

The Self-Regulating Market and the Fictitious Commodities: Labor, Land, and Money

This cursory outline of the economic system and markets, taken separately, shows that never before our own time were markets more than accessories of economic life. As a rule, the economic system was absorbed in the social system, and whatever principle of behavior predominated in the economy, the presence of the market pattern was found to be compatible with it. The principle of barter or exchange, which underlies this pattern, revealed no tendency to expand at the expense of the rest. Where markets were most highly developed, as under the mercantile system, they thrived under the control of a centralized administration which fostered autarchy both in the household of the peasantry and in respect to national life. Regulation and markets, in effect, grew up together. The self-regulating market was unknown; indeed the emergence of the idea of self-regulation was a complete reversal of the trend of development. It is in the light of these facts that the extraordinary assumptions underlying a market economy can alone be fully comprehended.

A market economy is an economic system controlled, regulated, and directed by market prices; order in the production and distribution of goods is entrusted to this self-regulating mechanism. An economy of this kind derives from the expectation that human beings behave in such a way as to achieve maximum money gains. It assumes markets in which the supply of goods (including services) available at a definite price will equal the demand at that price. It assumes the presence of money, which functions as purchasing power in the hands of its owners. Production will then be controlled by prices, for the profits of those who direct production will depend upon them; the distribution of the goods also will depend upon prices, for prices form incomes, and it is with the help of these incomes that the goods produced are distributed amongst the members of society. Under these

assumptions order in the production and distribution of goods is ensured by prices alone.

Self-regulation implies that all production is for sale on the market and that all incomes derive from such sales. Accordingly, there are markets for all elements of industry, not only for goods (always including services) but also for labor, land, and money, their prices being called respectively commodity prices, wages, rent, and interest. The very terms indicate that prices form incomes: interest is the price for the use of money and forms the income of those who are in the position to provide it; rent is the price for the use of land and forms the income of those who supply it; wages are the price for the use of labor power and form the income of those who sell it; commodity prices, finally, contribute to the incomes of those who sell their entrepreneurial services, the income called profit being actually the difference between two sets of prices, the price of the goods produced and their cost, i.e., the price of the goods necessary to produce them. If these conditions are fulfilled, all incomes derive from sales on the market, and incomes will be just sufficient to buy all the goods produced.

A further group of assumptions follows in respect to the state and its policy. Nothing must be allowed to inhibit the formation of markets, nor must incomes be permitted to be formed otherwise than through sales. Neither must there be any interference with the adjustment of prices to changed market conditions—whether the prices are those of goods, labor, land, or money. Hence there must not only be markets for all elements of industry, but no measure or policy must be countenanced that would influence the action of these markets. Neither price, nor supply, nor demand must be fixed or regulated; only such policies and measures are in order which help to ensure the self-regulation of the market by creating conditions which make the market the only organizing power in the economic sphere.*

To realize fully what this means, let us return for a moment to the mercantile system and the national markets which it did so much to develop. Under feudalism and the guild system land and labor formed part of the social organization itself (money had yet hardly developed into a major element of industry). Land, the pivotal element in the feudal order, was the basis of the military, judicial, administrative, and

political system; its status and function were determined by legal and customary rules. Whether its possession was transferable or not, and if so, to whom and under what restrictions; what the rights of property entailed; to what uses some types of land might be put—all these questions were removed from the organization of buying and selling, and subjected to an entirely different set of institutional regulations.

The same was true of the organization of labor. Under the guild system, as under every other economic system in previous history, the motives and circumstances of productive activities were embedded in the general organization of society. The relations of master, journeyman, and apprentice; the terms of the craft; the number of apprentices; the wages of the workers were all regulated by the custom and rule of the guild and the town. What the mercantile system did was merely to unify these conditions either through statute as in England, or through the “nationalization” of the guilds as in France. As to land, its feudal status was abolished only insofar as it was linked with provincial privileges; for the rest, land remained *extra commercium*, in England as in France. Up to the time of the Great Revolution of 1789, landed estate remained the source of social privilege in France, and even after that time in England Common Law on land was essentially medieval. Mercantilism, with all its tendency toward commercialization, never attacked the safeguards which protected these two basic elements of production—labor and land—from becoming the objects of commerce. In England the “nationalization” of labor legislation through the Statute of Artificers (1563) and the Poor Law (1601) removed labor from the danger zone, and the anti-enclosure policy of the Tudors and early Stuarts was one consistent protest against the principle of the gainful use of landed property.

That mercantilism, however emphatically it insisted on commercialization as a national policy, thought of markets in a way exactly contrary to market economy, is best shown by its vast extension of state intervention in industry. On this point there was no difference between mercantilists and feudalists, between crowned planners and vested interests, between centralizing bureaucrats and conservative particularists. They disagreed only on the methods of regulation: guilds, towns, and provinces appealed to the force of custom and tradition, while the new state authority favored statute and ordinance. But they were all equally averse to the idea of commercializing labor and land—the precondition of market economy. Craft guilds and feu-

* Henderson, H. D., *Supply and Demand*, 1922. The function of the market is twofold: the apportionment of factors between different uses and the organizing of the forces influencing aggregate supplies of factors.

dal privileges were abolished in France only in 1790; in England the Statute of Artificers was repealed only in 1813–14, the Elizabethan Poor Law in 1834. Not before the last decade of the eighteenth century was, in either country, the establishment of a free labor market even discussed; and the idea of the self-regulation of economic life was utterly beyond the horizon of the age. The mercantilist was concerned with the development of the resources of the country, including full employment, through trade and commerce; the traditional organization of land and labor he took for granted. He was in this respect as far removed from modern concepts as he was in the realm of politics, where his belief in the absolute powers of an enlightened despot was tempered by no intimations of democracy. And just as the transition to a democratic system and representative politics involved a complete reversal of the trend of the age, the change from regulated to self-regulating markets at the end of the eighteenth century represented a complete transformation in the structure of society.

A self-regulating market demands nothing less than the institutional separation of society into an economic and a political sphere. Such a dichotomy is, in effect, merely the restatement, from the point of view of society as a whole, of the existence of a self-regulating market. It might be argued that the separateness of the two spheres obtains in every type of society at all times. Such an inference, however, would be based on a fallacy. True, no society can exist without a system of some kind which ensures order in the production and distribution of goods. But that does not imply the existence of separate economic institutions; normally, the economic order is merely a function of the social order. Neither under tribal nor under feudal nor under mercantile conditions was there, as we saw, a separate economic system in society. Nineteenth-century society, in which economic activity was isolated and imputed to a distinctive economic motive, was a singular departure.

Such an institutional pattern could not have functioned unless society was somehow subordinated to its requirements. A market economy can exist only in a market society. We reached this conclusion on general grounds in our analysis of the market pattern. We can now specify the reasons for this assertion. A market economy must comprise all elements of industry, including labor, land, and money. (In a market economy money also is an essential element of industrial life and its inclusion in the market mechanism has, as we will see, far-

reaching institutional consequences.) But labor and land are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists. To include them in the market mechanism means to subordinate the substance of society itself to the laws of the market.

We are now in the position to develop in a more concrete form the institutional nature of a market economy, and the perils to society which it involves. We will, first, describe the methods by which the market mechanism is enabled to control and direct the actual elements of industrial life; secondly, we will try to gauge the nature of the effects of such a mechanism on the society which is subjected to its action.

It is with the help of the commodity concept that the mechanism of the market is geared to the various elements of industrial life. Commodities are here empirically defined as objects produced for sale on the market; markets, again, are empirically defined as actual contacts between buyers and sellers. Accordingly, every element of industry is regarded as having been produced for sale, as then and then only will it be subject to the supply-and-demand mechanism interacting with price. In practice this means that there must be markets for every element of industry; that in these markets each of these elements is organized into a supply and a demand group; and that each element has a price which interacts with demand and supply. These markets—and they are numberless—are interconnected and form One Big Market.*

The crucial point is this: labor, land, and money are essential elements of industry; they also must be organized in markets; in fact, these markets form an absolutely vital part of the economic system. But labor, land, and money are obviously *not* commodities; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them. In other words, according to the empirical definition of a commodity they are not commodities. Labor is only another name for a human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized; land is only another name for nature, which is not produced by man; actual money, finally, is merely a token of purchasing power which, as a rule, is not produced at all, but comes into

* Hawtrey, G. R., *op. cit.* Its function is seen by Hawtrey in making "the relative market values of all commodities mutually consistent."

being through the mechanism of banking or state finance. None of them is produced for sale. The commodity description of labor, land, and money is entirely fictitious.

Nevertheless, it is with the help of this fiction that the actual markets for labor, land, and money are organized*; these are being actually bought and sold on the market; their demand and supply are real magnitudes; and any measures or policies that would inhibit the formation of such markets would *ipso facto* endanger the self-regulation of the system. The commodity fiction, therefore, supplies a vital organizing principle in regard to the whole of society affecting almost all its institutions in the most varied way, namely, the principle according to which no arrangement or behavior should be allowed to exist that might prevent the actual functioning of the market mechanism on the lines of the commodity fiction.

Now, in regard to labor, land, and money such a postulate cannot be upheld. To allow the market mechanism to be sole director of the fate of human beings and their natural environment indeed, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity "labor power" cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity. In disposing of a man's labor power the system would, incidentally, dispose of the physical, psychological, and moral entity "man" attached to that tag. Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation. Nature would be reduced to its elements, neighborhoods and landscapes defiled, rivers polluted, military safety jeopardized, the power to produce food and raw materials destroyed. Finally, the market administration of purchasing power would periodically liquidate business enterprise, for shortages and surfeits of money would prove as disastrous to business as floods and droughts in primitive society. Undoubtedly, labor, land, and money markets *are* essential to a market economy. But no society could stand the effects of such a system of crude fictions even for the shortest stretch of time unless its human

* Marx's assertion of the fetish character of the value of commodities refers to the exchange value of genuine commodities and has nothing in common with the fictitious commodities mentioned in the text.

and natural substance as well as its business organization was protected against the ravages of this satanic mill.

The extreme artificiality of market economy is rooted in the fact that the process of production itself is here organized in the form of buying and selling. No other way of organizing production for the market is possible in a commercial society.* During the late Middle Ages industrial production for export was organized by wealthy burghesses, and carried on under their direct supervision in the home town. Later, in the mercantile society, production was organized by merchants and was not restricted any more to the towns; this was the age of "putting out" when domestic industry was provided with raw materials by the merchant capitalist, who controlled the process of production as a purely commercial enterprise. It was then that industrial production was definitely and on a large scale put under the organizing leadership of the merchant. He knew the market, the volume as well as the quality of the demand; and he could vouch also for the supplies which, incidentally, consisted merely of wool, woad, and, sometimes, the looms or the knitting frames used by the cottage industry. If supplies failed it was the cottager who was worst hit, for his employment was gone for the time; but no expensive plant was involved and the merchant incurred no serious risk in shouldering the responsibility for production. For centuries this system grew in power and scope until in a country like England the wool industry, the national staple, covered large sectors of the country where production was organized by the clothier. He who bought and sold, incidentally, provided for production—no separate motive was required. The creation of goods involved neither the reciprocating attitudes of mutual aid; nor the concern of the householder for those whose needs are left to his care; nor the craftsman's pride in the exercise of his trade; nor the satisfaction of public praise—nothing but the plain motive of gain so familiar to the man whose profession is buying and selling. Up to the end of the eighteenth century, industrial production in Western Europe was a mere accessory to commerce.

As long as the machine was an inexpensive and unspecific tool there was no change in this position. The mere fact that the cottager could produce larger amounts than before within the same time might induce him to use machines to increase earnings, but this fact

* Cunningham, W., "Economic Change," in *Cambridge Modern History*, Vol. I.

in itself did not necessarily affect the organization of production. Whether the cheap machinery was owned by the worker or by the merchant made some difference in the social position of the parties and almost certainly made a difference in the earnings of the worker, who was better off as long as he owned his tools; but it did not force the merchant to become an industrial capitalist, or to restrict himself to lending his money to such persons as were. The vent of goods rarely gave out; the greater difficulty continued to be on the side of supply of raw materials, which was sometimes unavoidably interrupted. But, even in such cases, the loss to the merchant who owned the machines was not substantial. It was not the coming of the machine as such but the invention of elaborate and therefore specific machinery and plant which completely changed the relationship of the merchant to production. Although the new productive organization was introduced by the merchant—a fact which determined the whole course of the transformation—the use of elaborate machinery and plant involved the development of the factory system and therewith a decisive shift in the relative importance of commerce and industry in favor of the latter. Industrial production ceased to be an accessory of commerce organized by the merchant as a buying and selling proposition; it now involved long-term investment with corresponding risks. Unless the continuance of production was reasonably assured, such a risk was not bearable.

But the more complicated industrial production became, the more numerous were the elements of industry the supply of which had to be safeguarded. Three of these, of course, were of outstanding importance: labor, land, and money. In a commercial society their supply could be organized in one way only: by being made available for purchase. Hence, they would have to be organized for sale on the market—in other words, as commodities. The extension of the market mechanism to the elements of industry—labor, land, and money—was the inevitable consequence of the introduction of the factory system in a commercial society. The elements of industry had to be on sale.

This was synonymous with the demand for a market system. We know that profits are ensured under such a system only if self-regulation is safeguarded through interdependent competitive markets. As the development of the factory system had been organized as

part of a process of buying and selling, therefore labor, land, and money had to be transformed into commodities in order to keep production going. They could, of course, not be really transformed into commodities, as actually they were not produced for sale on the market. But the fiction of their being so produced became the organizing principle of society. Of the three, one stands out: labor is the technical term used for human beings, insofar as they are not employers but employed; it follows that henceforth the organization of labor would change concurrently with the organization of the market system. But as the organization of labor is only another word for the forms of life of the common people, this means that the development of the market system would be accompanied by a change in the organization of society itself. All along the line, human society had become an accessory of the economic system.

We recall our parallel between the ravages of the enclosures in English history and the social catastrophe which followed the Industrial Revolution. Improvements, we said, are, as a rule, bought at the price of social dislocation. If the rate of dislocation is too great, the community must succumb in the process. The Tudors and early Stuarts saved England from the fate of Spain by regulating the course of change so that it became bearable and its effects could be canalized into less destructive avenues. But nothing saved the common people of England from the impact of the Industrial Revolution. A blind faith in spontaneous progress had taken hold of people's minds, and with the fanaticism of sectarians the most enlightened pressed forward for boundless and unregulated change in society. The effects on the lives of the people were awful beyond description. Indeed, human society would have been annihilated but for protective counter-moves which blunted the action of this self-destructive mechanism.

Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. While on the one hand markets spread all over the face of the globe and the amount of goods involved grew to unbelievable dimensions, on the other hand a network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to labor, land, and money. While the organization of world commodity markets, world capital markets, and

world currency markets under the aegis of the gold standard gave an unparalleled momentum to the mechanism of markets, a deep-seated movement sprang into being to resist the pernicious effects of a market-controlled economy. Society protected itself against the perils inherent in a self-regulating market system—this was the one comprehensive feature in the history of the age.

