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The Great Transformation

The Political and Economic Origins of Our Time

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CHAPTER ONE

The Hundred Years' Peace

Wineteenth-century civilization has collapsed. This book is concerned with the political and economic origins of this event, as well as with the great transformation which it ushered in.

Nineteenth-century civilization rested on four institutions. The first was the balance-of-power system which for a century prevented the occurrence of any long and devastating war between the Great Powers. The second was the international gold standard which symbolized a unique organization of world economy. The third was the self-regulating market which produced an unheard-of material welfare. The fourth was the liberal state. Classified in one way, two of these institutions were economic, two political. Classified in another way, two of them were national, two international. Between them they determined the characteristic outlines of the history of our civilization.

Of these institutions the gold standard proved crucial; its fall was the proximate cause of the catastrophe. By the time it failed, most of the other institutions had been sacrificed in a vain effort to save it.

But the fount and matrix of the system was the self-regulating market. It was this innovation which gave rise to a specific civilization. The gold standard was merely an attempt to extend the domestic market system to the international field; the balance-of-power system was a superstructure erected upon and, partly, worked through the gold standard; the liberal state was itself a creation of the self-regulating market. The key to the institutional system of the nineteenth century lay in the laws governing market economy.

Our thesis is that the idea of a self-adjusting market implied a stark Utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way It was this dilemma which forced the development of the market system into a definite groove and finally disrupted the social organization based upon it.

Such an explanation of one of the deepest crises in man's history must appear as all too simple. Nothing could seem more inept than the attempt to reduce a civilization, its substance and ethos, to a hard-and-fast number of institutions; to select one of them as fundamental and proceed to argue the inevitable self-destruction of civilization on account of some technical quality of its economic organization. Civilizations, like life itself, spring from the interaction of a great number of independent factors which are not, as a rule, reducible to circumscribed institutions. To trace the institutional mechanism of the downfall of a civilization may well appear as a hopeless endeavor.

Yet it is this we are undertaking. In doing so, we are consciously adjusting our aim to the extreme singularity of the subject matter. For the civilization of the nineteenth century was unique precisely in that it centerd on a definite institutional mechanism.

No explanation can satisfy which does not account for the suddenness of the cataclysm. As if the forces of change had been pent up for a century, a torrent of events is pouring down on mankind. A social transformation of planetary range is being topped by wars of an entirely new type in which a score of states have crashed, and the contours of new empires are emerging out of a sea of blood. But this fact of demoniac violence is merely superimposed on a swift, silent current of change which swallows up the past often without so much as a ripple on the surface! A reasoned analysis of the catastrophe must account both for the tempestuous action and the quiet dissolution.

Ours is not a historical work; what we are searching for is not a convincing sequence of outstanding events, but an explanation of their trend in terms of human institutions. We shall feel free to dwell on scenes of the past with the sole object of throwing light on matters of the present; we shall make detailed analyses of critical periods and almost completely disregard the connecting stretches of time; we shall encroach upon the field of several disciplines in the pursuit of a single aim.

policy would tend to raise grave external issues.

Belief in the gold standard was the faith of the age. With some it was a naive, with some a critical, with others a satanistic creed implying acceptance in the flesh and rejection in the spirit. Yet the belief itself was the same, namely, that banknotes have value because they represent gold. Whether the gold itself has value for the reason that it embodies labor, as the socialists held, or for the reason that it is useful and scarce, as the orthodox doctrine ran, made for once no difference. The war between heaven and hell ignored the money issue, leaving capitalists and socialists miraculously united. Where Ricardo and Marx were at one, the nineteenth century knew not doubt. Bismarck and Lassalle, John Stuart Mill and Henry George, Philip Snowden and Calvin Coolidge, Mises and Trotsky equally accepted the faith. Karl Marx had gone to great pains to show up Proudhon's Utopian labor notes (which were to replace currency) as based on self-delusion; and *Das Kapital* implied the commodity theory of money, in its Ricardian form. The Russian Bolshevik Sokolnikoff was the first postwar statesman to restore the value of his country's currency in terms of gold; the German Social Democrat Hilferding imperilled his party by his staunch advocacy of sound currency principles; the Austrian Social Democrat Otto Bauer supported the monetary principles underlying the restoration of the krone attempted by his bitter opponent, Seipel; the English Socialist, Philip Snowden, turned against Labour when he believed the pound sterling not to be safe at their hands; and the Duce had the gold value of the lira at 90 carved in stone, and pledged himself to die in its defense. It would be hard to find any divergence between utterances of Hoover and Lenin, Churchill and Mussolini, on this point. Indeed, the essentiality of the gold standard to the functioning of the international economic system of the time was the one and only tenet common to men of all nations and all classes, religious denominations, and social philosophies. It was the invisible reality to which the will to live could cling, when mankind braced itself to the task of restoring its crumbling existence.

The effort, which failed, was the most comprehensive the world had ever seen. The stabilization of the all-but-destroyed currencies in Austria, Hungary, Bulgaria, Finland, Romania, or Greece was not only an act of faith on the part of these small and weak countries, which literally starved themselves to reach the golden shores, but it also put their powerful and wealthy sponsors—the Western European victors—to a severe test. As long as the currencies of the victors fluctuated, the strain did not become apparent; they continued to lend abroad as before the war and thereby helped to maintain the economies of the defeated nations. But when Great Britain and France reverted to gold, the burden on their stabilized exchanges began to tell. Eventually, a silent concern for the safety of the pound entered into the position of the leading gold country, the United States. This preoccupation which spanned the Atlantic brought America unexpectedly into the danger zone. The point seems technical, but must be clearly understood. American support of the pound sterling in 1927 implied low rates of interest in New York in order to avert big movements of capital from London to New York. The Federal Reserve Board accordingly promised the Bank of England to keep its rate low; but presently America herself was in need of high rates as her own price system began to be perilously inflated (this fact was obscured by the existence of a stable price level, maintained in spite of tremendously diminished costs). When the usual swing of the pendulum after seven years of prosperity brought on the long overdue slump in 1929, matters were immeasurably aggravated by the existing state of cryptoinflation. Debtors, emaciated by deflation, lived to see the inflated creditor collapse. It was a portent. America, by an instinctive gesture of liberation, went off gold in 1933, and the last vestige of the traditional world economy vanished. Although hardly anybody discerned the deeper meaning of the event at the time, history almost at once reversed its trend.

For over a decade the restoration of the gold standard had been the symbol of world solidarity. Innumerable conferences from Brussels to Spa and Geneva, from London to Locarno and Lausanne met in order to achieve the political preconditions of stable currencies. The League of Nations itself had been supplemented by the International Labour Office partly in order to equalize conditions of competition among the nations so that trade might be liberated without danger to standards of living. Currency was at the heart of the campaigns launched by Wall Street to overcome the transfer problem and, first, to commercialize, then to mobilize reparations; Geneva acted as the sponsor of a process of rehabilitation in which the combined pressure of the City of London and of the neoclassical monetary purists of Vienna was put into the service of the gold standard; every international endeavor was ultimately directed to this end, while national governments, as a rule, accommodated their policies to the need of safeguarding the currency, particularly those policies which were concerned with foreign trade, loans, banking, and exchange. Although everybody agreed that stable currencies ultimately depended upon the freeing of trade, all except dogmatic free traders knew that measures had to be taken immediately which would inevitably restrict foreign trade and foreign payments. Import quotas, moratoria and standstill agreements, clearing systems and bilateral trade treaties, barter arrangements, embargoes on capital exports, foreign trade control, and exchange equalization funds developed in most countries to meet the same set of circumstances. Yet the incubus of self-sufficiency haunted the steps taken in protection of the currency. While the intent was the freeing of trade, the effect was its strangulation. Instead of gaining access to the markets of the world, the governments, by their own acts, were barring their countries from any international nexus, and ever-increasing sacrifices were needed to keep even a trickle of trade flowing. The frantic efforts to protect the external value of the currency as a medium of foreign trade drove the peoples, against their will, into an autarchized economy. The whole arsenal of restrictive measures, which formed a radical departure from traditional economics, was actually the outcome of conservative free trade purposes.

This trend was abruptly reversed with the final fall of the gold standard. The sacrifices that had been made to restore it had now to be made over again so that we might live without it. The same institutions which were designed to constrict life and trade in order to maintain a system of stable currencies were now used to adjust industrial life to the permanent absence of such a system. Perhaps that is why the mechanical and technological structure of modern industry survived the impact of the collapse of the gold standard. For in the struggle to retain it, the world had been unconsciously preparing for the kind of efforts and the type of organizations necessary to adapt itself to its loss.

Yet the intent was now the opposite; in the countries that had suffered most during the long-drawn fight for the unattainable, titanic forces were released on the rebound. Neither the League of Nations nor international *haute finance* outlasted the gold standard; with its disappearance both the organized peace interest of the League and its chief instruments of enforcement—the Rothschilds and Morgans—vanished from politics. The snapping of the golden thread was the signal for a world revolution.

But the failure of the gold standard did hardly more than set the date of an event which was too big to have been caused by it. No less than a complete destruction of the national institutions of nineteenth-century society accompanied the crisis in a great part of the world, and everywhere these institutions were changed and re-formed almost out of recognition. The liberal state was in many countries replaced by totalitarian dictatorships, and the central institution of the century—production based on free markets—was superseded by new forms of economy. While great nations recast the very mould of their thought and hurled themselves into wars to enslave the world in the name of unheard-of conceptions of the nature of the universe, even greater nations rushed to the defence of freedom which acquired an equally unheard-of meaning at their hands. The failure of the international system, though it triggered the transformation, could certainly not have accounted for its depth and content. Even though we may know why that which happened happened suddenly, we may still be in the dark about why it happened at all.

The roles which Germany or Russia, or for that matter, Italy or Japan, Great Britain or the United States, are playing in World War II, though forming part of universal history, are no direct concern of this book; fascism and socialism, however, were live forces in the institutional transformation which is its subject. The *elan vital* which produced the inscrutable urge in the German or Russian or American people to claim a greater share in the record of the race forms part of the conditions under which our story unfolds, while the purport of fascism or socialism or new deal is part of the story itself.

This leads up to our thesis which still remains to be proven: that the origins of the cataclysm lay in the Utopian endeavor of economic liberalism to set up a self-regulating market system. Such a thesis seems to invest that system with almost mythical faculties; it implies no less than that the balance of power, the gold standard, and the liberal state, these fundamentals of the civilization of the nineteenth century, were, in the last resort, shaped in one common matrix, the self-regulating market.

The story has been told innumerable times: how the expansion of markets, the presence of coal and iron as well as a humid climate favorable to the cotton industry, the multitude of people dispossessed by the new eighteenth-century enclosures, the existence of free institutions, the invention of the machines, and other causes interacted in such a manner as to bring about the Industrial Revolution. It has been shown conclusively that no one single cause deserves to be lifted out of the chain and set apart as *the* cause of that sudden and unexpected event.

But how shall this revolution itself be defined? What was its basic characteristic? Was it the rise of the factory towns, the emergence of slums, the long working hours of children, the low wages of certain categories of workers, the rise in the rate of population increase, or the concentration of industries? We submit that all these were merely incidental to one basic change, the establishment of market economy, and that the nature of this institution cannot be fully grasped unless the impact of the machine on a commercial society is realized. We do not intend to assert that the machine caused that which happened, but we insist that once elaborate machines and plant were used for production in a commercial society, the idea of a self-regulating market system was bound to take shape.

The use of specialized machines in an agrarian and commercial society must produce typical effects. Such a society consists of agriculturalists and of merchants who buy and sell the produce of the land. Production with the help of specialized, elaborate, expensive tools and plants can be fitted into such a society only by making it incidental to buying and selling. The merchant is the only person available for the undertaking of this, and he is fitted to do so as long as this activity will not involve him in a loss. He will sell the goods in the same manner in which he would otherwise sell goods to those who demand them; but he will procure them in a different way, namely, not by buying them ready-made, but by purchasing the necessary labor and raw material. The two put together according to the merchant's instructions, plus some waiting which he might have to undertake, amount to the new product. This is not a description of domestic industry or "putting out" only, but of any kind of industrial capitalism, including that of our own time. Important consequences for the social system follow.

Since elaborate machines are expensive, they do not pay unless large amounts of goods are produced.* They can be worked without a loss only if the vent of the goods is reasonably assured and if production need not be interrupted for want of the primary goods necessary to feed the machines. For the merchant this means that all factors involved must be on sale, that is, they must be available in the needed quantities to anybody who is prepared to pay for them. Unless this condition is fulfilled, production with the help of specialized machines is too risky to be undertaken both from the point of view of the merchant who stakes his money and of the community as a whole which comes to depend upon continuous production for incomes, employment, and provisions.

Now, in an agricultural society such conditions would not naturally be given; they would have to be created. That they would be created gradually in no way affects the startling nature of the changes involved. The transformation implies a change in the motive of action

* Clapham, J. H., *Economic History of Modern Britain*, Vol. III.

on the part of the members of society; for the motive of subsistence that of gain must be substituted. All transactions are turned into money transactions, and these in turn require that a medium of exchange be introduced into every articulation of industrial life. All incomes must derive from the sale of something or other, and whatever the actual source of a person's income, it must be regarded as resulting from sale. No less is implied in the simple term "market system," by which we designate the institutional pattern described. But the most startling peculiarity of the system lies in the fact that, once it is established, it must be allowed to function without outside interference. Profits are not any more guaranteed, and the merchant must make his profits on the market. Prices must be allowed to regulate themselves. Such a self-regulating system of markets is what we mean by a market economy.

The transformation to this system from the earlier economy is so complete that it resembles more the metamorphosis of the caterpillar than any alteration that can be expressed in terms of continuous growth and development. Contrast, for example, the merchant-producer's selling activities with his buying activities; his sales concern only artifacts; whether he succeeds or not in finding purchasers, the fabric of society need not be affected. But what he fowys is raw materials and labor—nature and man. Machine production in a commercial society involves, in effect, no less a transformation than that of the natural and human substance of society into commodities. The conclusion, though weird, is inevitable; nothing less will serve the purpose: obviously, the dislocation caused by such devices must disjoint man's relationships and threaten his natural habitat with annihilation.

Such a danger was, in fact, imminent. We shall perceive its true character if we examine the laws which govern the mechanism of a self-regulating market.

Let us make our meaning more precise. No society could, naturally, live for any length of time unless it possessed an economy of some sort; but previously to our time no economy has ever existed that, even in principle, was controlled by markets. In spite of the chorus of academic incantations so persistent in the nineteenth century, gain and profit made on exchange never before played an important part in human economy. Though the institution of the market was fairly common since the later Stone Age, its role was no more than incidental to economic life.

We have good reason to insist on this point with all the emphasis at our command. No less a thinker than Adam Smith suggested that the division of labor in society was dependent upon the existence of markets, or, as he put it, upon man's "propensity to barter, truck and exchange one thing for another." This phrase was later to yield the concept of the Economic Man. In retrospect it can be said that no misreading of the past ever proved more prophetic of the future. For while up to Adam Smith's time that propensity had hardly shown up on a considerable scale in the life of any observed community, and had remained, at best, a subordinate feature of economic life, a hundred years later an industrial system was in full swing over the major part of the planet which, practically and theoretically, implied that the human race was swayed in all its economic activities, if not also in its political, intellectual, and spiritual pursuits, by that one particular propensity. Herbert Spencer, in the second half of the nineteenth century, equated the principle of the division of labor with barter and exchange, and another fifty years later, Ludwig von Mises and Walter Lippmann could repeat this same fallacy. By that time there was no need for argument. A host of writers on political economy, social history, political philosophy, and general sociology had followed in Smith's wake and established his paradigm of the bartering savage as an axiom of their respective sciences. In point of fact, Adam Smith's suggestions about the economic psychology of early man were as false as Rousseau's were on the political psychology of the savage. Division of labor, a phenomenon as old as society, springs from differences inherent in the facts of sex, geography, and individual endowment; and the alleged propensity of man to barter, truck, and exchange is almost entirely apocryphal. While history and ethnography know of various kinds of economies, most of them comprising the institution of markets, they know of no economy prior to our own, even approximately controlled and regulated by markets. This will become abundantly clear from a bird's-eye view of the history of economic systems and of markets, presented separately. The role played by markets in the internal economy of the various countries, it will appear, was insignificant up to recent times, and the changeover to an economy dominated by the market pattern will stand out all the more clearly.

To start with, we must discard some nineteenth-century prejudices that underlay Adam Smith's hypothesis about primitive man's alleged predilection for gainful occupations. Since his axiom was much more relevant to the immediate future than to the dim past, it induced in his followers a strange attitude toward man's early history. On the face of it, the evidence seemed to indicate that primitive man, far from having a capitalistic psychology, had, in effect, a communistic one (later this also proved to be mistaken). Consequently, economic historians tended to confine their interest to that comparatively recent period of history in which truck and exchange were found on any considerable scale, and primitive economics was relegated to prehistory. Unconsciously, this led to a weighting of the scales in favor of a marketing psychology, for within the relatively short period of the past few centuries everything might be taken to tend toward the establishment of that which was eventually established, i.e., a market system, irrespective of other tendencies which were temporarily submerged. The corrective of such a "short-run" perspective would obviously have been the linking up of economic history with social anthropology, a course which was consistently avoided.

The outstanding discovery of recent historical and anthropological research is that man's economy, as a rule, is submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only in so far as they serve this end. Neither the process of production nor that of distribution is linked to specific economic interests attached to the possession of goods; but every single step in that process is geared to a number of social interests which eventually ensure that the required step be taken. These interests will be very different in a small hunting or fishing community from those in a vast despotic society, but in either case the economic system will be run on noneconomic motives.

The explanation, in terms of survival, is simple. Take the case of a tribal society. The individual's economic interest is rarely paramount, for the community keeps all its members from starving unless it is itself borne down by catastrophe, in which case interests are again threatened collectively, not individually. The maintenance of social ties, on the other hand, is crucial. First, because by disregarding the accepted code of honor, or generosity, the individual cuts himself off from the community and becomes an outcast; second, because, in the long run, all social obligations are reciprocal, and their fulfillment serves also the individual's give-and-take interests best. Such a situation must exert a continuous pressure on the individual to eliminate economic self-interest from his consciousness to the point of making him unable, in many cases (but by no means in all), even to comprehend the implications of his own actions in terms of such an interest. This attitude is reinforced by the frequency of communal activities such as partaking of food from the common catch or sharing in the results of some far-flung and dangerous tribal expedition. The premium set on generosity is so great when measured in terms of social prestige as to make any other behavior than that of utter self-forgetfulness simply not pay. Personal character has little to do with the matter. Man can be as good or evil, as social or asocial, jealous or generous, in respect to one set of values as in respect to another. Not to allow anybody reason for jealousy is, indeed, an accepted principle of ceremonial distribution, just as publicly bestowed praise is the due of the industrious, skilful, or otherwise successful gardener (unless he be *too* successful, in which case he may deservedly be allowed to wither away under the delusion of being the victim of black magic). The human passions, good or bad, are merely directed toward noneconomic ends. Ceremonial display serves to spur emulation to the utmost and the custom of communal labor tends to screw up both quantitative and qualitative standards to the highest pitch. The performance of acts of exchange byway of free gifts that are expected to be reciprocated though not necessarily by the same individuals—a procedure minutely articulated and perfectly safeguarded by elaborate methods of publicity, by magic rites, and by the establishment of "dualities" in which groups are linked in mutual obligations—should in itself explain the absence of the notion of gain or even of wealth other than that consisting of objects traditionally enhancing social prestige.

With the Trobriand Islanders of Western Malanesia, who serve as an illustration of this type of economy, reciprocity works mainly in regard to the sexual organization of society, that is, family and kinship; redistribution is mainly effective in respect to all those who are under a common chief and is, therefore, of a territorial character. Let us take these principles separately.

The sustenance of the family—the female and the children—is the obligation of their matrilineal relatives. The male, who provides for his sister and her family by delivering the finest specimens of his crop, will mainly earn the credit due to his good behavior, but will reap little immediate material benefit in exchange; if he is slack, it is first and foremost his reputation that will suffer. It is for the benefit of his wife and her children that the principle of reciprocity will work, and thus compensate him economically for his acts of civic virtue. Ceremonial display of food both in his own garden and before the recipient's storehouse will ensure that the high quality of his gardening be known to all. It is apparent that the economy of garden and household here forms part of the social relations connected with good husbandry and fine citizenship. The broad principle of reciprocity helps to safeguard both production and family sustenance.

The principle of redistribution is no less effective. A substantial part of all the produce of the island is delivered by the village headmen to the chief who keeps it in storage. But as all communal activity centers around the feasts, dances, and other occasions when the islanders entertain one another as well as their neighbors from other islands (at which the results of longdistance trading are handed out, gifts are given and reciprocated according to the rules of etiquette, and the chief distributes the customary presents to all), the overwhelming importance of the storage system becomes apparent. Economically, it is an essential part of the existing system of division of labor, of foreign trading, of taxation for public purposes, of defense provisions. But these functions of an economic system proper are completely absorbed by the intensely vivid experiences which offer superabundant noneconomic motivation for every act performed in the frame of the social system as a whole.

All large-scale economies in kind were run with the help of the principle of redistribution. The kingdom of Hammurabi in Babylonia and, in particular, the New Kingdom of Egypt were centralized despotisms of a bureaucratic type founded on such an economy. The household of the patriarchal family was reproduced here on an enormously rope, where the change arose out of the vassal's need for protection, and gifts were converted into feudal tributes.

These instances show that redistribution also tends to enmesh the economic system proper in social relationships. We find, as a rule, the process of redistribution forming part of the prevailing political regime, whether it be that of tribe, city-state, despotism, or feudalism of cattle or land. The production and distribution of goods is organized in the main through collection, storage, and redistribution, the pattern being focused on the chief, the temple, the despot, or the lord. Since the relations of the leading group to the led are different according to the foundation on which political power rests, the principle of redistribution will involve individual motives as different as the voluntary sharing of the game by hunters and the dread of punishment which urges the fellaheen to deliver their taxes in kind.

The third principle, which was destined to play a big role in history and which we will call the principle of *householding,* consists in production for one's own use. The Greeks called it *ceconomia,* the etymon of the word "economy." As far as ethnographical records are concerned, we should not assume that production for a person's or group's own sake is more ancient than reciprocity or redistribution. On the contrary, orthodox tradition as well as some more recent theories on the subject have been emphatically disproved. The individualistic savage collecting food and hunting on his own or for his family has never existed. Indeed, the practice of catering for the needs of one's household becomes a feature of economic life only on a more advanced level of agriculture; however, even then it has nothing in common either with the motive of gain or with the institution of markets. Its pattern is the closed group. Whether the very different entities of the family or the settlement or the manor formed the self-sufficient unit, the principle was invariably the same, namely, that of producing and storing for the satisfaction of the wants of the members of the group. The principle is as broad in its application as either reciprocity or redistribution. The nature of the institutional nucleus is indifferent: it may be sex as with the patriarchal family, locality as with the village settlement, or political power as with the seigneurial manor. Nor does the internal organization of the group matter. It may be as despotic as the Roman *familia* or as democratic as the South Slav *zadruga;* as large as the great domains of the Carolingian magnates or as small as the average peasant holding of Western Europe. The need for trade or markets is no greater than in the case of reciprocity or redistribution.

It is such a condition of affairs which Aristotle tried to establish as a norm more than two thousand years ago. Looking back from the rapidly declining heights of a worldwide market economy, we must concede that his famous distinction of householding proper and money-making, in the introductory chapter of his *Politics,* was probably the most prophetic pointer ever made in the realm of the social sciences; it is certainly still the best analysis of the subject we possess. Aristotle insists on production for use as against production for gain as the essence of householding proper; yet accessory production for the market need not, he argues, destroy the self-sufficiency of the household as long as the cash crop would also otherwise be raised on the farm for sustenance, as cattle or grain; the sale of the surpluses need not destroy the basis of householding. Only a genius of common sense could have maintained, as he did, that gain was a motive peculiar to production for the market, and that the money factor introduced a new element into the situation, yet nevertheless, as long as markets and money were mere accessories to an otherwise self-sufficient household, the principle of production for use could operate. Undoubtedly, in this he was right, though he failed to see how impracticable it was to ignore the existence of markets at a time when Greek economy had made itself dependent upon wholesale trading and loaned capital. For this was the century when Delos and Rhodes were developing into emporia of freight insurance, sea-loans, and giro-banking, compared with which the Western Europe of a thousand years later was the very picture of primitivity. Yet Jowett, Master of Balliol, was grievously mistaken when he took it for granted that his Victorian England had a fairer grasp than Aristotle of the nature of the difference between householding and money-making. He excused Aristotle by conceding that the "subjects of knowledge that are concerned with man run into one another; and in the age of Aristotle were not easily distinguished." Aristotle, it is true, did not recognize clearly the implications of the division of labor and its connection with markets and money; nor did he realize the uses of money as credit and capital. So far Jowett's strictures were justified. But it was the Master of Balliol, not Aristotle, who was impervious to the human implications of money-making. He failed to see that the distinction between the principle of use and that of gain was the key to the utterly different civilization the outlines of which Aristotle accurately forecast two thousand years before its advent out of the bare rudiments of a market economy available to him, while Jowett, with the full-grown specimen before him, overlooked its existence. In denouncing the principle of production for gain as boundless and limitless, "as not natural to man," Aristotle was, in effect, aiming at the crucial point, namely, the divorce of the economic motive from all concrete social relationships which would by their very nature set a limit to that motive.

Broadly, the proposition holds that all economic systems known to us up to the end of feudalism in Western Europe were organized either on the principle of reciprocity or redistribution, or householding, or some combination of the three. These principles were institutionalized with the help of a social organization which, inter alia, made use of the patterns of symmetry, centricity, and autarchy. In this framework, the orderly production and distribution of goods was secured through a great variety of individual motives disciplined by general principles of behavior. Among these motives gain was not prominent. Custom and law, magic and religion cooperated in inducing the individual to comply with rules of behavior which, eventually, ensured his functioning in the economic system.

The Greco-Roman period, in spite of its highly developed trade, represented no break in this respect; it was characterized by the grand scale on which redistribution of grain was practiced by the Roman administration in an otherwise householding economy, and it formed no exception to the rule that up to the end of the Middle Ages, markets played no important part in the economic system; other institutional patterns prevailed.

CHAPTER SIX

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 throve 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

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

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 feudal 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 burgesses, 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.

Within Ricardo's system itself the naturalistic and the humanistic factors coexisted which were contending for supremacy in economic society. The dynamic of this situation was of overwhelming power. As its result the drive for a competitive market acquired the irresistible impetus of a process of Nature. For the self-regulating market was now believed to follow from the inexorable laws of Nature, and the unshackling of the market to be an ineluctable necessity. The creation of a labor market was an act of vivisection performed on the body of society by such as were steeled to their task by an assurance which only science can provide. That the Poor Law must disappear was part of this certainty. "The principle of gravitation is not more certain than the tendency of such laws to change wealth and vigour into misery and weakness … until at last all classes should be infected with the plague of universal poverty," wrote Ricardo.* He would have been, indeed, a moral coward who, knowing this, failed to find the strength to save mankind from itself by the cruel operation of the abolishment of poor relief. It was on this point that Townsend, Malthus and Ricardo, Bentham, and Burke were at one. Fiercely as they differed in method and outlook, they agreed on the principles of political economy and opposition to Speenhamland. What made economic liberalism an irresistible force was this congruence of opinion between diametrically opposed outlooks; for what the ultra-reformer Bentham and the

* *Ricardo, D., Principles of Political Economy and Taxation,* ed. Conner, 1929, p. 86.

ultra-traditionalist Burke equally approved of automatically took on the character of self-evidence.

One man alone perceived the meaning of the ordeal, perhaps because among the leading spirits of the age he alone possessed intimate practical knowledge of industry and was also open to inner vision. No thinker ever advanced farther into the realm of industrial society than did Robert Owen. He was deeply aware of the distinction between society and state; while harboring no prejudice against the latter, as Godwin did, he looked to the state merely for that which it could perform: helpful intervention designed to avert harm from the community, emphatically not the organizing of society. In the same way he nourished no animosity against the machine the neutral character of which he recognized. Neither the political mechanism of the state, nor the technological apparatus of the machine hid from him *the* phenomenon: society. He rejected the animalistic approach to society, refuting its Malthusian and Ricardian limitations. But the fulcrum of his thought was his criticism of Christianity, which he accused of "individualization," or of fixing the responsibility for character on the individual himself, thus denying, to Owen's mind, the reality of society and its all-powerful formative influence upon character. The true meaning of the attack on "individualization" lay in his insistence on the social origin of human motives: "Individualized man, and all that is truly valuable in Christianity, are so separated as to be utterly incapable of union through all eternity." His discovery of society urged him on to transcend Christianity and seek for a position beyond it. He grasped the truth that because society is real, man must ultimately submit to it. His socialism, one might say, was based on a reform of human consciousness to be reached through the recognition of the reality of society. "Should any of the causes of evil be irremovable by the new powers which men are about to acquire," he wrote, "they will know that they are necessary and unavoidable evils; and childish unavailing complaints will cease to be made."

Owen may have nourished an exaggerated notion of those powers; otherwise he hardly could have suggested to the magistrates of the County of Lanark that society should be forthwith newly started from the "nucleus of society" which he had discovered in his village communities. Such flux of the imagination is the privilege of the man of genius, but for whom mankind could not exist for lack of understanding of itself. All the more significant was the irremovable frontier of freedom to which he pointed, that was given by the necessary limits set to the absence of evil in society. But *not until man had transformed society according to the ideals of justice* would this frontier become apparent, Owen felt; then man would have to accept this frontier in the spirit of maturity which knows not childish complaint.

Robert Owen, in 1817, described the course on which Western man had entered and his words summed up the problem of the coming century. He pointed to the mighty consequences which proceed from manufactures, *"when left to their natural progress"* "The general diffusion of manufactures throughout a country generates a new character in its inhabitants; and as this character is formed upon a principle quite unfavourable to individual or general happiness, it will produce the most lamentable and permanent evils, unless its tendency be counteracted by legislative interference and direction." The organization of the whole of society on the principle of gain and profit must have far-reaching effects. He formulated them in terms of human character. For the most obvious effect of the new institutional system was the destruction of the traditional character of settled populations and their transmutation into a new type of people, migratory, nomadic, lacking in self-respect and discipline—crude, callous beings of whom both laborer and capitalist were an example. He proceeded to the generalization that the principle involved was unfavorable to individual and social happiness. Grave evils would be produced in this fashion unless the tendencies inherent in market institutions were checked by conscious social direction made effective through legislation. Doubtless, the condition of the laborers which he deplored was partly the effect of the "allowance system." But essentially, what he observed was true of town and village laborers alike, namely, that "they are at present in a situation infinitely more degraded and miserable than they were before the introduction of those manufactories, upon the success of which their bare subsistence now depends." Here again, he hit rock bottom, emphasizing not incomes but degradation and misery. And as the prime cause of this degradation he, rightly again, pointed to the dependence for bare subsistence on the factory. He grasped the fact that what appeared primarily as an economic problem was essentially a social one. In economic terms the worker was certainly exploited: he did not get in exchange that which was his due. But important though this was, it was far from all. In spite of exploitation, he might have been financially better off than before.

But a principle quite unfavorable to individual and general happiness was wreaking havoc with his social environment, his neighborhood, his standing in the community, his craft; in a word, with those relationships to nature and man in which his economic existence was formerly embedded. The Industrial Revolution was causing a social dislocation of stupendous proportions, and the problem of poverty was merely the economic aspect of this event. Owen justly pronounced that unless legislative interference and direction counteracted these devastating forces, great and permanent evils would follow.

He did not, at that time, foresee that the self-protection of society for which he was calling would prove incompatible with the functioning of the economic system itself.

CHAPTER ELEVEN

Man, Nature, and Productive Organization

For a century the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking the expansion in definite directions. Vital though such a countermovement was for the protection of society, in the last analysis it was incompatible with the self-regulation of the market, and thus with the market system itself.

That system developed in leaps and bounds; it engulfed space and time, and by creating bank money it produced a dynamic hitherto unknown. By the time it reached its maximum extent, around 1914, every part of the globe, all its inhabitants and yet unborn generations, physical persons as well as huge fictitious bodies called corporations, were comprised in it. A new way of life spread over the planet with a claim to universality unparalleled since the age when Christianity started out on its career, only this time the movement was on a purely material level.

Yet simultaneously a countermovement was on foot. This was more than the usual defensive behavior of a society faced with change; it was a reaction against a dislocation which attacked the fabric of society, and which would have destroyed the very organization of production that the market had called into being.

Robert Owen's was a true insight: market economy if left to evolve according to its own laws would create great and permanent evils.

Production is interaction of man and nature; if this process is to be organized through a self-regulating mechanism of barter and exchange, then man and nature must be brought into its orbit; they must be subject to supply and demand, that is, be dealt with as commodities, as goods produced for sale.

Such precisely was the arrangement under a market system. Man under the name of labor, nature under the name of land, were made available for sale; the use of labor power could be universally bought and sold at a price called wages, and the use of land could be negotiated for a price called rent. There was a market in labor as well as in land, and supply and demand in either was regulated by the height of wages and rents, respectively; the fiction that labor and land were produced for sale was consistently upheld. Capital invested in the various combinations of labor and land could thus flow from one branch of production to another, as was required for an automatic levelling of earnings in the various branches.

But, while production could theoretically be organized in this way, the commodity fiction disregarded the fact that leaving the fate of soil and people to the market would be tantamount to annihilating them. Accordingly, the countermove consisted in checking the action of the market in respect to the factors of production, labor, and land. This was the main function of interventionism.

Productive organization also was threatened from the same quarter. The danger was to the single enterprise—industrial, agricultural, or commercial insofar as it was affected by changes in the price level. For under a market system, if prices fell, business was impaired; unless all elements of cost fell proportionately, "going concerns" were forced to liquidate, while the fall in prices might have been due not to a general fall in costs, but merely to the manner in which the monetary system was organized. Actually, as we shall see, such was often the case under a self-regulating market.

Purchasing power is, in principle, here supplied and regulated by the action of the market itself; this is meant when we say that money is a commodity the amount of which is controlled by the supply and demand of the goods which happen to function as money—the well-known classical theory of money. According to this doctrine, money is only another name for a commodity used in exchange more often than another, and which is therefore acquired mainly in order to facilitate exchange. Whether hides, oxen, shells, or gold are used to this end is immaterial; the value of the objects functioning as money is determined as if they were sought only for their usefulness in regard to nutrition, clothing, ornaments, or other purposes. If gold happens to be used as money, its value, amount, and movements are governed by exactly the same laws that apply to other commodities. Any other means of exchange would involve the creating of currency outside the market, the act of its creation—whether by banks or government—constituting an interference with the self-regulation of the market. The crucial point is that goods used as money are not different from other commodities; that their supply and demand is regulated by the market like that of other commodities; and that consequently all notions investing money with any other character than that of a commodity being used as a means of indirect exchange are inherently false. It follows also that if gold is used as money, banknotes, if such exist, must represent gold. It was in accordance with this doctrine that the Ricardian school wished to organize the supply of currency by the Bank of England. Indeed, no other method was conceivable which would keep the monetary system from being "interfered" with by the state, and thus safeguard the self-regulation of the market.

Therefore, in respect to business a very similar situation existed as in respect to the natural and human substance of society. The self-regulating market was a threat to them all, and for essentially similar reasons. And if factory legislation and social laws were required to protect industrial man from the implications of the commodity fiction in regard to labor power, if land laws and agrarian tariffs were called into being by the necessity of protecting natural resources and the culture of the countryside against the implications of the commodity fiction in respect to them, it was equally true that central banking and the management of the monetary system were needed to keep manufactures and other productive enterprises safe from the harm involved in the commodity fiction as applied to money. Paradoxically enough, not human beings and natural resources only but also the organization of capitalistic production itself had to be sheltered from the devastating effects of a self-regulating market.

Let us return to what we have called the double movement. It can be personified as the action of two organizing principles in society, each of them setting itself specific institutional aims, having the support of definite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely laissez-faire and free trade as its methods; the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market—primarily, but not exclusively, the working and the landed classes—and using protective legislation, restrictive associations, and other instruments of intervention as its methods.

The emphasis on class is important. The services to society performed by the landed, the middle, and the working classes shaped the whole social history of the nineteenth century. Their part was cut out for them by their availability for the discharge of various functions that derived from the total situation of society. The middle classes were the bearers of the nascent market economy; their business interests ran, on the whole, parallel to the general interest in regard to production and employment; if business was flourishing, there was a chance of jobs for all and of rents for the owners; if markets were expanding, investments could be freely and readily made; if the trading community competed successfully with the foreigner, the currency was safe. On the other hand, the trading classes had no organ to sense the dangers involved in the exploitation of the physical strength of the worker, the destruction of family life, the devastation of neighborhoods, the denudation of forests, the pollution of rivers, the deterioration of craft standards, the disruption of folkways, and the general degradation of existence including housing and arts, as well as the innumerable forms of private and public life that do not affect profits. The middle classes fulfilled their function by developing an all but sacramental belief in the universal beneficence of profits, although this disqualified them as the keepers of other interests as vital to a good life as the furtherance of production. Here lay the chance of those classes which were not engaged in applying expensive, complicated, or specific machines to production. Roughly, to the landed aristocracy and the peasantry fell the task of safeguarding the martial qualities of the nation which continued to depend largely on men and soil, while the laboring people to a smaller or greater extent, became representatives of the common human interests that had become homeless. But at one time or another, each social class stood, even if unconsciously, for interests wider than its own.

By the turn of the nineteenth century—universal suffrage was now fairly general—the working class was an influential factor in the state; the trading classes, on the other hand, whose sway over the legislature went no longer unchallenged, became conscious of the political power involved in their leadership in industry. This peculiar localization of influence and power caused no trouble as long as the market system continued to function without great stress and strain; but when, for inherent reasons, this was no longer the case, and tensions between the social classes developed, society itself was endangered by the fact that the contending parties were making government and business, state and industry, respectively, their strongholds. Two vital functions of society—the political and the economic—were being used and abused as weapons in a struggle for sectional interests. It was out of such a perilous deadlock that in the twentieth century the fascist crisis sprang.

From these two angles, then, we intend to outline the movement which shaped the social history of the nineteenth century. The one was given by the clash of the organizing principles of economic liberalism and social protection which led to deep-seated institutional strain; the other by the conflict of classes which, interacting with the first, turned crisis into catastrophe.

The Utopian springs of the dogma of laissez-faire are but incompletely understood as long as they are viewed separately. The three tenets—competitive labor market, automatic gold standard, and international free trade—formed one whole. The sacrifices involved in achieving any one of them were useless, if not worse, unless the other two were equally secured. It was everything or nothing.

Anybody could see that the gold standard, for instance, meant danger of deadly deflation and, maybe, of fatal monetary stringency in a panic. The manufacturer could, therefore, hope to hold his own only if he was assured of an increasing scale of production at remunerative prices (in other words, only if wages fell at least in proportion to the general fall in prices, so as to allow the exploitation of an ever-expanding world market). Thus the Anti-Corn Law Bill of 1846 was the corollary of Peel's Bank Act of 1844, and both assumed a laboring class which, since the Poor Law Amendment Act of 1834, was forced to give its best under the threat of hunger, so that wages were regulated by the price of grain. The three great measures formed a coherent whole.

The true implications of economic liberalism can now be taken in at a glance. Nothing less than a self-regulating market on a world scale could ensure the functioning of this stupendous mechanism. Unless the price of labor was dependent upon the cheapest grain available, there was no guarantee that the unprotected industries would not succumb in the grip of the voluntarily accepted taskmaster, gold. The expansion of the market system in the nineteenth century was synonymous with the simultaneous spreading of international free trade, competitive labor market, and gold standard; they belonged together. No wonder that economic liberalism turned almost into a religion once the great perils of this venture were evident.

There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course. Just as cotton manufactures—the leading free trade industry—were created by the help of protective tariffs, export bounties, and indirect wage subsidies, laissez-faire itself was enforced by the state. The thirties and forties saw not only an outburst of legislation repealing restrictive regulations, but also an enormous increase in the administrative functions of the state, which was now being endowed with a central bureaucracy able to fulfil the tasks set by the adherents of liberalism. To the typical utilitarian, economic liberalism was a social project which should be put into effect for the greatest happiness of the greatest number; laissez-faire was not a method to achieve a thing, it was the thing to be achieved. True, legislation could do noth-

The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. To make Adam Smith's "simple and natural liberty" compatible with the needs of a human society was a most complicated affair. Witness the complexity of the provisions in the innumerable enclosure laws; the amount of bureaucratic control involved in the administration of the New Poor Laws which for the first time since Queen Elizabeth's reign were effectively supervised by central author -

* Redlich and Hirst, J., *Local Government in England,* Vol. II, p. 240, quoted Dicey, A. V., *Law and Opinion in England,* p. 305.

[1] Ilbert, *Legislative Methods,* pp. 212-13, quoted Dicey, A. V., *op. cit.*

ity; or the increase in governmental administration entailed in the meritorious task of municipal reform. And yet all these strongholds of governmental interference were erected with a view to the organizing of some simple freedom—such as that of land, labor, or municipal administration. Just as, contrary to expectation, the invention of labor-saving machinery had not diminished but actually increased the uses of human labor, the introduction of free markets, far from doing away with the need for control, regulation, and intervention, enormously increased their range. Administrators had to be constantly on the watch to ensure the free working of the system. Thus even those who wished most ardently to free the state from all unnecessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with the new powers, organs, and instruments required for the establishment of laissez-faire.

This paradox was topped by another. While laissez-faire economy was the product of deliberate State action, subsequent restrictions on laissez-faire started in a spontaneous way. Laissez-faire was planned; planning was not. The first half of this assertion was shown above to be true, if ever there was conscious use of the executive in the service of a deliberate government-controlled policy, it was on the part of the Benthamites in the heroic period of laissez-faire. The other half was first mooted by that eminent Liberal, Dicey, who made it his task to inquire into the origins of the "anti-laissez-faire" or, as he called it, the "collectivist" trend in English public opinion, the existence of which was manifest since the late 1860s. He was surprised to find that no evidence of the existence of such a trend could be traced *save the acts of legislation themselves.* More exactly, no evidence of a "collectivist trend" in public opinion *prior* to the laws which appeared to represent such a trend could be found. As to later "collectivist" opinion, Dicey inferred that the "collectivist" legislation itself might have been its prime source. The upshot of his penetrating inquiry was that there had been complete absence of any deliberate intention to extend the functions of the state, or to restrict the freedom of the individual, on the part of those who were directly responsible for the restrictive enactments of the 1870s and 1880s. The legislative spearhead of the countermovement against a self-regulating market as it developed in the half century following i860 turned out to be spontaneous, undirected by opinion, and actuated by a purely pragmatic spirit.

Economic liberals must strongly take exception to such a view.

Their whole social philosophy hinges on the idea that laissez-faire was a natural development, while subsequent anti-laissez-faire legislation was the result of purposeful action on the part of the opponents of liberal principles. In these two mutually exclusive interpretations of the double movement, it is not too much to say, the truth or untruth of the liberal creed is involved today.

Liberal writers like Spencer and Sumner, Mises and Lippmann offer an account of the double movement substantially similar to our own, but they put an entirely different interpretation on it. While in our view the concept of a self-regulating market was Utopian, and its progress was stopped by the realistic self-protection of society, in their view all protectionism was a mistake due to impatience, greed, and shortsightedness, but for which the market would have resolved its difficulties. The question as to which of these two views is correct is perhaps the most important problem of recent social history, involving as it does no less than a decision on the claim of economic liberalism to be the basic organizing principle in society. Before we turn to the testimony of the facts, a more precise formulation of the issue is needed.

Undoubtedly, our age will be credited with having seen the end of the self-regulating market. The 1920s saw the prestige of economic liberalism at its height. Hundreds of millions of people had been afflicted by the scourge of inflation; whole social classes, whole nations had been expropriated. Stabilization of currencies became the focal point in the political thought of peoples and governments; the restoration of the gold standard became the supreme aim of all organized effort in the economic field. The repayment of foreign loans and the return to stable currencies were recognized as the touchstone of rationality in politics; and no private suffering, no restriction of sovereignty, was deemed too great a sacrifice for the recovery of monetary integrity. The privations of the unemployed made jobless by deflation; the destitution of public servants dismissed without a pittance; even the relinquishment of national rights and the loss of constitutional liberties were judged a fair price to pay for the fulfillment of the requirement of sound budgets and sound currencies, these *a priori* of economic liberalism.

The 1930s lived to see the absolutes of the 1920s called in question. After several years during which currencies were practically restored and budgets balanced, the two most powerful countries, Great Britain and the United States, found themselves in difficulties, dismissed the gold standard, and started out on the management of their currencies. International debts were repudiated wholesale and the tenets of economic liberalism were disregarded by the wealthiest and most respectable. By the middle of the 1930s France and some other states still adhering to gold were actually forced off the standard by the Treasuries of Great Britian and the United States, formerly jealous guardians of the liberal creed.

In the 1940s economic liberalism suffered an even worse defeat. Although Great Britain and the United States departed from monetary orthodoxy, they retained the principles and methods of liberalism in industry and commerce, the general organization of their economic life. This was to prove a factor in precipitating the war and a handicap in fighting it, since economic liberalism had created and fostered the illusion that dictatorships were bound for economic catastrophe. By virtue of this creed, democratic governments were the last to understand the implications of managed currencies and directed trade, even when they happened by force of circumstances to be practicing these methods themselves; also, the legacy of economic liberalism barred the way to timely rearmament in the name of balanced budgets and stable exchanges, which were supposed to provide the only secure foundations of economic strength in war. In Great Britain budgetary and monetary orthodoxy induced adherence to the traditional strategic principle of limited commitments upon a country actually faced with total war; in the United States vested interests—such as oil and aluminium—entrenched themselves behind the taboos of liberal business and successfully resisted preparations for an industrial emergency. But for the stubborn and impassioned insistence of economic liberals on their fallacies, the leaders of the race as well as the masses of free men would have been better equipped for the ordeal of the age and might perhaps even have been able to avoid it altogether.

But secular tenets of social organization embracing the whole civilized world are not dislodged by the events of a decade. Both in Great Britain and in the United States millions of independent business units derived their existence from the principle of laissez-faire. Its spectacular failure in one field did not destroy its authority in all. Indeed, its partial eclipse may have even strengthened its hold since it enabled its defenders to argue that the incomplete application of its principles was the reason for every and any difficulty laid to its charge.

This, indeed, is the last remaining argument of economic liberalism today. Its apologists are repeating in endless variations that but for the policies advocated by its critics, liberalism would have delivered the goods; that not the competitive system and the self-regulating market, but interference with that system and interventions with that market are responsible for our ills. And this argument does not find support in innumerable recent infringements of economic freedom only, but also in the indubitable fact that the movement to spread the system of self-regulating markets was met in the second half of the nineteenth century by a persistent countermove obstructing the free working of such an economy.

The economic liberal is thus enabled to formulate a case which links the present with the past in one coherent whole. For who could deny that government intervention in business may undermine confidence? Who could deny that unemployment would sometimes be less if it were not for out-of-work benefit provided by law? That private business is injured by the competition of public works? That deficit finance may endanger private investments? That paternalism tends to damp business initiative? This being so in the present, surely it was no different in the past. When around the 1870s a general protectionist movement—social and national—started in Europe, who can doubt that it hampered and restricted trade? Who can doubt that factory laws, social insurance, municipal trading, health services, public utilities, tariffs, bounties and subsidies, cartels and trusts, embargoes on immigration, on capital movements, on imports—not to speak of less-open restrictions on the movements of men, goods, and payments—must have acted as so many hindrances to the functioning of the competitive system, protracting business depressions, aggravating unemployment, deepening financial slumps, diminishing trade, and damaging severely the self-regulating mechanism of the market? The root of all evil, the liberal insists, was precisely this interference with the freedom of employment, trade and currencies practiced by the various schools of social, national, and monopolistic protectionism since the third quarter of the nineteenth century; but for the unholy alliance of trade unions and labor parties with monopolistic manufacturers and agrarian interests, which in their shortsighted greed joined forces to frustrate economic liberty, the world would be enjoying today the fruits of an almost automatic system of creating material welfare. Liberal leaders never weary of repeating that the tragedy of the nineteenth century sprang from the incapacity of man to remain faithful to the inspiration of the early liberals; that the generous initiative of our ancestors was frustrated by the passions of nationalism and class war, vested interests, and monopolists, and above all, by the blindness of the working people to the ultimate beneficence of unrestricted economic freedom to all human interests, including their own. A great intellectual and moral advance was thus, it is claimed; frustrated by the intellectual and moral weaknesses of the mass of the people; what the spirit of Enlightenment had achieved was put to nought by the forces of selfishness. In a nutshell this is the economic liberal's defense. Unless it is refuted, he will continue to hold the floor in the contest of arguments.

The testimony of the facts contradicts the liberal thesis decisively. The anti-liberal conspiracy is a pure invention. The great variety of forms in which the "collectivist" countermovement appeared was not due to any preference for socialism or nationalism on the part of concerted interests, but exclusively to the broad range of the vital social interests affected by the expanding market mechanism. This accounts for the all but universal reaction of predominantly practical character called forth by the expansion of that mechanism. Intellectual fashion played no role whatever in this process; there was, accordingly, no room for the prejudice which the liberal regards as the ideological force behind the anti-liberal development. Although it is true that the 1870s and 1880s saw the end of orthodox liberalism, and that all crucial problems of the present can be traced back to that period, it is incorrect to say that the change to social and national protectionism was due to any other cause than the manifestation of the weaknesses and perils inherent in a self-regulating market system. This can be shown in more than one way.

Fourthly, there is the significant fact that at various times economic liberals themselves advocated restrictions on the freedom of contract and on laissez-faire in a number of well-defined cases of great theoretical and practical importance. Antiliberal prejudice could, naturally, not have been their motive. We have in mind the principle of the association of labor on the one hand, the law of business corporations on the other. The first refers to the right of workers to combine for the purpose of raising their wages; the latter, to the right of trusts, cartels, or other forms of capitalistic combines, to raise prices. It was justly charged in both cases that freedom of contract or laissez-faire was being used in restraint of trade. Whether workers' associations to raise wages, or trade associations to raise prices were in question, the principle of laissez-faire could be obviously employed by interested parties to narrow the market for labor or other commodities. It is highly significant that in either case consistent liberals from Lloyd George and Theodore Roosevelt to Thurman Arnold and Walter Lippmann subordinated laissez-faire to the demand for a free competitive market; they pressed for regulations and restrictions, for penal laws and compulsion, arguing as any "collectivist" would that the freedom of contract was being "abused" by trade unions, or corporations, whichever it was. Theoretically, laissez-faire or freedom of contract implied the freedom of workers to withhold their labor either individually or jointly, if they so decided; it implied also the freedom of businessmen to concert on selling prices irrespective of the wishes of the consumers. But in practice such freedom conflicted with the institution of a self-regulating market, and *in such a conflict the self-regulating market was invariably accorded precedence.* In other words, if the needs of a self-regulating market proved incompatible with the demands of laissez-faire, the economic liberal turned against laissez-faire and preferred—as any antiliberal would have done—the so-called collectivist methods of regulation and restriction. Trade union law as well as antitrust legislation sprang from this attitude. No more conclusive proof could be offered of the inevitability of antiliberal or "collectivist" methods under the conditions of modern industrial society than the fact that even economic liberals themselves regularly used such methods in decisively important fields of industrial organization.

Our own interpretation of the double movement on the other hand is borne out by the evidence. For if market economy was a threat to the human and natural components of the social fabric, as we insisted, what else would one expect than an urge on the part of a great variety of people to press for some sort of protection? This was what we found. Also, one would expect this to happen without any theoretical or intellectual preconceptions on their part, and irrespective of their attitudes toward the principles underlying a market economy. Again, this was the case. Moreover, we suggested that comparative history of government might offer quasi-experimental support of our thesis if particular interests could be shown to be independent of the specific ideologies present in a number of different countries. For this also we could adduce striking evidence. Finally, the behavior of liberals themselves proved that the maintenance of freedom of trade—in our terms, of a self-regulating market—far from excluding intervention, in effect, demanded such action, and that liberals themselves regularly called for compulsory action on the part of the state as in the case of trade union law and anti-trust laws. Thus nothing could be more decisive than the evidence of history as to which of the two contending interpretations of the double movement was correct: that of the economic liberal who maintained that his policy never had a chance, but was strangled by shortsighted trade unionists, Marxist intellectuals, greedy manufacturers, and reactionary landlords; or that of his critics, who can point to the universal "collectivist" reaction against the expansion of market economy in the second half of the nineteenth century as conclusive proof of the peril to society inherent in the Utopian principle of a self-regulating market.

The spread of the market was thus both advanced and obstructed by the action of class forces. Given the need of machine production for the establishment of a market system, the trading classes alone were in the position to take the lead in that early transformation. A new class of entrepreneurs came into being out of the remnants of older classes, in order to take charge of a development which was consonant with the interests of the community as a whole. But if the rise of the industrialists, entrepreneurs, and capitalists was the result of their leading role in the expansionist movement, the defense fell to the traditional landed classes and the nascent working class. And if among the trading community it was the capitalists' lot to stand for the structural principles of the market system, the role of the die-hard defender of the social fabric was the portion of the feudal aristocracy on the one hand, the rising industrial proletariat on the other. But while the landed classes would naturally seek the solution for all evils in the maintenance of the past, the workers were, up to a point, in the position to transcend the limits of a market society and to borrow solutions from the future. This does not imply that the return to feudalism or the proclamation of socialism was among the possible lines of action; but it does indicate the entirely different direction in which agrarians and urban working-class forces tended to seek for relief in an emergency. If market economy broke down, as in every major crisis it threatened to do, the landed classes might attempt a return to a military or feudal regime of paternalism, while the factory workers would see the need for the establishment of a cooperative commonwealth of labor. In a crisis "responses" might point toward mutually exclusive solutions. A mere

CHAPTER FOURTEEN

Market and Man

To separate labor from other activities of life and to subject it to the laws of the market was to annihilate all organic forms of existence and to replace them by a different type of organization, an atomistic and individualistic one.

Such a scheme of destruction was best served by the application of the principle of freedom of contract. In practice this meant that the noncontractual organizations of kinship, neighborhood, profession, and creed were to be liquidated since they claimed the allegiance of the individual and thus restrained his freedom. To represent this principle as one of noninterference, as economic liberals were wont to do, was merely the expression of an ingrained prejudice in favor of a definite kind of interference, namely, such as would destroy noncontractual relations between individuals and prevent their spontaneous reformation.

This effect of the establishment of a labor market is conspicuously apparent in colonial regions today. The natives are to be forced to make a living by selling their labor. To this end their traditional institutions must be destroyed, and prevented from reforming, since, as a rule, the individual in primitive society is not threatened by starvation unless the community as a whole is in a like predicament. Under the *kraal-land* system of the Kaffirs, for instance, "destitution is impossible: whosoever needs assistance receives it unquestioningly."* No Kwakiutl "ever ran the least risk of going hungry."[1] "There is no starvation in societies living on the subsistence margin."* The principle of freedom from want was equally acknowledged in the Indian village

* Mair, L. P., *An African People in the Twentieth Century,* 1934.

[1] Loeb, E. M., "The Distribution and Function of Money in Early Society," in *Essays in Anthropology*, 1936.

* Herskovits, M. J., *The Economic Life of Primitive Peoples,* 1940.

community and, we might add, under almost every and any type of social organization up to about the beginning of sixteenth-century Europe, when the modern ideas on the poor put forth by the humanist Vives were argued before the Sorbonne. It is the absence of the threat of individual starvation which makes primitive society, in a sense, more humane than market economy, and at the same time less economic. Ironically, the white man's initial contribution to the black man's world mainly consisted in introducing him to the uses of the scourge of hunger. Thus the colonists may decide to cut the breadfruit trees down in order to create an artificial food scarcity or may impose a hut tax on the native to force him to barter away his labor. In either case the effect is similar to that of Tudor enclosures with their wake of vagrant hordes. A League of Nations report mentioned with due horror the recent appearance of that ominous figure of the sixteenth-century European scene, the "masterless man," in the African bush.* During the late Middle Ages he had been found only in the "interstices" of society.[1]" Yet he was the forerunner of the nomadic laborer of the nineteenth century.*

Now, what the white man may still occasionally practice in remote regions today, namely, the smashing up of social structures in order to extract the element of labor from them, was done in the eighteenth century to white populations by white men for similar purposes. Hobbes's grotesque vision of the state—a human Leviathan whose vast body was made up of an infinite number of human bodies—was dwarfed by the Ricardian construct of the labor market: a flow of human lives the supply of which was regulated by the amount of food put at their disposal. Although it was acknowledged that there existed a customary standard below which no laborer's wages could sink, this limitation was thought to become effective only if the laborer was reduced to the choice of being left without food or of offering his labor in the market for the price it would fetch. This explains, incidentally, an otherwise inexplicable omission of the classical economists, namely, why only the penalty of starvation, not also the allurement of high wages, was deemed capable of creating a functioning labor market. Here also colonial experience confirmed their own. For the higher

* Thurnwald, R. C, *op. cit.*

[1] Brinkmann, C, "Das soziale System des Kapitalismus," in *Grundriss der Sozialbkonomik,* 1924.

* Toynbee, A., *Lectures on the Industrial Revolution,* 1887, p. 98.

the wages the smaller the inducement to exertion on the part of the native, who unlike the white man was not compelled by his cultural standards to make as much money as he possibly could. The analogy was all the more striking as the early laborer, too, abhorred the factory, where he felt degraded and tortured, like the native who often resigned himself to work in our fashion only when threatened with corporal punishment, if not physical mutilation. The Lyons manufacturers of the eighteenth century urged low wages primarily for social reasons.* Only an overworked and downtrodden laborer would forgo to associate with his like in order to escape from that state of personal servitude under which he could be made to do whatever his master required from him. Legal compulsion and parish serfdom as in England, the rigors of an absolutist labor police as on the Continent, indentured labor as in the early Americas were the prerequisite of the "willing worker." But the final stage was reached with the application of "nature's penalty," hunger. In order to release it, it was necessary to liquidate organic society, which refused to let the individual starve.

The protection of society, in the first instance, falls to the rulers, who can directly enforce their will. However, it is all too easily assumed by economic liberals that economic rulers tend to be beneficial, while political rulers do not. Adam Smith did not seem to think so when he urged that direct British rule should replace administration through a chartered company in India. Political rulers, he argued, would have parallel interests with the ruled whose wealth would swell their revenue, while the merchant's interests were naturally antagonistic to those of his customers.

By interest and inclination it fell to the landlords of England to protect the lives of the common people from the onrush of the Industrial Revolution. Speenhamland was a moat erected in defence of the traditional rural organization, when the turmoil of change was sweeping the countryside, and, incidentally, making agriculture a precarious industry. In their natural reluctance to bow to the needs of the manufacturing towns, the squires were the first to make a stand in what proved to be a century's losing fight. Yet their resistance was not in vain; it averted ruin for several generations and allowed time for almost complete readjustment. Over a critical span of forty years it re-

* Heckscher, E. R, *op. cit.*, Vol. II, p. 168.

tarded economic progress, and when, in 1834, the Reform Parliament abolished Speenhamland, the landlords shifted their resistance to the factory laws. The church and the manor were now rousing the people against the mill-owner whose predominance would make the cry for cheap food irresistible, and thus, indirectly, threaten to sap rents and tithes. Oastler, for one, was "a Churchman, a Tory, and a Protectionist"*, moreover, he was also a Humanitarian. So were also, with varying mixtures of these ingredients of Tory socialism, the other great fighters in the factory movement: Sadler, Southey, and Lord Shaftesbury. But the premonition of threatening pecuniary losses which prompted the bulk of their followers proved only too well grounded: Manchester exporters were soon clamoring for lower wages involving cheaper grain—the repeal of Speenhamland and the growth of the factories actually prepared the way for the success of the Anti-Corn Law agitation, in 1846. Yet, for adventitious reasons, the ruin of agriculture was postponed in England for a whole generation. Meanwhile Disraeli grounded Tory socialism on a protest against the Poor Law Reform Act, and the conservative landlords of England forced radically new techniques of life upon an industrial society. The Ten Hours Bill of 1847, which Karl Marx hailed as the first victory of socialism, was the work of enlightened reactionaries.

The laboring people themselves were hardly a factor in this great movement the effect of which was, figuratively speaking, to allow them to survive the Middle Passage. They had almost as little to say in the determination of their own fate as the black cargo of Hawkins's ships. Yet it was precisely this lack of active participation on the part of the British working class in deciding its own fate that determined the course of English social history and made it, for better or for worse, so different from that of the Continent.

The scope of social defense against all-round dislocation was as broad as the front of attack. Though common law and legislation speeded up change at times, at others they slowed it down. However, common law and statute law were not necessarily acting in the same direction at any given time.

In the advent of the labor market common law played mainly a positive part—the commodity theory of labor was first stated emphatically not by economists but by lawyers. On the issue of labor combinations and the law of conspiracy, too, the common law favored a free labor market, though this meant restricting the freedom of association of organized workers.

But, in respect to land, the common law shifted its role; it first encouraged, later opposed change. During the sixteenth and seventeenth centuries, more often than not common law insisted on the

* Biicher, K., *Entstehungder Volkswirtschaft,* 1904. Cf. also Penrose, E. R, *Population Theories and Their Application,* 1934; quotes Longfield, 1834, for the first mention of the idea that movements of commodities maybe regarded as substitutes for movements of the factors of production.

owner's right to improve his land profitably even if this involved grave dislocation in habitations and employment. On the Continent this process of mobilization involved, as we know, the reception of Roman law, while in England common law held its own and succeeded in bridging the gap between restricted medieval property rights and modern individual property without sacrificing the principle of judge-made law vital to constitutional liberty. Since the eighteenth century, on the other hand, common law in land acted as a conserver of the past in the face of modernizing legislation. But eventually, the Benthamites had their way, and, between 1830 and i860, freedom of contract was extended to the land. This powerful trend was reversed only in the 1870s when legislation altered its course radically. The "collectivist" period had begun.

The inertia of the common law was now deliberately enhanced by statutes expressly passed in order to protect the habitations and occupations of the rural classes against the effects of freedom of contract. A comprehensive effort was launched to ensure some degree of health and salubrity in the housing of the poor, providing them with allotments, giving them a chance to escape from the slums and to breathe the fresh air of nature, the "gentleman's park." Wretched Irish tenants and London slum-dwellers were rescued from the grip of the laws of the market by legislative acts designed to protect their habitation against the juggernaut, improvement. On the Continent it was mainly statute law and administrative action that saved the tenant, the peasant, the agricultural laborer from the most violent effects of urbanization. Prussian conservatives such as Rodbertus, whose Junker socialism influenced Marx, were blood brothers to the Tory-Democrats of England.

Presently, the problem of protection arose in regard to the agricultural populations of whole countries and continents. International free trade, if unchecked, must necessarily eliminate ever-larger compact bodies of agricultural producers.* This inevitable process of destruction was very much aggravated by the inherent discontinuity in the development of modern means of transportation, which are too expensive to be extended into new regions of the planet unless the prize to be gained is high. Once the great investments involved in the building of steamships and railroads came to fruition, whole conti-

* Borkenau, R, "Towards Collectivism," in *The Totalitarian Enemy,* 1939.

nents were opened up and an avalanche of grain descended upon unhappy Europe. This was contrary to classical prognostication. Ricardo had erected it into an axiom that the most fertile land was settled first. This was turned to scorn in a spectacular manner when the railways found more fertile land in the antipodes. Central Europe, facing utter destruction of its rural society, was forced to protect its peasantry by introducing corn laws.

But if the organized states of Europe could protect themselves against the backwash of international free trade, the politically unorganized colonial peoples could not. The revolt against imperialism was mainly an attempt on the part of the exotic peoples to achieve the political status necessary to shelter themselves from the social dislocations caused by European trade policies. The protection that the white man could easily secure for himself through the sovereign status of his communities was out of the reach of the colored man as long as he lacked the prerequisite, political government.

The trading classes sponsored the demand for mobilization of the land. Cobden set the landlords of England aghast with his discovery that farming was "business" and that those who were broke must clear out. The working classes were won over to free trade as soon as it became apparent that it made food cheaper. Trade unions became the bastion of anti-agrarianism and revolutionary socialism branded the peasantry of the world an indiscriminate mass of reactionaries. International division of labor was undoubtedly a progressive creed; and its opponents were often recruited from amongst those whose judgment was vitiated by vested interests or lack of natural intelligence. The few independent and disinterested minds who discovered the fallacies of unrestricted free trade were too few to make an impression.

And yet the consequences were no less real for not being consciously recognized. In effect, the great influence wielded by landed interests in Western Europe and the survival of feudal forms of life in Central and Eastern Europe during the nineteenth century were readily explained by the vital protective function of these forces in retarding the mobilization of the land. The question was often raised: What enabled the feudal aristocracy of the Continent to maintain their sway in the middle-class state once they had shed the military, judicial, and administrative functions to which they owed their ascendency? The theory of "survivals" was sometimes adduced as an explanation, according to which functionless institutions or traits may continue to exist by virtue of inertia. Yet it would be truer to say that no institution ever survives its function—when it seems to do so, it is because it serves in some other function, or functions, which *need not include the original one.* Thus feudalism and landed conservatism retained their strength as long as they served a purpose that happened to be that of restricting the disastrous effects of the mobilization of land. By this time it had been forgotten by free traders that land formed part of the territory of the country, and that the territorial character of sovereignty was not merely a result of sentimental associations, but of massive facts, including economic ones. "In contrast to the nomadic peoples, the cultivator commits himself to improvements *fixed in a particular place.* Without such improvements human life must remain elementary, and little removed from that of animals. And how large a role have these fixtures played in human history! It is they, the cleared and cultivated lands, the houses, and the other buildings, the means of communication, the multifarious plant necessary for production, including industry and mining, all the permanent and immovable improvements that tie a human community to the locality where it is. They cannot be improvised, but must be built up gradually by generations of patient effort, and the community cannot afford to sacrifice them and start afresh elsewhere. Hence that *territorial* character of sovereignty, which permeates our political conceptions."* For a century these obvious truths were ridiculed.

The economic argument could be easily expanded so as to include the conditions of safety and security attached to the integrity of the soil and its resources—such as the vigor and stamina of the population, the abundance of food supplies, the amount and character of defence materials, even the climate of the country which might suffer from the denudation of forests, from erosions and dust bowls, all of which, ultimately, depend upon the factor land, yet none of which respond to the supply-and-demand mechanism of the market. Given a system entirely dependent upon market functions for the safeguarding of its existential needs, confidence will naturally turn to such forces outside the market system which are capable of ensuring common interests jeopardized by that system. Such a view is in keeping with our appreciation of the true sources of class influence: instead of

* Hawtrey, R. G., *The Economic Problem,* 1933.

trying to explain developments that run counter to the general trend of the time by the (unexplained) influence of reactionary classes, we prefer to explain the influence of such classes by the fact that they, even though incidentally, stand for developments only seemingly contrary to the general interest of the community. That their own interests are often all too well served by such a policy offers only another illustration of the truth that classes manage to profit disproportionately from the services they may happen to render to the commonalty.

CHAPTER SIXTEEN

Market and Productive Organization

Even capitalist business itself had to be sheltered from the unrestricted working of the market mechanism. This should dispose of the suspicion which the very term "man" and "nature" sometimes awaken in sophisticated minds, who tend to denounce all talk about protecting labor and land as the product of antiquated ideas if not as a mere camouflaging of vested interests.

Actually, in the case of productive enterprise as in that of man and nature the peril was real and objective. The need for protection arose on account of the manner in which the supply of money was organized under a market system. Modern central banking, in effect, was essentially a device developed for the purpose of offering protection without which the market would have destroyed its own children, the business enterprises of all kinds. Eventually, however, it was this form of protection which contributed most immediately to the downfall of the international system.

While the perils threatening land and labor from the maelstrom of the market are fairly obvious, the dangers to business inherent in the monetary system are not as readily apprehended. Yet if profits depend upon prices, then the monetary arrangements upon which prices depend must be vital to the functioning of any system motivated by profits. While, in the long run, changes in selling prices need not affect profits, since costs will move up and down correspondingly, this is not true in the short run, since there must be a time lag before contractually fixed prices change. Among them is the price of labor which, together with many other prices, would naturally be fixed by contract. Hence, if the price level was falling for monetary reasons over a considerable time, business would be in danger of liquidation accompanied by the dissolution of productive organization and massive destruction of capital. Not low prices, but falling prices were the trouble. Hume became the founder of the quantity theory of money with his discovery that business remains unaffected if the amount of money is halved since prices will simply adjust to half their former level. He forgot that business might be destroyed in the process.

This is the easily understandable reason why a system of commodity money, such as the market mechanism tends to produce without outside interference, is incompatible with industrial production. Commodity money is simply a commodity which happens to function as money, and its amount, therefore, cannot, in principle, be increased at all, except by diminishing the amount of the commodities not functioning as money. In practice commodity money is usually gold or silver, the amount of which can be increased, but not by much, within a short time. But the expansion of production and trade unaccompanied by an increase in the amount of money must cause a fall in the price level—precisely the type of ruinous deflation which we have in mind. Scarcity of money was a permanent, grave complaint with seventeenth-century merchant communities. Token money was developed at an early date to shelter trade from the enforced deflations that accompanied the use of specie when the volume of business swelled. No market economy was possible without the medium of artificial money.

The real difficulty arose with the need for stable foreign exchanges and the consequent introduction of the gold standard, about the time of the Napoleonic Wars. Stable exchanges became essential to the very existence of English economy; London had become the financial center of a growing world trade. Yet nothing else but commodity money could serve this end for the obvious reason that token money, whether bank or fiat, cannot circulate on foreign soil. Hence the gold standard—the accepted name for a system of international commodity money—came to the fore.

But for domestic purposes, as we know, specie is an inadequate money just because it is a commodity and its amount cannot be increased at will. The amount of gold available may be increased by a small percentage over a year, but not by as many dozen within a few weeks, as might be required to carry a sudden expansion of transactions. In the absence of token money business would have to be either curtailed or carried on at very much lower prices, thus inducing a slump and creating unemployment.

In its simplest form the problem was this: commodity money was vital to the existence of foreign trade; token money, to the existence of domestic trade. How far did they agree with each other?

Under nineteenth-century conditions foreign trade and the gold standard had undisputed priority over the needs of domestic business. The working of the gold standard required the lowering of domestic prices whenever the exchange was threatened by depreciation. Since deflation happens through credit restrictions, it follows that the working of commodity money interfered with the working of the credit system. This was a standing danger to business. Yet to discard token money altogether and restrict currency to commodity money was entirely out of the question, since such a remedy would have been worse than the disease.

Central banking mitigated this defect of credit money greatly. By centralizing the supply of credit in a country, it was possible to avoid the wholesale dislocation of business and employment involved in deflation and to organize deflation in such a way as to absorb the shock and spread its burden over the whole country. The bank in its normal function was cushioning the immediate effects of gold withdrawals on the circulation of notes as well as of the diminished circulation of notes on business.

The case of money showed a very real analogy to that of labor and land. The application of the commodity fiction to each of them led to its effective inclusion into the market system, while at the same time grave dangers to society developed. With money, the threat was to productive enterprise, the existence of which was imperiled by any fall in the price level caused by use of commodity money. Here also protective measures had to be taken, with the result that the self-steering mechanism of the market was put out of action.

Central banking reduced the automatism of the gold standard to a mere pretense. It meant a centrally managed currency; manipulation was substituted for the self-regulating mechanism of supplying credit, even though the device was not always deliberate and conscious. More and more it was recognized that the international gold standard could be made self-regulating only if the single countries relinquished central banking. The one consistent adherent of the pure gold standard who actually advocated this desperate step was Ludwig von Mises; his advice, had it been heeded, would have transformed national economies into a heap of ruins.

Most of the confusion existing in monetary theory was due to the separation of politics and economics, this outstanding characteristic of market society. For more than a century, money was regarded as a purely economic category, a commodity used for the purpose of indirect exchange. If gold was the commodity so preferred, a gold standard was in being. (The attribute "international" in connection with that standard was meaningless, since for the economist, no nations existed; transactions were carried on not between nations but between individuals, whose political allegiance was as irrelevant as the color of their hair.) Ricardo indoctrinated nineteenth-century England with the conviction that the term "money" meant a medium of exchange, that bank notes were a mere matter of convenience, their utility consisting in their being easier to handle than gold, but that their value derived from the certainty that their possession provided us with the means of possessing ourselves at any time of the commodity itself, gold. It follows that the national character of currencies was of no consequence, since they were but different tokens representing the same commodity. And if it was injudicious for a government to make any effort to possess itself of gold (since the distribution of that commodity regulated itself on the world market just as that of any other), it was even more injudicious to imagine that the nationally different tokens were of any relevance to the welfare and prosperity of the countries concerned.

Now the institutional separation of the political and economic spheres had never been complete, and it was precisely in the matter of currency that it was necessarily incomplete; the state, whose mint seemed merely to certify the weight of coins, was in fact the guarantor of the value of token money, which it accepted in payment for taxes and otherwise. This money was *not* a means of exchange, it was a means of payment; it was not a commodity, it was purchasing power; far from having utility itself, it was merely a counter embodying a quantified claim to things that would be purchased. Clearly, a society in which distribution depended upon the possession of such tokens of purchasing power was a construction entirely different from market economy.

To turn from mechanisms and concepts to the social forces in play, it is important to realize that the ruling classes themselves lent their support to the management of the currency through the central bank. Such management was not, of course, regarded as an interference with the institution of the gold standard; on the contrary, it was part of the rules of the game under which the gold standard was supposed to function. Since maintenance of the gold standard was axiomatic and the central banking mechanism was never allowed to act in such a way as to make a country go off gold, but, on the contrary, the supreme directive of the bank was always and under all conditions to stay on gold, no question of principle seemed to be involved. But this was so only as long as the movements of the price level involved were the paltry 2-3 percent, at the most, that separated the so-called gold points. As soon as the movement of the internal price level necessary to keep the exchanges stable was much larger, when it jumped to 10 percent or 30

* The underlying theory has been elaborated by F. Schafer, Wellington, New Zealand.

percent, the situation was entirely changed. Such downward movements of the price level would spread misery and destruction. The fact that currencies were managed became of prime importance, since it meant that central banking methods were a matter of policy, i.e., something the body politic might have to decide about. Indeed, the great institutional significance of central banking lay in the fact that monetary policy was thereby drawn into the sphere of politics. The consequences could not be other than far reaching.

They were twofold. In the domestic field, monetary policy was only another form of interventionism, and clashes of economic classes tended to crystallize around this issue so intimately linked with the gold standard and balanced budgets. Internal conflicts in the 1930s, as we will see, often centerd on this issue which played an important part in the growth of the antidemocratic movement.

In truth, the new nationalism was the corollary of the new internationalism. The international gold standard could not be borne by the nations whom it was supposed to serve, unless they were secured against the dangers with which it threatened the communities adhering to it. Completely monetarized communities could not have stood the ruinous effects of abrupt changes in the price level necessitated by the maintenance of stable exchanges unless the shock was cushioned by the means of an independent central banking policy. The national

In no field was the breakdown of market economy as abrupt as in that of money. Agrarian tariffs interfering with the importing of the produce of foreign lands broke up free trade; the narrowing and regulating of the labor market restricted bargaining to that which the law left to the parties to decide. But neither in the case of labor nor in that of land was there a formal sudden and complete rift in the market mechanism such as happened in the field of money. There was nothing comparable in the other markets to the relinquishing of the gold standard by Great Britain on September 21,1931; nor even to the subsidiary event of America's similar action, in June, 1933. Though by that time the Great Depression which began in 1929 had swept away the major part of world trade, this meant no change in methods, nor did it affect the ruling ideas. But final failure of the gold standard was the final failure of market economy.

Economic liberalism had started a hundred years before and had been met by a protectionist countermove, which now broke into the last bastion of market economy. A new set of ruling ideas superseded the world of the self-regulating market. To the stupefaction of the vast majority of contemporaries, unsuspected forces of charismatic leadership and autarchist isolationism broke forth and fused societies into new forms.

In the last resort, impaired self-regulation of the market led to political intervention. When the trade cycle failed to come round and restore employment, when imports failed to produce exports, when bank reserve regulations threatened business with a panic, when foreign debtors refused to pay, governments had to respond to the strain. In an emergency the unity of society asserted itself through the medium of intervention.

How far the state was induced to interfere depended on the constitution of the political sphere and on the degree of economic distress. As long as the vote was restricted and only the few exerted political influence, interventionism was a much less urgent problem than it became after universal suffrage made the state the organ of the ruling million—the identical million who, in the economic realm, had often to carry in bitterness the burden of the ruled. And as long as employment was plentiful, incomes were secure, production was continuous, living standards were dependable, and prices were stable, interventionist pressure was naturally less than it became when protracted slumps made industry a wreckage of unused tools and frustrated effort.

Internationally, also, political methods were used to supplement the imperfect self-regulation of the market. Ricardian trade and currency theory vainly ignored the difference in status existing between the various countries owing to their different wealth-producing capacity, exporting facilities, trading, shipping, and banking experience. In the liberal theory Great Britain was merely another atom in the universe of trade and ranked precisely on the same footing as Denmark or Guatemala. Actually, the world counted a limited number of countries, divided into lending countries and borrowing countries, exporting countries and practically self-sufficient ones, countries with varied exports and such as depended for their imports and foreign borrowing on the sale of a single commodity like wheat or coffee. Such differences could be ignored by theory, but their consequences could not be equally disregarded in practice. Frequently overseas countries found themselves unable to discharge their foreign debts, their currencies depreciated, endangering their solvency; sometimes they decided to right the balance by political means and interfered with the property of foreign investors. In none of these cases could the process of economic self-healing be relied upon, though according to classical doctrine those processes would unfailingly reimburse the creditor, restore the currency and safeguard the foreigner against the recurrence of similar losses. But this would have required that the countries concerned should be more or less equal participants in a system of world division of labor, which was emphatically not the case. It was idle to expect that the country whose currency slumped would automatically increase its exports, and thereby restore its balance of payments, or that its need for foreign capital would invariably compel it to compensate the foreigner and resume the service of its debt. Increased sales of coffee or nitrates, for instance, might knock the bottom out of the market, and repudiation of a usurious foreign debt might appear preferable to a depreciation of the national currency. The world market mechanism could not afford to run such risks. Instead, gunboats were dispatched on the spot and the defaulting government, whether fraudulent or not, faced with the alternative of bombardment or settlement. No other method was available to enforce payment, avoid great losses, and keep the system going. A similar practice was used to induce colonial peoples to recognize the advantages of trade, when the theoretically unfailing argument of mutual advantage was not promptly—or perhaps not at all—grasped by the natives. Even more evident was the need for interventionist methods, if the region in question happened to be rich in raw materials required for European manufactures, while no pre-established harmony ensured the emergence of a craving after European manufactures on the part of the natives whose natural wants had previously taken an entirely different direction. Of course, none of these difficulties was supposed to arise under an allegedly self-regulating system. But the more often repayments were made only under the threat of armed intervention, the more often trade routes were kept open only with the help of gunboats, the more often trade followed the flag, while the flag followed the need of invading governments, the more patent it became that political instruments had to be used in order to maintain equilibrium in world economy.

The American experience taught the same lesson, in another way. The New Deal could not have been launched without going off gold, though foreign exchange actually mattered but little. Under the gold standard the leaders of the financial market are entrusted, in the nature of things, with the safeguarding of stable exchanges and sound internal credit on which government finance largely depends. The banking organization is thus in the position to obstruct any domestic move in the economic sphere which it happens to dislike, whether its reasons are good or bad. In terms of politics: On currency and credit governments must take the advice of the bankers, who alone can know whether a financial measure would or would not endanger the capital market and the exchanges. That social protectionism did not in this case result in a deadlock was due to the fact that the United States went off gold in time. For although the technical advantages of this move were slight (and the reasons given by the Administration were, as so often, very poor), the political dispossession of Wall Street was the result of this step. The financial market governs by panic. The eclipse of Wall Street in the 1930s saved the United States from a social catastrophe of the Continental type.

However, only in the United States, with its independence from world trade and its excessively strong currency position, was the gold standard chiefly a matter of domestic politics. In other countries, going off gold involved no less than dropping out of world economy. Perhaps the only exception was Great Britain, whose share in world trade was so large that she had been able to lay down the modalities under which the international monetary system should work, thus shifting the burden of the gold standard largely to other shoulders. In countries like Germany, France, Belgium, and Austria, none of these conditions existed. With them destruction of the currency meant cutting loose from the outer world and thereby sacrificing industries dependent upon imported raw materials, disorganizing foreign trade upon which employment rested, and all this without a chance of forcing a similar degree of depreciation on their purveyors and thus evading the internal consequences of a fall in the gold value of the currency, as Great Britain had done.

Exchanges were the highly effective arm of the lever that was pressing on the wage level. Before exchanges brought matters to a head, usually the wage issue was increasing the tension under the surface. But what the laws of the market often could not force upon reluctant wage-earners, the foreign exchange mechanism most effectively performed. The currency indicator made visible to all the unfavorable effects that interventionist trade union policies had on the market mechanism (the inherent weaknesses of which, including the trade cycle, were taken for granted).

Indeed, the Utopian nature of a market society cannot be better illustrated than by the absurdities in which the commodity fiction in regard to labor must involve the community. The strike, this normal bargaining weapon of industrial action, was more and more frequently felt to be a wanton interruption of socially useful work, which, at the same time, diminished the social dividend out of which, ultimately, wages must come. Sympathy strikes were resented, general strikes were regarded as a threat to the existence of the community. Actually, strikes in vital services and public utilities held the citizens to ransom while involving them in the labyrinthine problem of the true functions of a labor market. Labor is supposed to find its price on the market, any other price than that so established being uneconomical. As long as labor lives up to this responsibility, it will behave as an element in the supply of that which it is, the commodity "labor," and will refuse to sell below the price which the buyer can still afford to pay. Consistently followed up, this means that the chief obligation of labor is to be almost continually on strike. The proposition could not be outbidden for sheer absurdity, yet it is only the logical inference from the commodity theory of labor. The source of the incongruity of theory and practice is, of course that labor is not really a commodity, and that if labor was withheld merely in order to ascertain its exact price (just as an increase in supply of all other commodities is withheld in similar circumstances) society would very soon dissolve for lack of sustenance. It is remarkable that this consideration is very rarely, if ever, mentioned in the discussion of the strike issue on the part of liberal economists.

Returning to reality: the strike method of fixing wages would be disastrous in any type of society, not to mention our own, which prides itself on its utilitarian rationality. Actually, the worker has no security in his job under a system of private enterprise, a circumstance which involves a grave deterioration in his status. Add to this the threat of mass unemployment, and the function of trade unions becomes morally and culturally vital to the maintenance of minimum standards for the majority of the people. Yet clearly any method of intervention that offers protection to the workers must obstruct the mechanism of the self-regulating market, and eventually diminish the very fund of consumers' goods that provides them with wages.

By inherent necessity the root problems of market society reappeared: interventionism and currency. They became the center of politics in the 1920s. Economic liberalism and socialist interventionism turned upon the different answers given to them.

Economic liberalism made a supreme bid to restore the self-regulation of the system by eliminating interventionist policies which obstructed the freedom of markets for land, labor, and money. It undertook no less than to solve, in an emergency, the secular problem involved in the three fundamental principles of free trade, a free labor market, and a freely functioning gold standard. It became, in effect, the spearhead of a heroic attempt to restore world trade, remove all avoidable hindrances to the mobility of labor, and reconstruct stable exchanges. This last aim had precedence over the rest. For unless confidence in the currencies was restored, the mechanism of the market could not function, in which case it was illusory to expect governments to refrain from protecting the lives of their people by all the means at their disposal. In the nature of things, these means were, primarily, tariffs and social laws designed to secure food and employment, that is, precisely the type of intervention which made a self-regulating system unworkable.

There was also another, more immediate, reason to put the restoration of the international monetary system first: in the face of disorganized markets and unstable exchanges international credit was playing an increasingly vital part. Before the Great War international capital movements (other than those connected with long-term investments) merely helped to keep the balance of payment liquid, but were strictly limited even in this function by economic considerations. Credit was given only to such as seemed deserving of confidence on business grounds. Now the position was reversed: debts had been created on political grounds such as reparations, and loans were given on semipolitical grounds, in order to make reparation payments possible. But loans were also given for reasons of economic policy, in order to stabilize world prices or to restore the gold standard. The credit mechanism was being used by the relatively sound part of world economy to bridge the gaps in the relatively disorganized parts of that economy, irrespective of the conditions of production and trade. Balances of payment, budgets, exchanges were made to balance artificially in a number of countries with the help of a supposedly all-powerful international credit mechanism. But this mechanism itself was based on the expectation of a return to stable exchanges, which again was synonymous with a return to gold. An elastic band of amazing strength helped to maintain the semblance of unity in a dissolving economic system; but whether the band would stand the strain depended upon a timely return to gold.

The achievement of Geneva was remarkable in its way. Had the aim not been intrinsically impossible, it would have been surely attained, so able, sustained, and single-minded was the attempt. As matters stood, no intervention was probably more disastrous in its results than that of Geneva. Just because it always appeared to be almost successful, it aggravated enormously the effects of the ultimate failure. Between 1923, when the German mark was pulverized within a few months, and the beginning of 1930, when all the important currencies of the world were back to gold, Geneva used the international credit mechanism to shift the burden of the incompletely stabilized economies of Eastern Europe, first, to the shoulders of the Western victors, second, from there to the even broader shoulders of the United States of America.* The collapse came in America in the course of the usual business cycle, but by the time it came, the financial web created by Geneva and Anglo-Saxon banking entangled the economy of the planet in that awful capsize.

But even more was involved. During the 1920s, according to Geneva, questions of social organization had to be wholly subordinated to the needs of the restoration of the currency. Deflation was the primary need; domestic institutions had to adjust as best they might. For the time being, even the restoration of free internal markets and of the liberal state had to be postponed. For in the words of the Gold Delegation, deflation had failed "to affect certain classes of goods and services, and failed, therefore, to bring about a stable new equilibrium." Governments had to intervene in order to reduce prices of monopoly articles, to reduce agreed wage schedules, and to cut rents. The deflationist's ideal came to be a "free economy under a strong government"; but while the phrase on government meant what it said, namely, emergency powers and suspension of public liberties, "free economy" meant in practice the opposite of what it said, namely, governmentally adjusted prices and wages (though the adjustment was made with the express purpose of restoring the freedom of the exchanges and free internal markets). Primacy of exchanges involved no less a sacrifice than that of free markets and free governments—the two pillars of liberal capitalism. Geneva thus represented a change in aim, but no change in method: while the inflationary governments condemned by Geneva subordinated the stability of the currency to stability of incomes and employment, the deflationary governments put in power by Geneva used no fewer interventions in order to subordinate the stability of incomes and employment to the stability of the

* Polanyi, K., "Der Mechanismus der Weltwirtschaftskrise," *Der Osterreichische Volkswirt,* 1933 (Supplement).

currency. In 1932 the Report of the Gold Delegation of the League of Nations declared that with the return of the exchange uncertainty the main monetary achievement of the past decade had been eliminated. What the report did not say was that in the course of these vain deflationary efforts free markets had not been restored though free governments *had* been sacrificed. Though opposed in theory to interventionism and inflation alike, economic liberals had chosen between the two and set the sound-currency ideal above that of nonintervention. In so doing they followed the logic inherent in a self-regulating economy. Yet such a course of action tended to spread the crisis, it burdened finance with the unbearable strain of massive economic dislocation, and it heaped up the deficits of the various national economies to the point where a disruption of the remnants of international division of labor became inevitable. The stubbornness with which economic liberals, for a critical decade, had, in the service of deflationary policies, supported authoritarian interventionism, merely resulted in a decisive weakening of the democratic forces which might otherwise have averted the fascist catastrophe. Great Britain and the United States—masters not servants of the currency—went off gold in time to escape this peril.

Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society. It is the solution natural to industrial workers who see no reason why production should not be regulated directly and why markets should be more than a useful but subordinate trait in a free society. From the point of view of the community as a whole, socialism is merely the continuation of that endeavor to make society a distinctively human relationship of persons which in Western Europe was always associated with Christian traditions. From the point of view of the economic system, it is, on the contrary, a radical departure from the immediate past, insofar as it breaks with the attempt to make private money gains the general incentive to productive activities, and does not acknowledge the right of private individuals to dispose of the main instruments of production. This is, ultimately, why the reform of capitalist economy by socialist parties is difficult even when they are determined not to interfere with the property system. For the mere possibility that they might decide to do so undermines that type of confidence which in liberal economy is vital, namely, absolute confidence in the continuity of titles to property.

While the actual content of property rights might undergo redefinition at the hands of legislation, assurance of formal continuity is essential to the functioning of the market system.

Since the Great War two changes have taken place which affect the position of socialism. First, the market system proved unreliable to the point of almost total collapse, a deficiency that had not been expected even by its critics; second, a socialist economy was established in Russia, representing an altogether new departure. Though the conditions under which this venture took place made it inapplicable to Western countries, the very existence of Soviet Russia proved an incisive influence. True, she had turned to socialism in the absence of developed industries, general literacy, and democratic traditions—all three of which according to Western ideas, were preconditions of socialism. This made her special methods and solutions inapplicable elsewhere, but did not prevent socialism from becoming an inspiration. On the Continent workers' parties had always been socialist in outlook and any reform they wished to achieve was, as a matter of course, suspect of serving socialist aims. In quiet times such a suspicion would have been unjustified; socialist working-class parties were, on the whole, committed to the reform of capitalism, not to its revolutionary overthrow. But the position was different in an emergency. If normal methods were insufficient, abnormal ones would then be tried, and with a workers' party such methods might involve a disregard of property rights. Under the stress of imminent danger workers' parties might strike out for measures which were socialistic or at least appeared as such to the militant adherents of private enterprise. And the very hint would suffice to throw markets into confusion and start a universal panic.

Under conditions such as these the routine conflict of interest between employers and employees took on an ominous character. While a divergence of economic interests would normally end in compromise, the separation of the economic and the political spheres in society tended to invest such clashes with grave consequences to the community. The employers were the owners of the factories and mines and thus directly responsible for carrying on production in society (quite apart from their personal interest in profits). In principle, they would have the backing of all in their endeavor to keep industry going. On the other hand the employees represented a large section of society; their interests also were to an important degree coincident with those of the community as a whole. They were the only available class for the protection of the interests of the consumers, of the citizens, of human beings as such, and, under universal suffrage, their numbers would give them a preponderance in the political sphere. However, the legislature, like industry, had its formal functions to perform in society. Its members were entrusted with the forming of the communal will, the direction of public policy, the enactment of long-term programs at home and abroad. No complex society could do without functioning legislative and executive bodies of a political kind. A clash of group interests that resulted in paralysing the organs of industry or state—either of them, or both—formed an immediate peril to society.

Yet precisely this was the case in the 1920s. Labor entrenched itself in parliament where its numbers gave it weight, capitalists built industry into a fortress from which to lord the country. Popular bodies answered by ruthlessly intervening in business, disregarding the needs of the given form of industry. The captains of industry were subverting the population from allegiance to their own freely elected rulers, while democratic bodies carried on warfare against the industrial system on which everybody's livelihood depended. Eventually, the moment would come when both the economic and the political systems were threatened by complete paralysis. Fear would grip the people, and leadership would be thrust upon those who offered an easy way out at whatever ultimate price. The time was ripe for the fascist solution.

CHAPTER TWENTY

History in the Gear of Social Change

The fascist solution of the impasse reached by liberal capitalism can be described as a reform of market economy achieved at the price of the extirpation of all democratic institutions, both in the industrial and in the political realm. The economic system which was in peril of disruption would thus be revitalized, while the people themselves were subjected to a reeducation designed to denaturalize the individual and make him unable to function as the responsible unit of the body politic* This reeducation, comprising the tenets of a political religion that denied the idea of the brotherhood of man in all its forms, was achieved through an act of mass conversion enforced against recalcitrants by scientific methods of torture.

The appearance of such a movement in the industrial countries of the globe, and even in a number of only slightly industrialized ones, should never have been ascribed to local causes, national mentalities, or historical backgrounds as was so consistently done by contemporaries. Fascism had as little to do with the Great War as with the Versailles Treaty, with Junker militarism as with the Italian temperament. The movement appeared in defeated countries like Bulgaria and in victorious ones like Jugoslavia, in countries of Northern temperament like Finland and Norway and of Southern temperament like

* Polanyi, K., "The Essence of Fascism," in *Christianity and the Social Revolution,* 1935-

Italy and Spain, in countries of Aryan race like England, Ireland, or Belgium and non-Aryan race like Japan, Hungary, or Palestine, in countries of Catholic traditions like Portugal and in Protestant ones like Holland, in soldierly communities like Prussia and civilian ones like Austria, in old cultures like France and new ones like the United States and the Latin-American countries. In fact, there was no type of background—of religious, cultural, or national tradition—that made a country immune to fascism, once the conditions for its emergence were given.

Moreover, there was a striking lack of relationship between its material and numerical strength and its political effectiveness. The very term "movement" was misleading since it implied some kind of enrolment or personal participation of large numbers. If anything was characteristic of fascism, it was its independence of such popular manifestations. Though usually aiming at a mass following, its potential strength was reckoned not by the numbers of its adherents but by the influence of the persons in high position whose good will the fascist leaders possessed, and whose influence in the community could be counted upon to shelter them from the consequences of an abortive revolt, thus taking the risks out of revolution.

A country approaching the fascist phase showed symptoms among which the existence of a fascist movement proper was not necessarily one. At least as important signs were the spread of irrationalistic philosophies, racialist aesthetics, anticapitalistic demagogy, heterodox currency views, criticism of the party system, widespread disparagement of the "regime," or whatever was the name given to the existing democratic setup. In Austria the so-called universalist philosophy of Othmar Spann, in Germany the poetry of Stephen George and the cosmogonic romanticism of Ludwig Klages, in England D. H. Lawrence's erotic vitalism, in France Georges Sorel's cult of the political myth were among its extremely diverse forerunners. Hitler was eventually put in power by the feudalist clique around President Hindenburg, just as Mussolini and Primo de Rivera were ushered into office by their respective sovereigns. Yet Hitler had a vast movement to support him; Mussolini had a small one; Primo de Rivera had none. In no case was an actual revolution against constituted authority launched; fascist tactics were invariably those of a sham rebellion arranged with the tacit approval of the authorities who pretended to have been overwhelmed by force. These are the bare outlines of a complex picture in which room would have to be made for figures as diverse as the Catholic freelance demagogue in industrial Detroit, the "Kingfish" in backward Louisiana, Japanese Army conspirators, and Ukrainian anti-Soviet saboteurs. Fascism was an ever-given political possibility, an almost instantaneous emotional reaction in every industrial community since the 1930s. One may call it a "move" in preference to a "movement," to indicate the impersonal nature of the crisis the symptoms of which were frequently vague and ambiguous. People often did not feel sure whether a political speech or a play, a sermon or a public parade, a metaphysics or an artistic fashion, a poem or a party program was fascist or not. There were no accepted criteria of fascism, nor did it possess conventional tenets. Yet one significant feature of all its organized forms was the abruptness with which they appeared and faded out again, only to burst forth with violence after an indefinite period of latency. All this fits into the picture of a social force that waxed and waned according to the objective situation.

What we termed, for short, "fascist situation" was no other than the typical occasion of easy and complete fascist victories. All at once, the tremendous industrial and political organizations of labor and of other devoted upholders of constitutional freedom would melt away, and minute fascist forces would brush aside what seemed until then the overwhelming strength of democratic governments, parties, trade unions. If a "revolutionary situation" is characterized by the psychological and moral disintegration of all forces of resistance to the point where a handful of scantily armed rebels were enabled to storm the supposedly impregnable strongholds of *reaction,* then the "fascist situation" was its complete parallel except for the fact that here the bulwarks of *democracy and constitutional liberties* were stormed and their defenses found wanting in the same spectacular fashion. In Prussia, in July 1932, the legal government of the Social Democrats, entrenched in the seat of legitimate power, capitulated to the mere threat of unconstitutional violence on the part of Herr von Papen. Some six months later Hitler possessed himself peacefully of the highest positions of power, whence he at once launched a revolutionary attack of wholesale destruction against the institutions of the Weimar Republic and the constitutional parties. To imagine that it was the strength of the movement which created situations such as these, and not to see that it was the situation that gave birth in this case to the movement, is to miss the outstanding lesson of the past decades.

Fascism, like socialism, was rooted in a market society that refused to function. Hence, it was worldwide, catholic in scope, universal in application; the issues transcended the economic sphere and begot a general transformation of a distinctively social kind. It radiated into almost every field of human activity whether political or economic, cultural, philosophic, artistic, or religious. And up to a point it coalesced with local and topical tendencies. No understanding of the history of the period is possible unless we distinguish between the underlying fascist move and the ephemeral tendencies with which that move fused in different countries.

In the Europe of the 1920s two such tendencies—counterrevolution and nationalist revisionism—figured prominently and overlay the more comprehensive but fainter pattern of fascism. Their starting point was, of course, the Peace Treaties and postwar revolutions, respectively. Though both counterrevolution and revisionism were obviously limited to their specific objectives, they were easily confounded with fascism.

Counterrevolutions were the usual backswing of the political pendulum toward a state of affairs that had been violently disturbed. Such moves have been typical in Europe at least since the English Commonwealth, and had but limited connection with the social processes of their time. In the 1920s numerous situations of this kind developed, since the upheavals that destroyed more than a dozen thrones in Central and Eastern Europe were partly caused by the backwash of defeat, not the forward move of democracy. The job of counterrevolution was mainly political and fell as a matter of course to the dispossessed classes and groups such as dynasties, aristocracies, churches, heavy industries, and the parties affiliated with them. The alliances and clashes of conservatives and fascists during this period concerned mainly the share that should go to the fascists in the counterrevolutionary undertaking. Now, fascism was a revolutionary tendency directed as much against conservatism as against the competing revolutionary force of socialism. That did not preclude the fascists from seeking power in the political field by offering their services to the counterrevolution. On

In the militarily defeated countries, but also in the "psychologically" defeated Italy, the national problem loomed large. Here a task was set the stringency of which could not be denied. Deeper than all other issues cut the permanent disarmament of the defeated countries; in a world in which the only existing organization of international law, international order, and international peace rested on the balance of power, a number of countries had been made powerless without any intimation of the kind of system that would replace the old. The League of Nations represented, at the best, an improved system of balance of power, but was actually not even on the level of the late Concert of Europe, since the prerequisite of a general diffusion of power was now lacking. The nascent fascist movement put itself almost everywhere into the service of the national issue; it could hardly have survived without this "pickup" job.

Yet it used this issue only as a stepping-stone; at other times it struck the pacifist and isolationist note. In England and the United States it was allied with appeasement; in Austria the *Heimwehr* cooperated with sundry Catholic pacifists; and Catholic fascism was antinationalist, on principle. Huey Long needed no border conflict with Mississippi or Texas to launch his fascist movement from Baton Rouge. Similar movements in Holland and Norway were nonnationalist to the point of treason—Quisling may have been a name for a good fascist, but was certainly not one for a good patriot.

It was in the third period—after 1929—that the true significance of fascism became apparent. The deadlock of the market system was evident. Until then fascism had been hardly more than a trait in Italy's authoritarian government, which otherwise differed but little from those of a more traditional type. It now emerged as an alternative solution of the problem of industrial society. Germany took the lead in a revolution of European scope and the fascist alignment provided her struggle for power with a dynamic which soon embraced five continents. History was in the gear of social change.

Two-party systems were superseded by one-party governments, sometimes by national governments. However, external similarities between dictatorship countries and countries which retained a democratic public opinion merely served to emphasize the superlative importance of free institutions of discussion and decision. Russia turned to socialism under dictatorial forms. Liberal capitalism disappeared in the countries preparing for war like Germany, Japan, and Italy, and, to a lesser extent, also in the United States and Great Britain. But the emerging regimes of fascism, socialism, and the New Deal were similar only in discarding laissez-faire principles.

While history was thus started on its course by an event external to all, the single nations reacted to the challenge according to whither they were bound. Some were averse to change; some went a long way to meet it when it came; some were indifferent. Also, they sought for solutions in various directions. Yet from the point of view of market economy these often radically different solutions merely represented given alternatives.

Among those determined to make use of a general dislocation to further their own interests was a group of dissatisfied Powers for whom the passing of the balance-of-power system, even in its weakened form of the League, appeared to offer a rare chance. Germany was now eager to hasten the downfall of traditional world economy, which still provided international order with a foothold, and she anticipated the collapse of that economy, so as to have the start of her opponents. She deliberately cut loose from the international system of capital, commodity, and currency so as to lessen the hold of the outer world upon her when she would deem it convenient to repudiate her political obligations. She fostered economic autarchy to ensure the freedom required for her far-reaching plans. She squandered her gold reserves, destroyed her foreign credit by gratuitous repudiation of her obligations and even, for a time, wiped out her favorable foreign trade balance. She easily managed to camouflage her true intentions since neither Wall Street nor the City of London nor Geneva suspected that the Nazis were actually banking on the final dissolution of nineteenth-century economy. Sir John Simon and Montagu Norman firmly believed that eventually Schacht would restore orthodox economics in Germany, which was acting under duress and which would return to the fold, if she were only assisted financially. Illusions such as these survived in Downing Street up to the time of Munich and after. While Germany was thus greatly assisted in her conspirative plans by her ability to adjust to the dissolution of the traditional system, Great Britain found herself severely handicapped by her adherence to that system.

Although England had temporarily gone off gold, her economy and finance continued to be based on the principles of stable exchanges and sound currency. Hence the limitations under which she found herself in respect to rearmament. Just as German autarchy was an outcome of military and political considerations that sprang from her intent to forestall a general transformation, Britain's strategy and foreign policy were constricted by her conservative financial outlook. The strategy of limited warfare reflected the view of an island emporium, which regards itself safe as long as its Navy is strong enough to secure the supplies that its sound money can buy in the Seven Seas. Hitler was already in power when, in 1933, Duff Cooper, a die-hard, defended the cuts in the Army budget of 1932 as made "in the face of the national bankruptcy, which was then thought to be an even greater danger than having an inefficient fighting service." More than three years later Lord Halifax maintained that peace could be had by economic adjustments and that there should be no interference with trade since this would make such adjustments more difficult. In the very year of Munich, Halifax and Chamberlain still formulated Britain's policy in terms of "silver bullets" and the traditional American loans for Germany. Indeed, even after Hitler had crossed the Rubicon and had occupied Prague, Sir John Simon approved in the House of Commons of Montagu Norman's part in the handing over of the Czech gold reserves to Hitler. It was Simon's conviction that the integrity of the gold standard, to the restoration of which his statesmanship was dedicated, outweighed all other considerations. Contemporaries believed that Simon's action was the result of a determined policy of appeasement. Actually, it was an homage to the spirit of the gold standard, which continued to govern the outlook of the leading men of the City of London on strategic as well as on political matters. In the very week of the outbreak of the war the Foreign Office, in answer to a verbal communication of Hitler to Chamberlain*, formulated Britain's policy in terms of the traditional American loans for Germany. England's military unpreparedness was mainly the result of her adherence to gold standard economics.

Germany reaped the advantages of those who help to kill that which is doomed to die. Her start lasted as long as the liquidation of the outworn system of the nineteenth century permitted her to keep in the lead. The destruction of liberal capitalism, of the gold standard, and of absolute sovereignties was the incidental result of her marauding raids. In adjusting to an isolation sought by herself and, later, in the course of her slave-dealer's expeditions, she developed tentative solutions of some problems of the transformation.

Her greatest political asset, however, lay in her ability to compel

* *British BlueBook,* No. 74, Cmd. 6106,1939.

the countries of the world into an alignment against Bolshevism. She made herself the foremost beneficiary of the transformation by taking the lead in that solution of the problem of market economy which for a long time appeared to enlist the unconditional allegiance of the propertied classes, and indeed not always of these alone. Under the liberal and Marxist assumption of the primacy of economic class interests, Hitler was bound to win. But the social unit of the nation proved, in the long run, even more cohesive than the economic unit of class.

Russia's rise also was linked with her role in the transformation. From 1917 to 1929 the fear of Bolshevism was no more than the fear of disorder which might fatally hamper the restoration of a market economy which could not function except in an atmosphere of unqualified confidence. In the following decade socialism became a reality in Russia. The collectivization of the farms meant the supersession of market economy by cooperative methods in regard to the decisive factor of land. Russia, which had been merely a seat of revolutionary agitation directed toward the capitalistic world, now emerged as the representative of a new system which could replace market economy.

It is not usually realized that the Bolsheviks, though ardent socialists themselves, stubbornly refused to "establish socialism in Russia." Their Marxist convictions alone would have precluded such an attempt in a backward agrarian country. But apart from the entirely exceptional episode of so-called "War Communism" in 1920, the leaders adhered to the position that the world revolution must start in industrialized Western Europe. Socialism in one country would have appeared to them a contradiction in terms, and when it became reality, the Old Bolsheviks rejected it almost to a man. Yet it was precisely this departure which proved an amazing success.

Looking back upon a quarter-century of Russian history, it appears that what we call the Russian Revolution really consisted of two separate revolutions, the first of which embodied traditional Western European ideals, while the second formed part of the utterly new development of the thirties. The Revolution of 1917—24 was indeed the *last* of the political upheavals in Europe that followed the pattern of the English Commonwealth and of the French Revolution; the revolution that started with the collectivization of the farms, about 1930, was the *first* of the great social changes that transformed our world in the thirties. For the first Russian Revolution achieved the destruction of absolutism, feudal land tenure, and racial oppression—a true heir to the ideals of 1789; the second Revolution established a socialist economy. When all is said, the first was merely a Russian event—it fulfilled a long process of Western development on Russian soil—while the second formed part of a simultaneous universal transformation.

Seemingly in the 1920s Russia stood apart from Europe and was working out her own salvation. A closer analysis might disprove this appearance. For among the factors which forced upon her a decision in the years between the two revolutions was the failure of the international system. By 1924 "War Communism" was a forgotten incident and Russia had reestablished a free domestic grain market, while maintaining state control of foreign trade and key industries. She was now bent on increasing her foreign trade, which depended mainly on exports of grain, timber, furs, and some other organic raw materials, the prices of which were slumping heavily in the course of the agrarian depression which preceded the general break in trade. Russia's inability to develop an export trade on favorable terms restricted her imports of machinery and hence the establishment of a national industry; this, again, affected the terms of barter between town and countryside—the so-called "scissors"—unfavorably, thus increasing the antagonism of the peasantry to the rule of the urban workers. In this way the disintegration of world economy increased the strain on the makeshift solutions of the agrarian question in Russia, and hastened the coming of the *kolkhoz.* The failure of the traditional political system of Europe to provide safety and security worked in the same direction since it induced the need for armaments, thus enhancing the burdens of high-pressure industrialization. The absence of the nineteenth-century balance-of-power system, as well as the inability of the world market to absorb Russia's agricultural produce, forced her reluctantly into the paths of self-sufficiency. Socialism in one country was brought about by the incapacity of market economy to provide a link between all countries; what appeared as Russian autarchy was merely the passing of capitalist internationalism.

The passing of market-economy can become the beginning of an era of unprecedented freedom. Juridical and actual freedom can be made wider and more general than ever before; regulation and control can achieve freedom not only for the few, but for all. Freedom not as an appurtenance of privilege, tainted at the source, but as a prescriptive right extending far beyond the narrow confines of the political sphere into the intimate organization of society itself. Thus will old freedoms and civic rights be added to the fund of new freedom generated by the leisure and security that industrial society offers to all. Such a society can afford to be both just and free.

Yet we find the path blocked by a moral obstacle. Planning and control are being attacked as a denial of freedom. Free enterprise and private ownership are declared to be essentials of freedom. No society built on other foundations is said to deserve to be called free. The freedom that regulation creates is denounced as unfreedom; the justice, liberty and welfare it offers are decried as a camouflage of slavery. In vain did socialists promise a realm of freedom, for means determine ends: the U.S.S.R., which used planning, regulation and control as its instruments, has not yet put the liberties promised in her Constitution into practice, and, probably, the critics add, never will.... But to turn against regulation means to turn against reform. With the liberal the idea of freedom thus degenerates into a mere advocacy of free enterprise—which is today reduced to a fiction by the hard reality of giant trusts and princely monopolies. This means the fullness of freedom for those whose income, leisure, and security need no enhancing, and a mere pittance of liberty for the people, who may in vain attempt to make use of their democratic rights to gain shelter from the power of the owners of property. Nor is that all. Nowhere did the liberals in fact succeed in reestablishing free enterprise, which was doomed to fail for intrinsic reasons. It was as a result of their efforts that big business was installed in several European countries and, incidentally, also various brands of fascism, as in Austria. Planning, regulation, and control, which they wanted to see banned as dangers to freedom, were then employed by the confessed enemies of freedom to abolish it altogether. Yet the victory of fascism was made practically unavoidable by the liberals' obstruction of any reform involving planning, regulation, or control.

Freedom's utter frustration in fascism is, indeed, the inevitable result of the liberal philosophy, which claims that power and compulsion are evil, that freedom demands their absence from a human community. No such thing is possible; in a complex society this becomes apparent. This leaves no alternative but either to remain faithful to an illusionary idea of freedom and deny the reality of society, or to accept that reality and reject the idea of freedom. The first is the liberal's conclusion; the latter the fascist's. No other seems possible.

Inescapably we reach the conclusion that the very possibility of freedom is in question. If regulation is the only means of spreading and strengthening freedom in a complex society, and yet to make use of this means is contrary to freedom per se, then such a society cannot be free.

Clearly, at the root of the dilemma there is the meaning of freedom itself. Liberal economy gave a false direction to our ideals. It seemed to approximate the fulfillment of intrinsically Utopian expectations. No society is possible in which power and compulsion are absent, nor a world in which force has no function. It was an illusion to assume a society shaped by man's will and wish alone. Yet this was the result of a market view of society which equated economics with contractual relationships, and contractual relations with freedom. The radical illusion was fostered that there is nothing in human society that is not derived from the volition of individuals and that could not, therefore, be removed again by their volition. Vision was limited by the market which "fragmentated" life into the producers' sector that ended when his product reached the market, and the sector of the consumer for whom all goods sprang from the market. The one derived his income "freely" from the market, the other spent it "freely" there. Society as a whole remained invisible. The power of the state was of no account, since the less its power, the smoother the market mechanism would function. Neither voters, nor owners, neither producers, nor consumers could be held responsible for such brutal restrictions of freedom as were involved in the occurrence of unemployment and destitution. Any decent individual could imagine himself free from all responsibility for acts of compulsion on the part of a state which he, personally, rejected; or for economic suffering in society from which he, personally, had not benefited. He was "paying his way," was "in nobody's debt," and was unentangled in the evil of power and economic value. His lack of responsibility for them seemed so evident that he denied their reality in the name of his freedom.

The fascist answer to the recognition of the reality of society is the rejection of the postulate of freedom. The Christian discovery of the uniqueness of the individual and of the oneness of mankind is negated by fascism. Here lies the root of its degenerative bent.

Robert Owen was the first to recognize that the Gospels ignored the reality of society. He called this the "individualization" of man on the part of Christianity and appeared to believe that only in a cooperative commonwealth could "all that is truly valuable in Christianity" cease to be separated from man. Owen recognized that the freedom we gained through the teachings of Jesus was inapplicable to a complex society. His socialism was the upholding of man's claim to freedom *in such a society.* The post-Christian era of Western civilization had begun, in which the Gospels did not any more suffice, and yet remained the basis of our civilization.

The discovery of society is thus either the end or the rebirth of freedom. While the fascist resigns himself to relinquishing freedom and glorifies power which is the reality of society, the socialist resigns himself to that reality and upholds the claim to freedom, in spite of it. Man becomes mature and able to exist as a human being in a complex society. To quote once more Robert Owen's inspired words: "Should any causes of evil be irremovable by the new powers which men are about to acquire, they will know that they are necessary and unavoidable evils; and childish, unavailing complaints will cease to be made."

Resignation was ever the fount of man's strength and new hope. Man accepted the reality of death and built the meaning of his bodily life upon it. He resigned himself to the truth that he had a soul to lose and that there was worse than death, and founded his freedom upon it. He resigns himself, in our time, to the reality of society which means the end of that freedom. But, again, life springs from ultimate resignation. Uncomplaining acceptance of the reality of society gives man indomitable courage and strength to remove all removable injustice and unfreedom. As long as he is true to his task of creating more abundant freedom for all, he need not fear that either power or planning will turn against him and destroy the freedom he is building by their instrumentality. This is the meaning of freedom in a complex society; it gives us all the certainty that we need.