence Reed, writing the Foreword to his foundation’s pamphlet, observed quite truthfully that “Ideas are most powerful when wrapped in a compelling story.”⁶ No one understood this principle better than Ronald Reagan, recognized as the Great Storyteller by friends and adversaries alike. Reagan sold an entire transformative generational agenda of neoliberalism wrapped in simple, compelling stories about welfare queens in Cadillacs, slum-dwellers paying \$113 a month for luxury apartments, and lazy bums using food stamps to buy an orange and vodka. The stories were simple, compelling — and false.

The Foundation for Economic Education itself was created as part of a broader post-WWII corporate-funded propaganda offensive, aimed at selling the American public — through simple, compelling stories — on the virtues of “Our Free Enterprise System”

⁴ *Ibid.*, p. 11.

⁵ <<https://oll.libertyfund.org/title/read-i-pencil-my-family-tree-as-tol>

⁶ Leonard E. Read, *I, Pencil*, p. 1 (henceforth all references unless otherwise specified will be to the FEE pamphlet).

phone service provided by independents in 1907 and Bell’s annual profit rate falling from 40% to 8%. The Bell system responded to the threat of market competition by becoming a regulated monopoly, with municipal governments licensing it as the sole provider of telephone service in each locality.⁹³ In other words, the United States spent a century under the thumb of one or another form of Ma Bell only because an awful lot of “men” were *not* “left free to try.”

Those “men... left free to try,” likewise, “deliver 150 passengers from Seattle to Baltimore in less than four hours...” Ah, yes, that paragon of free market bootstrapping — the civil aviation system. In fact the American infrastructure of commercial airports is a creature of the state, built almost entirely at taxpayer expense and relying heavily on eminent domain. According to James Coston, the 1992 estimated “current replacement value of the U.S. commercial airport system — virtually all of it developed with federal grants and tax-free municipal bonds” was \$1 trillion. Not until 1971 did the government begin attempting to recoup this previous outlay with user fees — and even afterward, it continued to subsidize the FAA to the tune of \$3 billion a year for its network of control towers, air traffic control centers, and radar systems.⁹⁴ As for large passenger jets, the jumbo jet industry was largely made possible by the Cold War. In *Harry Truman and the War Scare of 1948*, Frank Kofsky described the aircraft industry as spiraling into red ink during the postwar demobilization, and on the verge of bankruptcy when it was rescued by Truman’s new bout of Cold War spending on heavy bombers.⁴⁹ David Noble argued out that civilian jumbo jets

⁹³ Mary Ruwart, *Healing Our World: The Compassion of Libertarianism* (Kalamazoo: Sunstar Press, 1992, 2015), pp. 112-114.

⁹⁴ James Coston, Amtrak Reform Council, 2001, in “America’s long history of subsidizing transportation” <<http://www.trainweb.org/moksrail/advocacy/resources/subsidies/transport.htm>>

free to try, then those with little faith would have a fair case. However, there is testimony galore; it's all about us and on every hand. Mail delivery is exceedingly simple when compared, for instance, to the making of an automobile or a calculating machine or a grain combine or a milling machine or to tens of thousands of other things.

But these things are made within an institutional planning framework which is, if anything, even more complicated than mail delivery — not to mention more complicated than pencil manufacturing. The automobile corporation — General Motors as organized under William Durant, to be specific — was the pioneering example of the multi-division, or M-form corporation. The large corporation is governed internally by an accounting system, including internal transfer pricing, much like that used by planning agencies like Gosplan in centrally planned economies like that of the USSR. And, ironically, the primary goal of “scientific management” from Andrew Ure through Frederick Taylor was to actively *suppress*, to the maximum extent feasible (even at the cost of degraded efficiency), dependence on the very distributed knowledge Read celebrates, in order to reduce the bargaining power of labor and render it more amenable to managerial control and planning.

Read moved on to telecommunications. “Delivery? Why, in this area where men have been left free to try, they deliver the human voice around the world in less than one second...” The Bell system, through the breakup of AT&T in the 1980s, was a textbook example of state-enforced monopoly power. It had its origin in the Bell Patent Association, formed in 1875, which held patents — state-enforced monopolies — on virtually every aspect of telephony. It held this monopoly power through the 1890s, when its patents began to expire. This expiration enabled the rise of independent phone service providers from 1894 on, with half of all new

and rolling back the prewar and wartime political gains of organized labor and the Left.

The National Association of Manufacturers was one major player in this campaign. In 1946, historian of propaganda Alex Carey quotes from a college thesis,

[a]ll available media were used to arouse the general public to insist that the country replace bureaucratic control with free competition. A series of four full-page advertisement in more than 400 daily and 2,000 weekly newspapers carried the opening message... Special articles were written for magazines, business periodicals and farm papers; the Association's Industrial Press Service carried a steady stream of statements and answers to 4,200 editions of weekly papers, 500 editors of metropolitan dailies and 2,700 editors of trade publications and employee magazines; 'Brief for Broadcasters' told the story to 700 radio commentators, and 'Industry's Views' channelled the Association's beliefs to more than 1,300 editorial writers and columnists.⁷

In the 1946-1950 period, the NAM distributed over 18 million pamphlets, with 41 percent going to employees, 53 percent to students, and six percent to community organizations like churches and women's groups.⁸

The NAM was joined by the U.S. Chamber of Commerce in its campaign to “drench the country with anti-communist, anti-socialist, anti-union and anti-New Deal propaganda.” The Cham-

⁷ Alex Carey, *Taking the Risk Out of Democracy: Corporate Propaganda versus Freedom and Liberty*. Edited by Andrew Lohrey, Foreword by Noam Chomsky (University of New South Wales, 1995), p. 28.

⁸ *Ibid.*, p. 28.

ber's strategy was to distribute millions of copies of large (around 50 pages) pamphlets.⁹ The American Advertising Council in 1947 launched a \$100 million program to "use all media to 'sell' the American economic system to the American people."¹⁰

As Daniel Bell described it, this propaganda campaign reflected "industry's prime concern"

in the post war years, to change the climate of opinion ushered in by... the depression. This 'free enterprise' campaign has two essential aims: to re-win the loyalty of the worker which now goes to the union and to halt creeping socialism.... In short the campaign has had the definite aim of seeking to shift the Democratic majority of the last 20 years into the Republican camp....

It was, Bell wrote, "the most intensive 'sales' campaign in the history of industry."¹¹

The Foundation for Economic Education, although its ties to the efforts of the NAM, Chamber of Commerce *et al* were less direct, was founded in 1946 as a business-funded think tank whose purpose was to propagandize in defense of a mythical "free enterprise system." Founder Leonard Read had had something of a conversion experience upon meeting William Clinton Mullendore of the Southern California Edison Company. The "free enterprise" creed to which Mullendore bore witness was no abstract set of free market principles, but a defense of American business interests against the "apostles of hatred" who threatened them.¹²

⁹ *Ibid.*, p. 29.

¹⁰ *Ibid.*, p. 30.

¹¹ *Ibid.*, p. 30.

¹² Kim Phillips-Fein, *Invisible Hands: The Businessmen's Crusade Against the New Deal* (W.W. Norton, 2008), p. 26. Pagination is from the pdf con-

is the reason: Each one acknowledges that he himself doesn't know how to do all the things incident to mail delivery. He also recognizes that no other individual could do it. These assumptions are correct. No individual possesses enough know-how to perform a nation's mail delivery any more than any individual possesses enough know-how to make a pencil. Now, in the absence of faith in free people — in the unawareness that millions of tiny know-hows would naturally and miraculously form and cooperate to satisfy this necessity — the individual cannot help but reach the erroneous conclusion that mail can be delivered only by governmental "master-minding."

The difference between the Post Office and private mail companies like FedEx and UPS is not the lack of internal "master-minding" as found in the former — the latter are structured along virtually the same lines, with essentially the same managerial hierarchies — but the former's lack of external competition in delivering certain services like first class mail. (In my experience the Postal Service is sometimes actually more efficient than UPS or FedEx, and makes better use of the distributed knowledge of its workers.)⁹²

So, if the Postal Service is governed by "master-minds" insofar as it is internally managed by a bureaucratic hierarchy, then so is every corporation of any size. On the other hand, if it's restraints on competition that constitute "master-minding," then every large corporation in an industry characterized by oligopoly market structure is governed by "master-minds."

If I, Pencil, were the only item that could offer testimony on what men and women can accomplish when

⁹² Carson, "The Myth of the Private Sector, Part I: Why Big-Small and Vertical-Horizontal Trumps 'Public-Private,'" Center for a Stateless Society, November 5, 2020 <<https://c4ss.org/content/53835>>.

There is a fact still more astounding: the absence of a master mind, of anyone dictating or forcibly directing these countless actions which bring me into being. No trace of such a person can be found. Instead, we find the Invisible Hand at work. This is the mystery to which I earlier referred....

I, Pencil, am a complex combination of miracles: a tree, zinc, copper, graphite, and so on. But to these miracles which manifest themselves in Nature an even more extraordinary miracle has been added: the configuration of creative human energies — millions of tiny know-hows configuring naturally and spontaneously in response to human necessity and desire and *in the absence of any human master-minding!*...

The above is what I meant when writing, “If you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing.” For, if one is aware that these know-hows will naturally, yes, automatically, arrange themselves into creative and productive patterns in response to human necessity and demand — that is, in the absence of governmental or any other coercive masterminding—then one will possess an absolutely essential ingredient for freedom: *a faith in free people*. Freedom is impossible without this faith.

But even Read’s critique of central planning — “master-minding” — itself displays logical weaknesses to the point of approaching incoherence.

Once government has had a monopoly of a creative activity such, for instance, as the delivery of the mails, most individuals will believe that the mails could not be efficiently delivered by men acting freely. And here

The concrete meaning the “free enterprise system” held for Read might be indicated by the fact that, while virtually every reference to labor unions in his private journal¹³ framed them in a negative light as coercive, quasi-governmental institutions that extorted citizens’ money¹⁴, he presumably didn’t view the bloody history of the Dole Company in Hawaii as a sufficient departure from the principle of voluntary decisions by “free men and women” to disqualify its president from serving as his executive assistant (Herbert Cornuelle went on to head United Fruit Company, another paragon of human liberty, in the 1960s).

At the outset FEE was heavily funded by corporate donors like Con Ed, U.S. Steel, GM, and Chrysler.¹⁵

The most successful libertarian organization of the postwar years, FEE quickly replaced the scattershot efforts of myriad small anti-New Deal organizations. It was well funded, courtesy of corporate supporters including Chrysler, General Motors, Monsanto, Montgomery Ward, and U.S. Steel, and received its single largest donation from the Volker Fund.¹⁶

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<<http://library.lol/main/F3D8A3A2960BAF35A21A4FE6FF25A072>>.

¹³ Leonard E. Read Journal at FEE (preserved by Internet Archive)
<<https://web.archive.org/web/20200313041517/https://history.fee.org/leonard-r>

¹⁴ August 15, 1952 <<https://web.archive.org/web/20190818053400/https://history.fee.org/august-15-1952>> in the August 27 entry he referred to the by-laws of “a CIO union” as “a stronger communist statement than the Manifesto” (accessed February 5, 2023).

¹⁵ Phillips-Fein, *Invisible Hands*, p. 60.

¹⁶ Jennifer Burns, *Goddess of the Market: Ayn Rand and the American Right* (New York: Oxford University Press, 2009), p. 115.

At the time of FEE's founding, Read had been general manager of the Los Angeles Chamber of Commerce. Alongside Read's position as president, the chairman's post went to David Goodrich, chairman of the board of B.F. Goodrich. Of the sixteen trustees, seven came from corporate backgrounds: H.W. Luhnnow, president of William Volker & Company; A. C. Mattei, president of Honolulu Oil Corporation; Charles White, president of the Republic Steel Corporation; Donaldson Brown, former vice-president of General Motors; Jasper Crane, former vice-president of Du Pont; B. E. Hutchinson, chairman of the finance committee of Chrysler Corporation; and his old friend W. C. Mullendore, president of the Southern California Edison Company.¹⁷ Herbert Cornuelle, of the Dole Company, was assistant to the president.¹⁸

* * *

"I, Pencil" is simple and compelling. Is it true? At first glance, there is little in it that appears likely to be outright fabrication or error in the same sense as Reagan's anecdotes. All the statements of bare fact about the sourcing of actual components seem to be fairly easily falsifiable. So the only question is whether these facts still bear out Read's implication when seen in context — or whether they are, in the words of *The Simpsons* attorney Lionel Hutz, "the best kind of true: technically true." Specifically, how accurately does Read's flowery language about "free people" actually describe the labor relations and ownership of resources at each of the many steps in the pencil's production history?

Let's take a closer look.

¹⁷ Henry Hazlitt, "The Early History of FEE," *The Freeman: Ideas on Liberty* (May 2006), pp. 38-39.

¹⁸ *Ibid.*, p. 39.

of the final product. The resulting "Swoosh markup" can amount to several hundred percent of what offshore factories are paid for actual labor and materials.

At the same time, this "division of labor" is massively subsidized. A major share of foreign aid and World Bank loans go toward financing the utility and road infrastructure needed to support overseas production facilities, and without which the profitable export of Western industrial capital would be impossible. And much of the cost of shipping outsourced goods from the Global South back to the shelves of Western retailers is borne by the American "defense" effort: one of the U.S. Navy's primary missions is to keep global sea lanes open for container ships, and the Navy is the most expensive component of the American "defense" budget.

So the global capitalist system has become even more coercive and state-reliant than it was at the time "I, Pencil" was written. But it's still standard right-libertarian practice today, just as much as in Read's time, to describe this state of affairs as "free trade."

The Invisible Hand vs. "Master Minds"

The final part of "I, Pencil" is a celebration of the alleged lessons — namely the governance of our "free market system" by the distributed knowledge of freely interacting individuals — of the pencil's production history.

Does anyone wish to challenge my earlier assertion that no single person on the face of this earth knows how to make me?

Actually, millions of human beings have had a hand in my creation, no one of whom even knows more than a very few of the others.... There isn't a single person in all these millions, including the president of the pencil company, who contributes more than a tiny, infinitesimal bit of know-how....

terials and cash crops, and then purchased consumer goods manufactured by Western industry. That “international division of labor” relied, as we have seen, on considerable use of force to maintain. In the decades since, the division of labor has changed in ways that depend even more strongly on state involvement. Since “I, Pencil” was written, capital has ceased to be primarily national, and a major share of production in the global economy is controlled by transnational corporations. And in the new division of labor, countries of the Global South, rather than simply ordering goods produced by factories in the West, supply the sweatshop labor to produce those goods in their own countries. But, far from being some sort of immaculate Ricardian “comparative division of labor” in which relative power plays no role, it’s an extractive division of labor in which the state plays an even greater role in enforcing disadvantageous terms on the neo-colonial world.

Although the former industrial corporations of the West increasingly outsource all production to offshore sweatshops in Third World countries, this production by nominally independent “third parties” remains firmly under Western corporate control. The mechanism of control is a draconian global intellectual property regime — a regime enforced by the Uruguay Round of GATT and a number of other so-called “Free Trade Agreements” — which is, if anything, more protectionist than the tariffs of the Smoot-Hawley era. The main differences are that 1) the beneficiaries of old-style tariffs were national industrial corporations, while the beneficiaries of IP protectionism are transnational corporations, and 2) tariffs operated at national borders while patents operate at the boundary between the corporation and the rest of the world. But they are alike in that they confer a legal monopoly on the right to sell a given good in a given market. Under this arrangement, Western corporations completely outsource actual production to nominally independent contractors in countries with a cheap labor supply, while using their control of finance, marketing, and intellectual property to retain a complete monopoly on disposal

Stations of the Pencil

According to a footnote in the Online Library of Liberty version, the history in “I, Pencil” is specifically that of a Mongol 482 pencil, a product of the Eberhard Faber Pencil Company.

Now, Read does not go much into the history of the Eberhard Faber company in this tract. All his factoids about the making of the pencil reflect the state of affairs at the time of writing — presumably in 1958 or not long before. But the actual history of the company adds some possibly illuminating context.

The Wikipedia entry for the company dates its founding by John Eberhard Faber to 1861, in Manhattan.¹⁹

“My family tree,” the pencil starts out, “begins with what in fact is a tree, a cedar of straight grain that grows in Northern California and Oregon.”²⁰ The Eberhard Faber Pencil Factory originally produced pencils from cedar — Eastern red cedar, to be exact — but not from California. Its wood supply came from Faber’s lumber mill near Cedar Key, Florida.²¹ Although I can find no information on when the company began sourcing its cedar from the Pacific coastal region, or whether it used wood from both Florida and the West Coast for some period of time, it presumably switched exclusively to western sources by 1896 at the latest because in that year the Florida mill burned down.²²

¹⁹ “Eberhard Faber,” *Wikipedia* <https://en.wikipedia.org/wiki/Eberhard_Faber>. Accessed January 26, 2023.

²⁰ Leonard E. Read, *I, Pencil*, p. 5.

²¹ *Ibid.*; “Eberhard Faber Pencil Factory,” *Wikipedia* <https://en.wikipedia.org/wiki/Eberhard_Faber_Pencil_Factory>. Accessed January 26, 2023.

²² “Eberhard Faber.”

“I, Pencil” makes no mention of the actual supplier for Eberhard Faber’s cedar on the West Coast, whether it’s sourced from an independent firm or from an Eberhard Faber subsidiary, or how the supplier acquired the cedar forests in either case. But CalCedar — the California Cedar Products Company, founded in 1917 and located in Stockton — is, according to its LinkedIn page, “the world’s leading supplier of cedar pencil slats” to “pencil manufacturers around the globe.” In that regard, it can probably be taken as typical of the cedar operations supplying the pencil industry.²³

Regarding CalCedar’s actual acquisition of cedar forests, the *Reference for Business* website notes only that Charles Berolzheimer, a great-grandson of the founder,

struck out on his own in the pencil business in 1927, moving west to California to buy a young firm called California Cedar Products Company, which relied on the ready availability of Incense-cedar in the forests of California and Oregon to produce both paneling and pencil slats.²⁴

No doubt that “ready availability” of cedar leaves a lot unsaid; behind that weasel-wording, there probably lies an interesting — if less edifying than Read’s — story of *how* it became available. California, as any student of middle school American history should know, was forcibly acquired by the United States only twelve years

²³ “California Cedar Products Company” profile, LinkedIn <<https://www.linkedin.com/company/california-cedar-products-comapny/about/>>. Accessed January 26, 2023.

²⁴ “California Cedar Products Company – Company Profile, Information, Business Description, History, Background Information on California Cedar Products Company,” *Reference for Business* <<https://www.referenceforbusiness.com/history2/26/California-Cedar-Products->>. Accessed January 26, 2023.

domestic interests. In particular, it meant no toleration for national strategies of development by import substitution or protection of domestic industry.⁸⁹

For example the National Security Council document NSC 5432, “U.S. Policy Toward Latin America” (18 Aug 1954) stated the primary U.S. policy goal as to guarantee “[a]dequate... access by the United States to raw materials essential to U.S. security,” and to guard against “domestic pressures” in the post-colonial world to “increase production *and to diversify their economies*” (emphasis added). The means of accomplishing this would be to “[f]oster closer relations between Latin American and U.S. military personnel in order to increase the understanding of, and orientation toward, U.S. objectives..., recognizing that the military establishments... play an influential role in government.”⁹⁰

Still another NSC document from August 1962, “U.S. Overseas Defense Policy,” asserted a right to intervene militarily in Third World countries to protect purely economic interests. It was even more vital than before that “developing nations evolve in a way that affords a congenial world environment.” This meant not only preventing their “manpower and national resources” from falling under “communist control,” but extended to America’s “economic interest that the resources and markets of the less developed world remain available to us and to other Free World countries.”⁹¹

In Read’s day, the setup was for the most part still the old colonial one persisting into the post-colonial era: colonial and post-colonial countries earned foreign exchange by exporting raw ma-

⁸⁹ Gabriel Kolko, *The Politics of War: The World and United States Foreign Policy, 1943-1945* (New York: Pantheon Books, 1968, 1990), p. 254.

⁹⁰ Noam Chomsky, *On Power and Ideology: The Managua Lectures* (Boston: South End Press, 1987), pp. 20-21.

⁹¹ Gabriel Kolko, *Confronting the Third World: United States Foreign Policy 1945-1980* (New York: Pantheon Books, 1988), p. 130.

This vision of a global economy integrated into the needs of the West, and managed primarily by the United States, predated the beginning of the Cold War and would likely have been the same in all essentials had the Cold War never occurred. After the war as before, the central focus on U.S. foreign policy, without specific regard to the USSR, was to counter and “contain” any new power — an “aggressor” by definition — which challenged this hegemony on the prewar pattern of Fortress Europe or the Co-Prosperity Sphere.

Indeed the threat from the USSR itself was viewed in the early Cold War period primarily in Grand Area terms — i.e., the appeal of its model of economic development in the Third World. Most reasonable policy-makers largely dismissed the possibility of direct military aggression by the Soviet bloc against the West. The more realistic threat, as stated by the policy wonks of a Woodrow Wilson Center study group in 1955, was a “serious reduction in the potential resource base and market opportunities of the West owing to the subtraction of the communist areas and their economic transformation in ways that reduce their willingness and ability to complement the industrial economies of the West...”⁸⁸

U.S. planning for the postwar order, from 1944 on, outlined the implications for the colonial and post-colonial world. Charles P. Taft, director of the State Department Office of Wartime Economic Affairs, in May 1944 predicted that most petroleum and metals used by U.S. industry would eventually be imported. Accordingly, it would be necessary for the U.S. to export industrial goods and capital, for which the developing world could pay only with exports of its raw materials. This required an expanded version of America’s “Open Door” policy — one in which not only did all foreign interests operating in a country have parity with the most favored nation, but one in which all foreign interests had parity with

⁸⁸ William Yandell Elliot, ed., *The Political Economy of American Foreign Policy* (Holt, Rinehart & Winston, 1955) p. 42.

before Eberhard Faber founded his pencil company — thereby leading to the “ready availability” of not only cedar, but of many other kinds of lumber, mineral, and grazing land, to the American logging, mining and ranching interests that swarmed westward to grab the loot acquired after the Mexican War.

The story of California is the story of the American West more generally; legal title to the great bulk of land area passed from the Spanish crown to the Republic of Mexico, and in turn became United States public lands. The rest of the story amounts to a Billy Jack movie. The U.S. Department of the Interior and Bureau of Land Management are, to borrow an old joke concerning the Canadian government, a bunch of mining and logging companies in a trench-coat. Tens of thousands of square miles of forest and mineral resources were doled out to such companies in, to adapt a phrase from Vernon Parrington, a Great Barbecue; tens or hundreds of thousands more were officially retained in the public domain, but preferentially leased to the mining and logging companies at the most nominal of prices.

At any rate, the few remaining Yokuts people — upon whose unceded land the city called “Stockton” sits — might have something to say about how free, peaceful, and voluntary the process was by which that cedar was acquired to supply the wood for Read’s talkative pencil. Here’s a hint: In 1851, Governor Pete Burnett demanded that Native peoples be moved east of the Sierra mountains; else, he warned, “a war of extermination would continue to be waged until the Indian race should become extinct.”²⁵

The redwood forests, regardless of the particular corporation which actually logged them, were (as John Quiggin points out) quite likely “managed by the US Forest Service or the Bureau of Land Management, or maybe a similar state agency.”

²⁵ “Yokuts,” Wikipedia <<https://en.wikipedia.org/wiki/Yokuts>>. Accessed January 26, 2023.

And why is this? Starting in the late 19th century, the US government (most notably under Theodore Roosevelt) judged that the nation's forests were not likely to be adequately managed to ensure a supply of timber for, among other things, the production of pencils for future generations if they relied on existing private property rights and the workings of the invisible hand. Similar judgements have been made in Australia and many other countries. That is, the production of pencils in the US in the 1950s depended, to a substantial extent, on conscious planning undertaken 50 years ago.

It would be naive to suppose that public management of national forests is driven by a concern for some abstract notion of the common good. A variety of interests (logging companies, land developers, environmentalists and others) push with greater or lesser success for their view of how forests ought to be run, and sometimes succeed in capturing government agencies that are supposed to regulate them.²⁶

In other words, this is yet another of the many cases in which the capitalist state manages the economy on behalf of capitalist industry. Right-libertarians might raise the objection that a poor hapless business enterprise has no choice but to source its raw materials from available suppliers, regardless of whether they've fallen victim to predation by the wicked, aggrandizing state. But bear in mind that this is not even a matter (as per Quiggin's unfortunately naive liberal framing) of agencies being "captured" by "government agencies that are supposed to regulate them." Rather, as Gabriel

²⁶ John Quiggin, "I Pencil: A product of the mixed economy (updated)," *Crooked Timber*, April 16, 2011 <<https://crookedtimber.org/2011/04/16/i-pencil-a-product-of-the-mixed-economy>

withdraw a critical number of countries, the integration of whose resource inputs and markets into the U.S. industrial economy was critical for its survival, from the global division of labor. They calculated that the resources of a "Grand Area" – which consisted of the Western Hemisphere, British Empire, and Western Pacific – were the minimum required for the American economy to function in its existing form. In particular, they feared the loss of French Indochina's tin and the rubber of the Dutch East Indies. It was FDR's fears in this regard that led to the United States oil embargo against Japan and its backing of Chinese guerrillas.⁸⁶

The American objective in the Pacific was stated in CFR memorandum E-B34, "Methods of Economic Collaboration: Introductory. The Role of the Grand Area in American Economic Policy" (July 24, 1941): "to secure integration," so as "to transform the economic potential of the area into military power." Such integration required "a conscious program of broadly conceived measures for... securing the full use of the economic resources of the whole area." Japanese expansion, on the other hand, "continues to threaten the integration of the Grand Area."⁸⁷

The primary object of U.S. foreign policy in the postwar period, similarly, was to prevent the rise of another power which would present a similar challenge to Western control of the "Grand Area," and to ensure that radical governments in economically vital countries of the Global South did not attempt to revise the existing division of labor or defect from the Grand Area.

⁸⁶ Laurence Shoup and William Minter, "Shaping a New World Order: The Council on Foreign Relations' Blueprint for World Hegemony," in Holly Sklar, ed., *Trilateralism: The Trilateral Commission and Elite Planning For World Management* (Boston: South End Press, 1980), pp. 135-156.

⁸⁷ G. William Domhoff, *The Power Elite and the State* (New York: Aldine de Gruyter, 1990), pp. 161-162.

There was also coercion at a systemic level to create the background against which the entire process took place. There were centuries of coercion, to create the background conditions necessary for the weaker party to “voluntarily” accept terms offered by the stronger with no gun or soldier immediately present.

The choices of components, where to source them, and where and how to combine them into a finished pencil, as recounted by Read, were not the only possible choices. The overall process, with its attendant supply and distribution chains, was one choice among many alternatives. We have yet to consider the larger systemic background against which these choices were made.

From their very beginnings, the institutional foundations of both capitalism and the wage system were laid through violence. For centuries, landlords and capitalists in league with the state nullified the land tenure rights of the majority of the population in the West so that the propertyless majority were left with no choice but to accept wage employment on any terms offered. When the lack of access to land for subsistence was inadequate on its own, “masterless men” and “sturdy rogues” were coerced by more direct means: the Vagabonds Act, the Laws of Settlement, the Riot Act, and the Combination Acts, among others.

In the non-Western world, a similar combination of expropriation and force by the colonizing countries was used to coerce subordinate countries into a role, in the “international division of labor,” of exporting natural resources to the West and importing Western manufactured goods.

This same division of labor was continued even after nominal independence, through a global order set up by the Western powers after WWII. American foreign policy concerns, and the postwar institutions it set up pursuant to those concerns in cooperation with the Western Allies, were a direct outgrowth of the concerns that had drawn it into the Pacific war.

Policy analysts in the State Department, from mid-1940 on, feared that Japan’s Greater East Asian Co-Prosperty Sphere would

Kolko demonstrated in *The Triumph of Conservatism*, most of the Progressive Era regulatory agenda was actually passed at the behest of the regulated industries themselves. He used the term “political capitalism” to describe the capitalist state’s policy objectives:

Political capitalism is the utilization of political outlets to attain conditions of stability, predictability, and security — to attain rationalization — in the economy. *Stability* is the elimination of internecine competition and erratic fluctuations in the economy. *Predictability* is the ability, on the basis of politically stabilized and secured means, to plan future economic action on the basis of fairly calculable expectations. By *security* I mean protection from the political attacks latent in any formally democratic political structure. I do not give to *rationalization* its frequent definition as the improvement of efficiency, output, or internal organization of a company; I mean by the term, rather, the organization of the economy and the larger political and social spheres in a manner that will allow corporations to function in a predictable and secure environment permitting reasonable profits over the long run.²⁷

To frame big business as distinct from the state at all, let alone the more passive of the two parties, is a bit like treating feudal landlords as separate from the medieval polity.

And one of the central functions of the capitalist state is to subsidize many of the inputs to capitalist industry — in particular by guaranteeing access to artificially cheap, abundant natural resources through colonial enclosure both within America’s own settler colonial hinterland and in the external colonial world.

²⁷ Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History* (New York: The Free Press of Glencoe, 1923), p. 3.

Read continues:

The logs are shipped to a mill in San Leandro, California. Can you imagine the individuals who make flat cars and rails and railroad engines and who construct and install the communication systems incidental thereto? These legions are among my antecedents....

Don't overlook the ancestors present and distant who have a hand in transporting sixty carloads of slats across the nation.²⁸

Of course we all know what an exemplary product of the Invisible Hand the national railroad system was. As Quiggin notes: "Read's pencil doesn't mention the line, but it's presumably on the network of the Union Pacific Railroad, created by Act of Congress under Abraham Lincoln, with the plan of building a railway line across the US."²⁹ There's some disputing in the comments under Quiggin's post as to which line it actually was, but it makes little difference. The state was central to the creation of the entire national railroad system.

The railroads, Albert Jay Nock observed, were — "with few exceptions" — not a "response to any economic demand. They were speculative enterprises enabled by State intervention, by allotment of the political means in the form of land-grants and subsidies...."³⁰

Those federal land grants, according to Matthew Josephson, in effect transformed the railroad companies into land companies. In the decade before 1861, "the railroads, especially in the West,

²⁸ Leonard E. Read, *I, Pencil*, p. 5.

²⁹ Quiggin, "I Pencil."

³⁰ Albert Jay Nock, *Our Enemy, the State* (Delavan, Wisconsin: Hallberg Publishing Corporation, 1983), p. 102.

designed the legal infrastructure for investment in Indonesia. I've never heard of a situation like this where global capital sits down with the representatives of a supposedly sovereign state and hammers out the conditions of their own entry into that country." In 1967 the demands of international business were translated into law by Suharto through the passing of the "Law regarding Foreign Investment".⁸⁴

From the Trees Back to the Forest

In one aspect, Read's pamphlet is — to repeat that line — "The best kind of true: technically true." It is true, in a sense, that all or most of the series of transactions recounted by Read in the history of his pencil were "voluntary." Although there were no guns present at the immediate point of any of the transactions, no soldiers or policemen standing by to coerce either party into participating, we've seen the role of robbery and other forms of coercion *behind* the individual steps involved in the production history of the pencil.

And it's true, as Read observes at the outset: "Simple? Yet, *not a single person on the face of this earth knows how to make me.*"⁸⁵

Read is entirely correct — so far as he goes — both in touting the importance of distributed knowledge under any economic system, and in celebrating the usefulness of allowing the formation of market-clearing prices as a tool for coordination.

But that's not the end of the story. Not only was there a coercive background — with guns, soldiers, and police — behind each of those individual transactions.

⁸⁴ De Vries, "Neo-Colonialism And The Example Of Indonesia – Analysis."

⁸⁵ Read, "I, Pencil," p. 5.

criticism for continuing military aid — at that time we could not say what that military aid was for. Is it secret any more?

McNamara: I think in retrospect, that the aid was well justified.

Sparkman: You think it paid dividends?

McNamara: I do, sir.⁸³

Following the successful overthrow of Sukarno, much as in Pinochet's Chile, the Suharto coup regime proceeded to restructure the economy along lines dictated by international capital.

One of the first acts of general Suharto following his grab of power was to send a team of economists to a conference held in Geneva, Switzerland, named "Indonesian Investment Conference: To aid in the rebuilding of a nation". The conference was organized by Time Life Corporation of America and, in addition to the Indonesian economists, was attended by representatives of mostly American multinational corporations. Professor Jeffrey Winters of Northwestern University in Chicago studied the conference papers and described the proceedings at the conference in the following manner: "*They divided up into five different sections: mining in one room, services in another, light industry in another, banking and finance in another. And what Chase Manhattan did was sit with a delegation and hammer out policies that were going to be acceptable to them and other investors. You had these big corporate people going round the table, saying 'this is what we need: this, this and this'; and they basically*

⁸³ *Ibid.*, p. 196.

were 'land companies' which acquired their principal raw material through pure grants in return for their promise to build, and whose directors... did a rushing land business in farm lands and town sites at rising prices." For example, under the terms of the Pacific Railroad bill, the Union Pacific (which built from the Mississippi westward) was granted twelve million acres of land and \$27 million worth of thirty-year government bonds. The Central Pacific (built from the West Coast eastward) received nine million acres and \$24 million worth of bonds.³¹

No less a right-libertarian eminence than Murray Rothbard confirms that the land grants included not only the rights-of-way for the actual track, "but fifteen-mile tracts on either side of the line." This was so that, as the lines were completed, the railroads could cash in by selling off the now-prime real estate at its new, astronomically increased value. Every home and business in the new towns that sprang up along the railroad routes was bought from the railroad companies. In addition, the land grants also included valuable timber land.³²

Let's look a little closer at those railroad bonds Josephson mentioned above, while we're at it. Theodore Judah, chief engineer for what would be the Central Pacific railroad, stated that the project "could be done — *if government aid were obtained.*" One of the railroad's leading promoters, Collis Huntington, obtained financing by bribing local governments (including Stockton, Sacramento, and San Francisco) into issuing bonds ("ranging from

³¹ Matthew Josephson, *The Robber Barons: The Great American Capitalists 1861-1901* (New York: Harcourt, Brace, and World, 1934, 1962), pp. 77-78.

³² Murray N. Rothbard, *Power & Market: Government and the Economy* (Menlo Park, California: Institute for Humane Studies, 1970), p. 70.

\$150,000 to \$1,000,000”), and/or extorted them with the threat of being bypassed in favor of other towns.³³

Michael Piore and Charles Sabel argue that it is quite unlikely the railroads would have been built anywhere near as quickly, or on as large a scale, had they not been funded by massive subsidies. The initial capital outlays required to secure rights-of-way, prepare road beds, and lay track were too costly.³⁴ The federal government also overcame transaction costs by revising tort and contract law, among other things exempting common carriers from liability for many kinds of physical damage caused by their operation.³⁵

Absent all these subsidies, Lewis Mumford speculates, the railroad system that emerged would likely have been much lower in capacity and less centralized — a large number of regional railroad systems geared primarily to supporting local and regional industrial district economies, and loosely linked together (if at all) by fewer and smaller national trunk lines.³⁶

In addition to the subsidies mentioned so far, the federal government has also intervened constantly to enforce labor discipline in the railroad industry and guarantee its smooth functioning. Consider, for example, President Grover Cleveland’s use of federal troops to break the Pullman Strike in 1896. The Railway Labor Act of 1926 gave the federal government power to impose mediation

³³ Josephson, *The Robber Barons*, pp. 83-84.

³⁴ Michael J. Piore and Charles F. Sabel, *The Second Industrial Divide: Possibilities for Prosperity* (New York: Harper-Collins, 1984), p. 66.

³⁵ *Ibid.*, pp. 66-67. This, by the way, was just one example in a much longer history of common law at the state level being modified by courts to make it more business-friendly. See Morton Horwitz, *The Transformation of American Law, 1780-1860. Studies in Legal History* (Cambridge and London: Harvard University Press, 1977).

³⁶ Lewis Mumford, *The City in History: Its Transformations, and Its Prospects* (New York: Harcourt, Brace, & World, 1961), pp. 333-334.

lists of “Communist” operatives, from top echelons down to village cadres, and turned over as many as 5,000 names to the Indonesian army, which hunted those persons down and killed them. The Americans would then check off the names of those who had been killed or captured. Robert Martens, a former member of the US Embassy’s political section in Jakarta, stated in 1990: “It really was a big help to the army. They probably killed a lot of people, and I probably have a lot of blood on my hands, but that’s not all bad. There’s a time when you have to strike hard at a decisive moment”...

Although the former deputy CIA station chief in Indonesia, Joseph Lazarsky, and former diplomat Edward Masters, who was Martens’ boss, confirmed that CIA officers contributed in drawing up the death lists, the CIA in Langley categorically denied any involvement.⁸²

All this bloody business, for the primary purpose of safeguarding the right of foreign capital to extract Indonesian natural resources, on its own terms — presumably including the rapeseed oil that went into Read’s crowning glory — without interference.

Thanks to the Military Assistance Program more than 1,200 Indonesian officers had been trained in the United States, “including senior military figures.” As a result much of the Indonesian military leadership had ongoing friendly ties with the U.S. military. In the aftermath of the coup, Defense Secretary McNamara joked about it before a Senate committee:

Senator Sparkman: At a time when Indonesia was kicking up pretty badly — when we were getting a lot of

⁸² *Ibid.*, p. 194.

was made available for the conflict after being “sanitized” to ensure that they were “non-attributable” and that all airborne equipment was “deniable”.⁷⁸

Despite local rebellions on some islands of the archipelago, some military defections, and terror bombing of civilian targets by CIA planes, the rebels were able to win no decisive victories and Sukarno retained control. After the capture of a U.S. operative with incriminating documents, the CIA abandoned the campaign out of embarrassment.⁷⁹

The Kennedy administration took a continued interest not only in isolating Sukarno in Asia and Africa but in “liquidating” him, according to a mid-1962 conversation between Kennedy and British Prime Minister Macmillan, recorded in a CIA memo whose author was redacted.⁸⁰

The United States took another shot at it, this time successful, in 1965. The operation far surpassed the scale of the previous effort, constituting a destabilization campaign rivalled only by that against Allende — and a death toll unmatched by any covert operation anywhere. The “communists” liquidated in the aftermath — estimates of fatalities range from 500,000 to a million — included not only members of the Communist Party, but members of the Communist youth organization, suspected communists, other leftists, and even ethnic Chinese.⁸¹ And the U.S. Embassy and CIA station in Jakarta were far from passive parties.

Twenty-five years later, American diplomats disclosed that they had systematically compiled comprehensive

⁷⁸ *Ibid.*, p. 102.

⁷⁹ *Ibid.*, pp. 102-103.

⁸⁰ *Ibid.*, p. 195.

⁸¹ *Ibid.*, pp. 193-194.

and binding arbitration on unions, forcing workers to accept terms defined by the government in the interest of avoiding strikes.

The history of state subsidies and protections to the railroad industry is a prime example of the state’s role in subsidizing transportation, artificially reducing the cost of shipping freight and thereby making larger firms serving larger market areas artificially profitable. As Noam Chomsky writes:

One well-known fact about trade is that it’s highly subsidized with huge market-distorting factors.... The most obvious is that every form of transport is highly subsidized.... Since trade naturally requires transport, the costs of transport enter into the calculation of the efficiency of trade. But there are huge subsidies to reduce the costs of transport, through manipulation of energy costs and all sorts of market-distorting functions.³⁷

Also included in the pencil’s ancestry, Read writes, “are the men who poured the concrete for the dam of a Pacific Gas & Electric Company hydroplant which supplies the mill’s power!”³⁸

Since Read fails to specify the particular dam from which the San Leandro mill gets its power, there’s no way of knowing the details of its history. But it’s odd, to say the least, for an article touting the voluntary decisions of “free men and women” to discuss the ordinary workers pouring concrete for a dam without once mentioning eminent domain or the Army Corps of Engineers.

³⁷ Noam Chomsky, “How Free is the Free Market?” *Resurgence* no. 173 (Nov/Dec 1995). Reproduced at <https://lafavephilosophy.x10host.com/chomsky_free_market.html>.

³⁸ Read, *I, Pencil*, p. 5.

Railroads and hydroelectric dams both occupy prominent places in the long history of state-funded “internal improvements” in the development of the American economy. Transportation and utility infrastructure, in turn is just part of the larger phenomenon by which the capitalist state has socialized all the major input costs of “private” industry. James O’Connor, in *The Fiscal Crisis of the State*, referred to such expenditures as “social investment”; they referred to “expenditures required for profitable private accumulation,” and more specifically “projects and services that increase the productivity of a given amount of laborpower and, other factors being equal, increase the rate of profit.”³⁹ Because taxpayers assume a major portion of the cost side of the ledger, the rate of profit on capital is artificially inflated. But over time, an increasing share of total corporate costs must be socialized in order for capital to remain profitable.

Unquestionably, monopoly sector growth depends on the continuous expansion of social investment and social consumption projects that in part or in whole indirectly increase productivity from the standpoint of monopoly capital. In short, monopoly capital socializes more and more costs of production.⁴⁰

Next, discussing the “\$4,000,000 in machinery and building” in the pencil factory, Read manages to slip one of the most disputable assertions ever into a throwaway line, characterizing it as “all capital accumulated by thrifty and saving parents of mine...”⁴¹

³⁹ James O’Connor, *The Fiscal Crisis of the State* (New York: St. Martin’s Press, 1973), pp. 6-7.

⁴⁰ O’Connor, *Fiscal Crisis of the State*, p. 24.

⁴¹ Read, *I, Pencil*, p. 6.

Eberhard Faber’s Indonesian source of rapeseed oil for erasers remained under foreign ownership of foreign colonizers at the time Read celebrated the transaction as one in a long chain of voluntary interactions between “free men and women.”

The United States responded to Sukarno’s anti-colonial economic rhetoric with an unsuccessful covert destabilization campaign aimed at removing him. CIA Deputy Director of Plans Frank Wisner’s 1956 comment that it was “time we held Sukarno’s feet to the fire”⁷⁷ was followed in late 1957 by official approval of a covert CIA paramilitary operation.

In this undertaking, as in others, the Agency enjoyed the advantage of the United States’ far-flung military empire. Headquarters for the operation were established in neighboring Singapore, courtesy of the British; training bases set up in the Philippines; airstrips laid out in various parts of the Pacific to prepare for bomber and transport missions; Indonesians, along with Filipinos, Taiwanese, Americans, and other “soldiers of fortune” were assembled in Okinawa and the Philippines along with vast quantities of arms and equipment.

For this, the CIA’s most ambitious military operation to date, tens of thousands of rebels were armed, equipped and trained by the US Army. US Navy submarines, patrolling off the coast of Sumatra, the main island, put over-the-beach parties ashore along with supplies and communications equipment. The US Air Force set up a considerable Air Transport force which air-dropped many thousands of weapons deep into Indonesian territory. And a fleet of 15 B-26 bombers

⁷⁷ Blum, *Killing Hope*, p. 99.

The agreement also mandated continued Dutch control of the “all ‘modern’ sections of Indonesia’s economy,”

such as industry, mining, plantations, finance and banking, and large scale international trade. This caused the establishment of a “dual economy” in Indonesia, in which the Dutch and Chinese Indonesians controlled the most important and profitable sectors of the economy, with little to no participation of other Indonesians.

Although remedying this foreign control and “Indonesianizing” the economy was a central goal of post-independence policy, little to nothing had been achieved toward this goal by the late 1950s.⁷³

“Starting in 1957,” Dutch interests were nationalized.⁷⁴ It is unclear from this article whether nationalization had sufficiently progressed to include the rapeseed industry, in particular, by the time Read finished writing “I, Pencil,” or whether the industry was specifically under Dutch control. But a right-wing source reports elsewhere that Sukarno’s nationalization of plantations occurred in 1959⁷⁵; and a great deal of industry under foreign ownership other than by the Dutch persisted until Sukarno’s nationalizations of the early and mid-1960s.⁷⁶ So presumably

⁷³ *Ibid.*

⁷⁴ *Ibid.*

⁷⁵ William E. James, “Lessons from Development of the Indonesian Economy,” *Journal of Asian Studies* 5:1 (Spring 2000) <<https://www.asianstudies.org/wp-content/uploads/lessons-from-development-of> p. 32.

⁷⁶ William A. Redfern, “Sukarno’s Guided Democracy and the Takeovers of Foreign Companies in Indonesia in the 1960s.” Doctoral dissertation in history (University of Michigan, 2010).

The idea that “investors” in some way “contribute” to production by “supplying capital” is one of, if not the most common, tropes in capitalist apologetics.

It might be valid, in a world where machines could be built from piles of money, workers could subsist on money, and money could be used as a raw material for manufacturing industrial goods. But in the world we live in, those machines are built by workers acting on the raw materials supplied by nature. The machines process other raw materials, also extracted by workers from nature. And the workers engaged in the production process are fed and housed, in turn, by other groups of workers acting on still other raw materials created by nature. Everything consumed by human beings is produced by human labor acting on materials supplied by nature.

There is no store — no “labor fund” — of accumulated stockpiles of raw materials or food supplied by the capitalist. Total inventories of food are typically insufficient for more than a few days before starvation would set in absent further production. Workers are fed, on an ongoing basis, by other groups of workers who produced the food shortly before; and other groups of workers similarly supply the raw materials for production just as they’re needed.

At no point is even a single widget produced by a capitalist lifting a finger. It’s human labor acting on nature, all the way down — both the final products, and the capital goods used to produce them. The economy, in purely physical terms, is nothing but various groups of workers advancing their production streams to one another.

So-called “capital” — that is, money capital — is nothing but a set of socially constructed claims on the right to control and direct these production streams. And the legitimacy of such claims does not bear much looking into. As the Englishman Thomas Hodgskin — who was both a classical liberal advocate of free markets and a socialist — put it, the so-called “stocks” of subsistence goods and production materials, or “circulating capital,” which the political

economists of his day posited, were nothing but the product of “co-existing labour.”

Between him who produces food and him who produces clothing, between him who makes instruments and him who uses them, in steps the capitalist, who neither makes nor uses them, and appropriates to himself the produce of both. With as niggard a hand as possible he transfers to each a part of the produce of the other, keeping to himself the large share. Gradually and successively has he insinuated himself between them, expanding in bulk as he has been nourished by their increasingly productive labours, and separating them so widely from each other that neither can see whence that supply is drawn which each receives through the capitalist. While he despoils both, so completely does he exclude one from the view of the other that both believe they are indebted to him for subsistence. He is the middleman of all labourers; and when we compare what the skilled labour of England produces, with the produce of the untutored labour of the Irish peasantry, the middlemen of England cannot be considered as inferior in their exactions to the middlemen of Ireland. They have been more fortunate, however, and while the latter are stigmatised as oppressors, the former are honoured as benefactors. Not only do they appropriate the produce of the labourer; but they have succeeded in persuading him that they are his benefactors and employers.⁴²

⁴² Thomas Hodgskin, “Labour Defended Against the Claims of Capital” (1825). Hosted at Marxists.org <<https://www.marxists.org/reference/subject/economics/hodgskin/labour-defend>

use of this power vacuum. They quickly organized the preparation of a Declaration of Independence on the day following the Japanese surrender. And then had this read out loud on August 17, marking Indonesia’s claim to independence.

But the Dutch had different plans for Indonesia. The Dutch economy was thoroughly destroyed by the war and the plan was to exploit Indonesia as much as possible in order to pay for the recovery. So the Dutch organized an army and sent it to Indonesia to suppress the independence movement.

But the war between the Dutch and the Indonesian freedom fighters dragged on, without any side developing a clear advantage over the other. Until, one day, the Americans intervened. Under the Marshall plan the Dutch were receiving large loans from America to finance the post-war restoration of the country. America therefore threatened the Dutch that unless they halted their efforts to bring Indonesia back under their control, the Marshall aid would be stopped. This left the Dutch with no choice but to accept Indonesian independence. And following long negotiations, in 1949 the Dutch finally recognized Indonesia’s independence.

Nevertheless, as part of the U.S. brokered agreement between the Netherlands and Indonesia, Indonesia was required to pay an indemnity to the Dutch equivalent to \$198 billion in 2023 dollars.⁷²

⁷² Idries De Vries, “Neo-Colonialism And The Example Of Indonesia – Analysis,” *Eurasia Review*, November 3, 2011 <<https://www.eurasiareview.com/03112011-neo-colonialism-and-the-example-of-indonesia/>> The source cited gave \$150 bn as the equivalent in 2011; my figure is based on an online conversion table.

who toil is another way of dividing society in the East Indies.

The rubber industry, in particular, imported Chinese and Indian laborers, who died by the thousands.⁷⁰

Although pencil erasers are not made from actual rubber, the prevailing conditions under which rubber was produced — the bulk of the land being owned by the Dutch government and leased to capitalists — can safely be assumed to have characterized rapeseed cultivation and other forms of agriculture as much as it did rubber for the Duponts.

The British and French intervened in the East Indies after the fall of the Netherlands, for fear the native population would take advantage of the situation to declare independence.⁷¹ War planners' circles in the United States government, meanwhile, operated on the assumption — as we shall see below — that America would take the initiative in going to war if it became necessary to prevent the strategically important resources of the East Indies from falling into Japanese hands.

Indonesian independence came only after a fight — with the Dutch, who attempted to restore control of the colony after WWII.

The eventual Japanese surrender in World War II on, August 15 of 1945, caused a temporary power vacuum in Indonesia because at that time the Dutch, who had been liberated from German occupation on May 5 of 1945, had not yet reorganized their colonial occupation of Indonesia. Sukarno and Hatta set out to make

⁷⁰ B. J. Widick, "East Indies - A Tender Morsel for the Imperialist Appetite," *Labor Action* 4:8 (June 3, 1940). Hosted at Marxists.org <<https://www.marxists.org/history/etol/writers/widick/1940/06/eastindies.htm>> Accessed January 29, 2023.

⁷¹ *Ibid.*

More recent defenses of capital's entitlement to a reward for its "contribution" to production similarly fall apart under scrutiny. For example, according to the "marginal productivity" doctrine of John Bates Clark, capital's "contribution" to productivity is whatever it adds to the value of a finished good. But upon examination, the concept quickly reveals its circularity. If the marginal productivity of capital — or any other "factor input" — is what it adds to the exchange value of the good produced, that's another way of saying the "contribution" that capital is "rewarded" for amounts to whatever its owner can get away with charging for its "services." So the concept of marginal productivity simply presupposes, or takes for granted, the legitimacy of whatever institutional framework governs the control of factor inputs. Anyone with a property right over the input — or even who has a property right over the opportunity to produce at all, and fails to obstruct productive activity — is entitled to whatever they're able to charge for their contribution (or their failure to obstruct). This neutrality toward the institutional arrangements controlling access to productive resources was not a flaw of marginalism, but its defining feature as an ideological project; institutional economists like Thorstein Veblen and John R. Commons performed an inestimable service in subjecting marginalism's institutional blinders to critical examination.

The time preference doctrine of Eugen von Böhm-Bawerk fares no better. Despite Böhm-Bawerk's protestations, it was essentially a revamped version of earlier defenses of profit as a reward for "waiting" or "abstention." The idea is that because of workers' stronger time-preference (their need for money now in order to eat while the good is in production) and the capitalist's weaker time-preference (their willingness to postpone their own payment until the capital investment is realized), workers value a smaller amount of money now as much as the capitalist values a larger amount later. But like marginal productivity, this concept is circular; it's just another way of saying the more desperate you are to get paid right now in order to avoid starvation, the

cheaper you'll work. Strong and weak time preference are proxies, respectively, for weak and strong bargaining power, and the concept is agnostic concerning the institutional framework behind those differences in bargaining power.

So both marginal productivity and time preference, rather than disproving radical theories of surplus extraction, merely disguise them behind the pretense of "neutral" laws of distribution, by obscuring actual power relations.⁴³

So what we're left with is the dogma that capitalists are entitled to a reward for their "contribution" because they control the accounting and credit system by which the mutual flows of production between different groups of workers are coordinated. How did they come to be in this position? The short answer is that 1) they, as a class, possess stockpiles of wealth from past robbery (e.g. enclosure of the commons, colonial conquest, and slavery) and ongoing extraction of economic rents (e.g. landlordism and intellectual property), and 2) the credit and money functions are artificially restricted to those with stockpiles of wealth.⁴⁴ So, not to put too fine a point on it, there was in fact an enormous amount of violence involved in creating the system of voluntary exchange by "free men and women" that Read celebrates, and equally enormous amounts of background violence required to maintain the conditions under which people would "voluntarily" act consistently with the needs of capital.

To return to the story of the pencil: Read, writing at a time hardly halfway through the postwar decolonization process,

⁴³ For more on this obscurantist function of neoclassical and Austrian economics, and in particular marginalism and time preference, see Carson, "The Methodenstreit Revisited: Marginalism and the Lost Power Context" (C4SS 2021) <<https://c4ss.org/content/54432>>.

⁴⁴ For more on this see Carson, "Credit As an Enclosed Commons, Part I," Center for a Stateless Society <<https://c4ss.org/content/52718>>.

the errors he makes with me. An ingredient called "factice" is what does the erasing. It is a rubber-like product made by reacting rape-seed oil from the Dutch East Indies with sulfur chloride.⁶⁹

Make of it what you will that Read, writing in 1958, refers to Indonesia as the "Dutch East Indies." In any case, Indonesia had achieved independence from the Netherlands only nine years before, and Eberhard Faber's sourcing of rapeseed oil clearly originated in the context of Dutch rule.

B.J. Widick, writing in mid-1940, characterized the social system in the Dutch East Indies as follows:

All things in the Dutch East Indies are divided into two categories: European and native. There are European courts of law for Europeans (i.e. whites) and native "justice" for the natives. Agriculture of the 5,000,000 fertile acres of land is sliced in half. To work the plantations for profit is a right reserved primarily to Europeans with a small scattering of native aristocrats carefully cultivated by the government.

To till the soil for food. This is granted the natives. Of course, all the best lands are owned by the Dutch government which leases them to capitalists on a 75 year basis. The Dupont dynasty, for example, owns 132,000 acres of rubber plantations valued at \$18,000,000 and bringing a profit of \$40,000,000 in the last decade. Goodyear Tire & Rubber Co. has holdings as large. Export business is a monopoly of the "foreigners," while retail trade is largely in the hands of Indonesians. Those who profit and those

⁶⁹ Read, "I, Pencil," p. 7.

mation” and “black propaganda.”⁶⁴ The result was a landslide for Frei.⁶⁵

This victory notwithstanding, Allende won the election of 1970 despite another all-out American effort to block his victory. A CIA study immediately after Allende’s 1970 victory noted that, while no “vital U.S. interests” were at stake and there would be no significant shift in the superpower balance of military power, the U.S. would suffer “tangible economic losses” — presumably referring to Allende’s stated intention to nationalize the copper industry without compensation.⁶⁶

Most of us are familiar with the subsequent American campaign to remove him from power, by subverting Chile’s military and sabotaging its economy. The tone of U.S. policy is indicated by National Security Adviser Henry Kissinger’s statement “I don’t see why we need to stand by and watch a country go communist because of the irresponsibility of its own people.”⁶⁷ U.S. Ambassador Edward Korry, similarly, warned that “Not a nut or bolt [will] be allowed to reach Chile under Allende.”⁶⁸

Although Pinochet did not denationalize the copper industry after coming to power, he did compensate foreign copper companies at full market value. Read continues:

Then there’s my crowning glory, inelegantly referred to in the trade as “the plug,” the part man uses to erase

⁶⁴ William Blum, *Killing Hope: U.S. Military and CIA Interventions Since World War II* (Monroe, Maine: Common Courage Press, 1995), pp. 206-207.

⁶⁵ *Ibid.*, p. 208.

⁶⁶ *Ibid.*, pp. 214-215.

⁶⁷ *Ibid.*, p. 209.

⁶⁸ *Ibid.*, p. 2011.

blithely mentioned a number of only recently decolonized countries as the sources for various resource inputs into the pencil’s production process: graphite from Ceylon⁴⁵, eraser material from Indonesia⁴⁶, etc. These countries, which under colonial rule had had their economies structured around the export of raw materials and the consumption of manufactured goods from the industrial West, continued to be locked into a neocolonial division of labor after independence in which they supplied raw materials on disadvantageous terms largely set by the industrial countries.

My “lead” itself — it contains no lead at all — is complex. The graphite is mined in Ceylon. Consider these miners and those who make their many tools and the makers of the paper sacks in which the graphite is shipped and those who make the string that ties the sacks and those who put them aboard ships and those who make the ships. Even the lighthouse keepers along the way assisted in my birth — and the harbor pilots.

Ceylon (renamed Sri Lanka since Read wrote), the source of graphite for the pencil “lead,” had been a British crown colony until 1948. Ceylon’s economy as a whole under British rule was characterized by large-scale plantation production for export (rubber and tea, in particular), and the importation of Tamil indentured laborers from India.⁴⁷ The graphite mines, under direct British ownership in the 19th century, then passed into the hands of British-coopted na-

⁴⁵ Read, *I, Pencil*, p. 6.

⁴⁶ *Ibid.*, p. 7.

⁴⁷ “British Ceylon,” *Wikipedia* <https://en.wikipedia.org/wiki/British_Ceylon>. Accessed January 29, 2023.

tive elites.⁴⁸ We can get some idea of the relationship between the British crown, British and native owners, and the ordinary native population, from this 1910 account in *Scientific American*:

Owing to the heavy demand for graphite that ensued as a result of the South African war, when \$315 per ton was realized, a plumbago fever broke out among the natives. Such a price induced individual working and illicit mining on crown lands. Even to-day the latter traffic takes place. Should the mineral be proved to exist on the government property, licenses are duly issued by the authorities to respectable individuals to exploit the deposits, but the natives resort to poaching. ...The industry is also for the greater part in the hands of the natives, many of whom have amassed considerable fortunes, since owing to the cheapness of the labor, ample supplies of which are readily available..., a handsome profit is secured.⁴⁹

Would anyone care to venture a guess as to why “ample supplies” of cheap native labor were “readily available”?

A prominent example of the sort of “respectable individual” in the native colonial elite to whom the British authorities licensed mining operations was Don Charles Gemoris Attygalle (d. 1901), who purchased the Kahatagaha mine from the British.⁵⁰ An oli-

⁴⁸ “Kahatagaha Graphite Mine,” *Wikipedia* <https://en.wikipedia.org/wiki/Kahatagaha_Graphite_Mine>; “Bogala Graphite Mine,” *Wikipedia* <https://en.wikipedia.org/wiki/Bogala_Graphite_Mine>. Both accessed January 29, 2023.

⁴⁹ “Graphite Mining in Ceylon,” *Scientific American*, January 8, 1910, pp. 37, 39.

⁵⁰ “Kahatagaha Graphite Mine”; “Don Charles Gemoris Attygalle,” *Wikipedia* <https://en.wikipedia.org/wiki/Don_Charles_Gemoris_Attygalle>.

and in 1969 a Kissinger memorandum stated that “Subsidiaries of Anaconda and Kennecott have produced three-fourths of Chile’s copper output.”⁶¹

The post-WWII momentum for bringing foreign copper interests under greater state control came against the background of U.S. price-fixing during WWII, which limited the price of copper to 12 cents per pound.⁶² President Salvador Allende justified expropriation of the American-owned copper mines by arguing that the industry had pursued an extractive profit model at the expense of the Chilean people; its profits in excess of the normal global rate of profit — \$774 million from 1955-1970 — exceeded the book value of the companies.⁶³

Preserving the ability to continue extracting copper entirely on American terms was, not surprisingly, the central focus of U.S. foreign policy toward Chile for most of the postwar period. The panicked American reaction to Salvador Allende’s dangerously close loss in the presidential election of 1958 was the beginning of a decade and a half of U.S. intervention in Chilean politics. Up to 100 operatives from both the State Department and the CIA threw their covert support behind the Christian Democratic candidate, Eduardo Frei, and the CIA spent \$20 million on the operation — more than the combined spending by Johnson and Goldwater in the U.S. election. Most of the expenditures went toward “disinfor-

⁶¹ Memorandum From the President’s Assistant for National Security Affairs (Kissinger) to President Nixon, July 11, 1969, <<https://history.state.gov/historicaldocuments/frus1969-76v21/d17>>.

⁶² Markos Mamalakis, “The American Copper Companies and the Chilean Government, 1920-1967. Profile of an Export Sector.” Center Discussion Paper No. 37 (New Haven: Yale University Economic Growth Center, September 22, 1967), p. 13.

⁶³ “Chilean nationalization of copper.”

most of Peru's coastal guano deposits.¹⁶ Before the war British controlled 13 per cent of Peru's Tarapacá nitrate industry; immediately after the war – given Chile's possession of the region – the British share rose to 34 per cent, and by 1890 it was 70 per cent.

James G. Blaine, former American Secretary of State, testified that this war, known as the War of the Pacific, was “an English war on Peru” – a war for nitrates – “with Chile as the instrument.”⁵⁷ But Chile, backed by Great Britain, not only acquired Peru's nitrate industry; it also acquired its major copper region (including the site of the present-day largest open pit copper mine in the world at Chuquicamata), launching the birth of large-scale copper mining in Chile.⁵⁸

From the 1860s through WWI, British investment in the Chilean copper industry was gradually supplanted by American, with American capital totaling 86% of all investment.⁵⁹ At the time Read wrote, two of the three main copper mines in Chile were owned by the American Anaconda Copper Company; the third was owned by the Kennecott Copper Corporation, also American.⁶⁰ Copper was by far Chile's largest export industry,

⁵⁷ John Bellamy Foster and Brett Clark, “Ecological Imperialism: The Curse of Capitalism,” *Socialist Register* (2004) <https://www.nodo50.org/cubasigloXXI/taller/foster_clark_301104.pdf>, pp. 190-191.

⁵⁸ “Chuquicamata,” Wikipedia <<https://en.wikipedia.org/wiki/Chuquicamata>>. Accessed February 18, 2023.

⁵⁹ Charles William Centner, “Great Britain and Chilean Mining 1830-1914,” *The Economic History Review*, Vol. 12, No. 1/2 (1942), p. 79.

⁶⁰ “Chilean nationalization of copper,” Wikipedia <https://en.wikipedia.org/wiki/Chilean_nationalization_of_copper>. Accessed February 18, 2023.

garchy of “respectable” families dominated the mining industry under British rule; they continued to do so for some time after independence. Historian Michael Roberts describes the self-perception of this elite, as distinguished from the majority of the population:

The identification of a category of Ceylonese “at the top” who could be differentiated from the masses is not simply a product of recent historical writings. It found contemporary acknowledgement in the late nineteenth and early twentieth centuries. Indeed, those Ceylonese “at the top,” those with substantial power and status, had an image of themselves as a distinctive social group. They sent petitions which claimed that they represented the opinion of “the leading and respectable classes” of indigenous society or which used some such phrase. The meetings which they arranged were invariably described as being attended by “the respectable and influential residents” or by “a representative gathering of influential members of various communities.” Again individuals within the elite were inclined to describe themselves as “scion(s) of one of the best known families” or as “leading members” of this or that caste or ethnic group; or to use such descriptive adjectives as “well-known,” “leading” and “successful.” In requesting the introduction of elected Ceylonese representatives to the Legislative Council in 1908, James Peiris referred to the existence of a ready made electorate: “a highly intelligent one, composed of members of the Government Service, professional men, graduates, landed proprietors, and merchants of all races, who [could] be safely entrusted with the

accessed January 29, 2023.

task of electing their representatives in Council” — a body which he felt to include “the most intelligent as well as the most influential of its inhabitants.”⁵¹

These colonial elites emerged to a large extent through their role as managers and overseers within colonial industry, geared toward serving the economic needs of the British Empire.⁵² Within the graphite industry, in particular, the “handful of families” who “amassed great wealth in the graphite mining and export trade between the 1860’s and the 1910’s”⁵³ quite typically were founded by individuals on the make who originally held positions as overseer or foreman in the industry.⁵⁴ Having been enculturated as economic managers supervising the extraction of raw materials in the service of a capitalist global economy, these leading families continued after independence to oversee the neocolonial integration of their export-oriented economy into the postwar global system.

My bit of metal — the ferrule — is brass. Think of all the persons who mine zinc and copper and those who have the skills to make shiny sheet brass from these products of nature.⁵⁵ Those black rings on my ferrule are black nickel. What is black nickel and how is it applied? The complete story of why the center of my

⁵¹ Michael Roberts, “Problems of Social Stratification and the Demarcation of National and Local Elites in British Ceylon,” *The Journal of Asian Studies*, 33:4 (1974), pp. 551-552.

⁵² *Ibid.*, pp. 554-555.

⁵³ *Ibid.*, p. 565.

⁵⁴ *Ibid.*, pp. 565-566.

⁵⁵ Read, “I, Pencil,” p. 7.

ferrule has no black nickel on it would take pages to explain.

Read does not specify the source of the copper, but as of 2013 six of the ten largest mines in the world were in Chile, which produced 27% of the world total. The other four were in Peru, Mexico, and Indonesia, Peru being the second largest producer with another 10% of world output.⁵⁶

To get a sense of the natural resources picture in Chile will require a bit of a digression. In the late 19th century the discovery that bat guano and saltpeter from the Andes were a source of nitrates for fertilizer caused a considerable bonanza. The nitrate mines were worked by imported Chinese coolie labor, with 80,000 of them in 1875 working under conditions little short of slavery. With little profit accruing to anyone in Peru other than the plutocracy, and the country being increasingly burdened by foreign debt, the state in 1875 expropriated the mines from private investors. In 1879, Bolivia raised taxes on nitrate exports by Chilean intermediaries. Chile, in return, “backed by British investors,” declared war on both Bolivia and Bolivia’s ally Peru.

With its more modern, British-built navy and French-trained army, Chile was soon able to seize Bolivia’s Atacama province and Peru’s Tarapacá — never to leave. Before the war Chile had almost no nitrate fields and no guano deposits. By the end of the war in 1883 it had seized all of the nitrate zones in Bolivia and Peru and

⁵⁶ “The top 10 biggest copper mines in the world,” *Mining Technology*, November 4, 2013 <<https://www.mining-technology.com/features/feature-the-10-biggest-copper-mines-in-the-world/>> Bruno Venditti, “Which countries produce the most copper?” *World Economic Forum*, December 12, 2022 <<https://www.weforum.org/agenda/2022/12/which-countries-produce-the-most-copper/>>