

TOWARDS A GENERAL THEORY OF THE ECONOMY

By A. Rotstein
April, 1960

1.

The problems of economic development in less-developed areas of the world have raised basic theoretic questions concerning the economy.

These questions have been expressed in various ways. The report of a recent conference on economic growth organized by the National Bureau of Economic Research indicates¹ that:

The exact nature of the relationship between economic and non-economic factors in economic growth, and in particular the best method of studying this interrelationship, turned out to be possibly the most controversial point of our conference...¹

With reference to the traditional subject-matter of the disciplines of the social sciences Gunnar Myrdal, in a recent work on the under-developed regions states that:

The distinction between factors that are "economic" and those that are "non-economic" is, indeed a useless and nonsensical device from the point of view of logic and should be replaced by a distinction between "relevant" and "irrelevant" factors, or "more relevant" and "less relevant".²

If, however, "economic" factors cannot be distinguished from "non-economic" factors, how is the economy to be identified in under-developed areas and its relation to the rest of society examined?

Another issue that has been raised is the relevance of

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1. THE Comparative Study of Economic Growth and Structure, National Bureau of Economic Research, 1959. p.31, footnote.

2. Gunnar Myrdal, Economic Theory and Under-developed Regions, Gerald Duckworth and Co., London, 1957, p.10

economic theory. The W.B.E.R. states:

All that is suggested here is that in the near future - say, in one or two decades - economists and statisticians will be better off, and may contribute more to the ultimate answers if they provide reliable comparable data on economic growth and structure on as broad a scale as possible and analyze them with the tools of economic theory, than if they become amateur political scientists, sociologists, and psychologists.³
(underlining mine)

Yet another eminent economist concludes that "Traditional marginal analysis can be very misleading for underdeveloped economies."⁴

It is maintained in this paper that it is the absence of market institutions in underdeveloped areas which limits the relevance of traditional economic analysis, and that it is also from this source that confusion arises concerning the distinction between "economic" and "non-economic" factors, as does the related problem of identifying the economy. The elements of a new general theory of the economy that provides a ^{conceptual} framework to which both market and non-market economies are referable have been provided, this writer believes, in the work of Karl Polanyi and his associates.

3. Op.cit., p.31

4. Quoted from a review in the Journal of Economic History, March 1960, p.125.

2.

The doctrinal background of the work presented here on underdevelopment can be traced back to the second posthumous edition of Carl Menger's "Grundsätze" (1923) which distinguished throughout between exchange economies (Verkehrswirtschaft) and the underdeveloped (unentwickelt) areas possessing no market system. Maintaining this basic distinction, a conceptual system was developed since 1947 by Karl Polanyi and his associates at Columbia University.⁵

This conceptual system starts from ~~the~~ ^{a distinction between} two meanings of "economic", proceeds to a definition of the economy as an instituted process which results in the continuous supply of material wants and elaborates this definition in a conceptual system which is outlined below. It claims to be applicable in all the social sciences that touch upon the economy and its place in society. Comprehensive theoretical and empirical efforts were made to establish the new substantive approach ~~both~~ in the subdisciplines of economic history, economic anthropology and economic sociology as well as economics proper. Important contributions were made by Harry W. Pearson and Walter C. Neale ⁱⁿ Economics, Terence K. Hopkins ⁱⁿ Sociology, Paul Bohannan and G. M. Arensberg ⁱⁿ anthropology, and A. L. Oppenheim and R.F.G. Sweet ⁱⁿ Assyriology. The foundations of this work were laid in The Great Transformation⁶ and continued in Trade and Market in the Early Empires⁷.

⁵Karl Polanyi, The Great Transformation, Rinehart and Co. 1944 and ⁶Karl Polanyi et al, Trade and Market in the Early Empires, The Free Press and The Falcon's Wing Press, 1957.

3.

A market economy, or as it is sometimes called, an exchange economy provides a prima facie criterion of what is "economic". Since all goods are bought and sold in their respective market at a price, economic goods are defined as those which have a price, i.e. are purchased in a market in contrast to "free" goods. The economy is synonymous with the system of market institutions, and "economic behaviour" as well as "economic institutions" have an obvious reference to market behaviour and market institutions which organize the whole of livelihood and have a single discrete function. The self-regulating, autonomous character of a "price-system" gives an obvious meaning to the concept of the economy and ^{to} the limits of the economic sphere in society.

The operation of such an economy can be explained with the help of the scarcity postulate. The conventional formulation starts with the definition that economic goods are scarce. G. J. Stigler tells us, that "the central element of the 'economic problem' is scarcity."⁶

From this postulate it follows that economic activity is identical with rational allocation of scarce means. The

⁶G. J. Stigler, The theory of Price, Revised edition, The Macmillan Company, 1952. p. 1.

economy is then conceived as the locus of allocational activities. For example, at the National Bureau Conference mentioned above, Lloyd G. Reynolds refers to "the structure of national economics, by which I mean essentially the mechanism of resource allocation".⁷

Such a concept of the economy is entirely adequate for an exchange economy where markets and money as a general means of exchange are universally present. All goods may be bought and sold on the market and therefore money as a means of exchange has an unlimited number of alternative uses. allocational activity is thus universal in such an economy and is at the basis of theories of not only of consumption, but of production and income distribution as well.

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A closer examination of the scarcity postulate will indicate however that scarcity is not a property of a goods in an economy, but, as Karl Polanyi has pointed out, ^{should} ~~we may~~ *be related to the presence of* ~~more accurately speak of~~ scarcity situations.

Unlike the popular use of the term which identifies scarcity with a physical shortage, or insufficiency, this postulate incorporates a rigorous set of conditions defining a situation in which ^{scarcity-induced} choice occurs. Scarcity situations may be said to exist only when all three of the following

⁷ op. cit., p. 179.

conditions apply:

- (1) The means in question must have alternative uses: a) other technologies for ^a given end, or b) other ends

~~(2) There must be a hierarchy of ends, and means must be insufficient to fully achieve all ends in the hierarchy~~

- (2) There must be a hierarchy of ends, ~~and means must be insufficient to fully achieve all ends in the hierarchy~~

- (3) Choice (of means) must be induced by the insufficiency of the means

2.

It should be noted that ~~the~~ choice of means per se may occur whether means are insufficient, abundant, or where two alternative means offer identical advantages. ^{But} It is, accordingly, ~~not~~ the choice of means alone that is the concern of the market economists, but choice under the conditions of alternative uses and insufficiency. Excluded from his concern as well are choices guided by moral considerations and random choices which occur under still other conditions than the ones given above.

The fact that means may be insufficient but no alternative uses for them may be present, either by virtue of physical or of institutional restraints (e.g. lack of roads, or lack of marketing facilities, or social taboos) is pertinent to ~~xx~~ our discussion of underdeveloped countries. In fact many of the economist's complaints ~~about the "backwardness"~~ about the "backwardness" of these areas - lack of mobility of resources, geographical and institutional fragmentation, the predominance of kinship and traditional considerations over efficiency and "optimum" allocation - may be reduced to complaints about the presence of restrictions on alternative uses of means. This is particularly true with regard to the absence of markets for the "factors of production" - labor and land (the existence

~~of "irrational" economic obligations and of complex patterns~~

of "irrational" economic obligations and of complex patterns of land tenure.)

Thus while we may speak of an exchange economy as instituted through scarcity situations and indentify the economy with the locus of scarcity-induced allocational activities in such cases, we find that underdeveloped areas do not lend themselves to such a description, even though institutionally they may have a limited sphere of markets and of monetization. They lack, above all, a "social" climate of "free choice". As a result technologically they may be unable to transport goods to locations where "alternative" uses might be possible.

While discussing a different problem, Prof. B.S. Keirstead has circumscribed the field of competence of the economist today in a way that would fit with the position taken here:

Economists seek only to describe how people behave in ~~market~~ market situations, how choices are made, given scarce resources. 8

~~It follows that~~ In view of the limited relevance of scarcity situations in economies that do not rest on markets, ^{it follows that} many basic terms such as "economic good", "economic institution", and "the economy" itself must be redefined. Are goods that are received as "gifts" (i.e. with no "price") "economic goods"? In the absence of wages in what sense is the work of the carpenter and blacksmith in the Indian village "labour"? Is land an

8. B.S. Keirstead, Capital, Interest, and Profits, The Macmillan Co. of Canada, 1959, p.16

"economic good" if it may not be sold? Are ceremonial and religious institutions initiating sowing and harvests "economic institutions"? What of communal corn-husking or building bees? More generally how should one define the economy in cases in which there are no "alternatives" among which to "allocate"?

These are the questions which a general theory of the economy should be designed to answer if it is to be useful for comparative work both for underdeveloped ~~xxx~~ and exchange economies, or put differently, non-market and market economies.

It has been suggested by Professor Polanyi that it is to the "substantive" or "material" meaning of the term "economic" that we must turn for an answer, rather than to the meaning which refers merely to "economizing" or "allocating".

This, however, requires that a way be found for distinguishing the economy as a subsystem in society in spite of the fact that especially in non-market societies, social institutions are rarely discrete, and may simultaneously serve a variety of purposes. It may be asked, indeed, what justification is there at all for talking of "the economy" in cases in which we see merely a series of seemingly disconnected activities that, while they do result in the provision of livelihood, are nevertheless clearly embedded in non-economic institutions? It was probably with this problem that Myrdal was concerned in the passage quoted earlier. Yet it seems evident that no progress on a theory of economic development can result from abandoning the search for an analytic construct which we call "the economy".

By defining the economy generally as an instituted pro-

cess resulting in the continuous supply of material wants, two concepts may be identified which together subsume the economy. They are "process" and "situation" (the latter referring to its instituting).

In this conception, the economy is seen, following Menger, as a jigsawing of persons and things, i.e. it is the persons in various social and other "situations" that result in the movement of things conceived as a process.

The process is seen as including "locational" movements - things being moved over space, and also taken apart ~~and~~ or brought together in the course of production - and "appropriational" movements - movements between individuals or groups possessing dispositional rights, such as changes of ownership. In some cases, of course, the movement of a good may have both locational and appropriational aspects simultaneously.

Appropriational movements may rest on one or more of three characteristic social patterns: the movement of goods as between "hands" on a market; this is called exchange; between symmetrically placed persons or groups - Prof. Polanyi calls this reciprocity; or to some center and out of it again, that is ~~exist~~ redistribution.

Such movements - both the "locational" ones and the "appropriational" ones, result from "situations" in which individuals are placed or find themselves. Such situations - those that "move" goods in this double sense, may be called "economic". Institutions that directly and typically create economic situations may then be designated as "economic institutions." It follows, of course, that

a wide variety of institutions may exert their influence on the economic situation, with varying degrees of immediacy. For that reason the extent to which institutions are "economic" becomes a matter of degree. Our interest, however, would naturally center on the institutions ^{that} most typically create the economic situations that control the "process". In a planned economy, for example, The National Planning Board controlling the flow of investments as its main function~~s~~ would be regarded as an economic institution, while the Cabinet, which exerts only intermittent influence on investment, ~~xxxxxxx~~ may not.

In the light of Professor Polanyi's studies, some of the institutional elements entering into those situations that result in various appropriational movements may be further identified. Reciprocal movement, for instance, are ~~channeled~~ channeled through the mutual obligations that stem from kinship groups, neighborhood groups, or other symmetrically placed bodies. Redistributive movements, on the other hand, presuppose the legitimated authority of a center - political, military, or religious. While it may be seen that none of these institutions are by nature "economic", their ability to create "economic situations" that affect the double movement of goods nevertheless relates them directly to the economy. It is in this sense that the economy may be "embedded" in non-economic institutions.

With reference to the exchange pattern, the relevant institution is the market. It is its function of channeling the flow of goods through its demand-supply mechanism and not its association with "economizing" that makes the market an economic institution.

In an economy resting entirely on markets, however, it is true that the activity-inducing and choice-inducing "economic situation" that it creates for individuals, is a "scarcity situation" that does result in "economizing". Scarcity situations may also exist, of course, outside the economy, e.g. with reference to time, social status, or ICBM's. But a scarcity situation can underly and explain the economic process only when an exchange pattern exists for the elements that are "scarce" that is controlled or channelled through market institutions. The market-bound variety of economic analysis, ~~therefore~~ accordingly, which associates the logic of rational action with regard to scarce means with individual rationality in a situation of scarcity ("economic man"), is therefore useful only when scarcity situations in this sense exist.

A schematic diagram of this conceptual system is attached.

6.

It may be objected that because this general definition of an economy centers on the supplying of material means, it omits consideration of "services". Particular attention has been given to this problem by Prof. Harry Pearson in a still unpublished paper. In a market economy those services whose "supply" is induced through market created situations of scarcity naturally tend to be identified with the economy, since the supply of material means is also created in the very same way. This does not refer, however, to those social activities that result in the production of material means, ~~services~~, and which have traditionally been called "labour services". For in the light of

Professor Polanyi's general definition of the economy labour is nothing but the activity involved in moving, taking apart, or putting together the supply of material means. It is true that we thus drop from our concept of labour many of the usual "services", such as entertaining, teaching, etc. ~~which~~ which do command a price in a market society. However, if our aim is a generally relevant concept, then we must focus on an operationally-defined definition ~~xxxxxxxx~~ of labour that is common to all societies. Any other procedure must founder on the wide variations in social organization that exist in various societies.

It is also true, of course, that many other conceptual questions are connected with a 'materiality' definition of the economy. Among the many factors affecting the economy we have dealt in this paper only with institutions to the exclusion of the ecological and technological factors. These, too, must be related to the concept of the economy as an "instituted process". Among the existing studies that serve to clarify additional aspects of a non-market definition of the economy one should mention the studies of non-market long distance trade and of money, and also ~~xxxxxx~~ of the concept of a "surplus" in Trade and the Market in the Early Empires.

In conclusion it may be said that by centering attention on the movement of material goods, rather than on scarcity, it is possible to distinguish the economy as a general subsystem in human society. This approach offers a theoretical framework

to which the economies of both underdeveloped and developed areas may be related, with the possibility of useful comparative and analytical study. It may also permit us to answer the as-yet unresolved question: through what non-market mechanisms do non-market economics work?

Confidential
RP

TOWARDS A GENERAL THEORY OF THE ECONOMY

Prepared for:
Prof. N. Keyfitz

by
Abraham Rotstein

April 29, 1960

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The problems of economic development in less-developed areas of the world have raised basic theoretical questions concerning the economy.

These questions have been expressed in various ways. The report of a recent conference on economic growth organized by the National Bureau of Economic Research indicates that:

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Yet, another eminent economist concludes that "Traditional marginal analysis can be very misleading for underdeveloped [economies]"⁴

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It is maintained in this paper that it is the absence of market institutions in underdeveloped areas which limits the relevance of traditional economic analysis. It is also from this source that confusion arises as to the distinction of "economic" from "non-economic" factors, with the related problem of identifying the economy.

The reader will not be surprised at this point.
A new conceptual framework for the economy is needed for comparative work, to which both market and non-market economies are referable. The elements of such a general theory of the economy are to be found, this writer believes, in the work of Karl Polanyi and his associates.

³op. cit., p. 31.

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The doctrinal background of the work presented here on underdevelopment can be traced back to the second post-humous edition of ^CKarl Menger's "Grundsätze" (1923) which distinguished throughout between exchange economies (Verkehrswirtschaft) and the underdeveloped (unentwickelt) areas possessing no market system. Maintaining this basic distinction, a conceptual system was developed since 1947 by Karl Polanyi and his associates at Columbia University.

This conceptual system starts from the two meanings of "economic", proceeds to a definition of the economy as an instituted process which results in the continuous supply of material wants and elaborates this definition in a conceptual system which is outlined below. It claims to be applicable in all the social sciences that touch upon the economy and its place in society. Comprehensive theoretical and empirical efforts were made to establish the new substantive approach both in the subdisciplines of economic history, economic anthropology and economic sociology as well as economics proper. Important contributions were made by Harry W. Pearson and Walter C. Neale, economics, Terence K. Hopkins sociology, Paul Bohannan and C. M. Arensberg anthropology, and A. L. Oppenheim and R.F.G. Sweet assyriology. The foundations of this work were laid in The Great Transformation and continued in Trade and Market in the Early Empires.

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What
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set off this
investigation
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be first in
M. Menger.

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Again
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The operation of such an economy can be explained with the help of the scarcity postulate. The conventional formulation starts with the definition that economic goods are scarce. G. J. Stigler tells us, that "the central element of the 'economic problem' is scarcity."⁶

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economy is then conceived as the locus of allocational activities. For example, at the National Bureau Conference mentioned above, Lloyd G. Reynolds refers to "the structure of national economies, by which I mean essentially the mechanism of resource allocation".⁷

Such a concept of the economy is entirely adequate for an exchange economy where markets and money as a general means of exchange are universally present. All goods may be bought and sold on the market and money as a means of exchange has an unlimited number of alternative uses. Allocational activity is thus universal in such an economy and is ^{at} the basis of theories of consumption, production and distribution.

4.

A closer examination of the scarcity postulate will indicate however that scarcity is not an intrinsic property of a good but as Karl Polanyi has pointed out we may more accurately speak of scarcity situations.

Unlike the popular use of the term which identifies scarcity with a physical shortage, or insufficiency, this postulate incorporates a rigorous set of conditions defining a situation in which choice occurs. Scarcity situations may be said to exist only when all three of the following

⁷op. cit., p. 179.

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conditions apply:

- (1) The means in question must have alternative uses.
- (2) There must be a hierarchy of ends with means insufficient to fully achieve all ends in the hierarchy.
- (3) Choice must be induced by these insufficient means.

It should be noted that choice per se may occur whether means are insufficient, abundant, or where two or more alternative courses offer identical advantages. It is not choice alone which is the economist's concern, but choice under the conditions of insufficiency and alternative uses. Excluded as well from his concern are moral choices and random choices which occur under still other sets of conditions than the ones given here.

More pertinent to our discussion of underdeveloped countries: means may be insufficient but no alternative uses for them may be present, by virtue of either institutional or physical restrictions, e.g. social taboos or lack of roads or marketing facilities. In fact many of the economist's complaints about the "backwardness" of these areas - lack of mobility of resources, geographic and institutional 'sections', the predominance of kinship and traditional considerations over efficiency and 'optimum' allocation - may be reduced to elimination or restriction of alternative uses of means. This may be particularly true with regard to the factors of

production in the absence of labor markets and the existence of complex patterns of land tenure.

Thus while we may speak of an exchange economy as instituted through scarcity situations and identify the economy with the locus of allocational activity, we find that underdeveloped areas do not lend themselves to such description. Institutionally they may have a limited sphere of markets and monetization and may lack a social climate of "free choice". Technologically they may be unable to transport goods to locations where "alternative" uses might be possible.

While discussing a different problem, Prof. B. S. Keirstead has circumscribed the field of competence of the economist which would fit in with the position taken here:

Economists seek only to describe how people behave in market situations, how choices are made, given scarce resources.⁸

In the absence of markets, and the limited relevance (or absence) of scarcity situations, many basic terms such as "economic good", "economic institution", and "the economy" must be redefined. Are the numerous goods received as 'gifts', (i.e. with no "price") "economic goods"? In the absence of wages, is the work of the carpenter and blacksmith in the Indian village "labour"? Is land an "economic good" if it may not be sold? Are ceremonial and religious institutions initiating sowing and harvest "economic institutions"? What of communal corn-husking or building bees? How shall we

⁸B.S. Keirstead, Capital, Interest and Profits, The Macmillan Co. of Canada, 1959. p. 16.

define the economy in the absence of "alternatives" among which to "allocate"?

These are the questions which a general theory of the economy should be designed to answer if it is to be useful for comparative work for both underdeveloped and exchange economies, or put differently, in non-market and market economies.

It is to the substantive or material meaning of the term "economic" to which we must turn for an answer, rather than the meaning which refers to "economizing" or "allocating".

Our task is to find a way of distinguishing the economy as a subsystem in society recognizing that especially in non-market societies, social institutions are rarely discrete, and may simultaneously serve various social purposes. Indeed, what justification is there at all for talking of "the economy" here when we can only see a series of disconnected activities resulting in the provision of livelihood which are embedded in non-economic institutions? It was this problem with which Myrdal was likely concerned in the passage quoted earlier.

Nevertheless, no progress on a theory of economic development can result from abandoning the search for ^{an empirical and theoretical} an analytic construct which we call "the economy". ^{Maintaining that} ~~Identifying~~ the economy ^{is} ^{linked} inextricably with the whole of society renders our problem insoluble.

By defining the general economy as an instituted pro-

cess resulting in the continuous supply of material wants, two concepts may be identified which together subsume the economy. They are "process" and "situation" (the latter referring to the instituting).

In this conception, the economy is seen, following Menger, as a jigsawing of persons and things i.e. it is persons in social "situations" which control the movements of things conceived as a process.

The process is seen as including locational movements - things being moved over space, taken apart or brought together e.g. production and appropriational movements - movements between 'hands', such as changes of ownership. Of course, certain movements of goods may consist of both locational and appropriational movements combined.

Appropriational movements may consist of one of three characteristic patterns: the movement of goods as between 'hands' on a market called exchange, between symmetrically-placed persons or groups, called reciprocity and to some central authority and out of it again, called redistribution.

It is the social situation of the person which controls the movements of the process. These situations may be called economic situations. They encompass the complex of institutional elements that are relevant to the control of the process.

Institutions that directly and typically create economic situations may be designated as economic institutions.

All above too brief! but ok. this for notes.

It can be seen of course that a wide variety of institutions may exert their influence on the situation, with varying degrees of immediacy. Thus the extent to which institutions are "economic" becomes in this way a matter of degree. Our emphasis however is on the institutions which typically create the economic situations controlling the process. For example, the National Planning Board controlling the flow of investment as its main function may be regarded as an economic institution, while the Cabinet, which exerts only intermittent influence on investment may not.

The institutional elements entering into situations controlling various appropriational movements may be further classified. For instance reciprocal movements are channeled through the mutual obligations that stem from kinship groups, neighbourhood groups or other symmetrically placed bodies. Redistributive movements presuppose the legitimated authority of a center - political, military or religious. It can be seen that none of these institutions are "economic" yet all create situations affecting the economic process. Put differently, the economy is here embedded in non-economic institutions.

With reference to the exchange pattern, the related institution is the market which is an economic institution since its typical function is to channel the flow of goods under a supply-demand-price mechanism. The economic situation thus created can be described as a scarcity situation.

From Abraham Rotstein
71 Tranby Avenue,
Apt. 4,
Toronto

Approx: 2400 words

My warmest
Thanks,
Abe

1759 AND ALL THAT . . .

by Abraham Rotstein

In the late spring of 1939 in the Montreal public schools, we were each given a bright copper medallion to commemorate the royal visit of the late King George VI and Queen Elizabeth. Mr. Smith told us that this medallion was to be a lifetime souvenir of the event, and so it is. My medallion lies in a small wooden box containing precious bric-a-brac, and every once in a while I run across it, much tarnished after twenty years. It is today the only tangible reassurance I have that the world of 1939 and the early forties in Canada existed.

The crowds on the slopes of Mount Royal on the day of the visit seemed to me to form an impregnable phalanx of adoration as the King and Queen drove by under a blue sky. Disillusion only came later when I heard of some of the rumblings of dissent of the French-Canadian nationalists in the inner sanctum of their small newspapers.

Things seemed altogether much simpler during those years, in spite of the war. To what extent however, this was due to my high school friends who had a hidden talent for putting order into the world, I cannot say.

"Certain things", they told me, were "known". For example, politics was a game of choosing between opposites, and there were many pairs of opposites between which one had to choose. There was the rugged individualism of free enterprise versus public welfare measures. We knew, however, that no opposites were further apart on the political spectrum, or as irreconcilable as the Tories and the French Canadians.

The trade union movement was said to consist of an array of diverse organizations of every militant ideological hue. The French-Canadian trade union movement on the other hand, was enveloped in the double mystery of having a quiescent Catholic ideology and hardly existing at all.

Today everything seems to have been stood on its head. Start with the recent royal tour. It was received with a uniform dignity in French Canada, while the rumblings have come from - of all places - Toronto!

The champion purveyor of public welfare measures has become the rugged free enterprise Tory party, elected - of all things - with a sweeping French-Canadian vote.

The unified trade union movement seems to have toned down considerably any ideological vibrations its member unions may have had. Its research director has declared that he is looking to the French Canadian unions to provide a certain élan or ideological spark for the movement as a whole.

From the vantage point of my 1939 copper medallion, it is doubtful that this is the same country. Is it possible

even to name whatever has been turning things upside down?

* * *

One feature common to most of the changes that have occurred in Canada is a heightened sense of national self-awareness, including awareness of national interests, national pride and national potentialities. This manifestation of a sense of nationhood, which may in brief be called nationalism, has both accompanied and shaped basic changes in this country in the post-war period.

The origin of this nationalism is not entirely clear, but it does appear to have to do with the threat of being engulfed by our neighbours to the south.

We are fortunate that the spirit of wariness about things American has become in Canada, anti-McCarthyism, anti-conformism, anti-racial prejudice and anti-cold war panic.

Canadian nationalism, instead of being characterized by mass hysteria, intolerance, brutishness and jingoism, as nationalism has been on more than one occasion, was thus the circumstantial beneficiary of American vices-in-reverse.

The cluster of our present virtues - the climate for civic liberties, tolerance, personal freedom, and independence in international affairs, is thus, to a not inconsiderable degree the unwilling legacy of the late Senator Joseph McCarthy.

Although we may owe much of our national outlook to the stemming of the American sea, once begun, this process

inevitably raises further questions. These questions have to do with who we are, what are the values for which we stand - in short, with a more complete image of how we see ourselves and what constitutes our national identity.

Individually, the personal image of ourselves shapes our day-to-day behaviour, and likewise the image of Canada in our minds sets a pattern for national existence and national growth.

But very soon, any attempt to spell out Canadian identity, runs into a puzzling terrain in our thinking and in our life - the Province of Quebec. Separating Ontario and the Maritimes seems to sit an enormous implacable fortress which is just there - the French "fact". It appears as an extraneous element in our national conception of self. Except for the occasional diatribe on "dictatorship" and the "church", we feel "disengaged". The proof is the substitution we have made of cordial platitudes and worn rhetoric for a sense of genuine concern or involvement.

Thus it is that the dynamic force of our growing sense of nationhood suddenly becomes helpless before the "fact" of Quebec.

* * *

The "fact" of English Canada may be no less an implacable element in French Canada's attempt to form an image of itself and its destiny. Two hundred years after the English

conquest of Quebec, les Anglais are, for some French-Canadians, still encamped, so to speak, outside the Citadel.

The post-war changes in Quebec province have been at least as great as in the rest of the country. The achievements of Quebec as well, in the arts, in expanded universities, in a strong trade-union movement are well known. At the same time the accompanying feeling of heightened self-awareness, of French-Canadian nationality and the search for self-realization is at least the equal in momentum of the nationalism elsewhere in Canada.

French-Canadian nationalism has many inner strands. The movement is as old as the Province itself, if we point only to a continuing sense of beleaguered insularity and an attempt to preserve an enclave of the status quo.

But a quite different movement is now in view since the end of the war. Jean-Marc Léger, writing in the University of Toronto Quarterly, has called this movement "social nationalism", aiming, as one of its objectives, at "a strong defence of provincial autonomy, but only on condition that it be a vehicle for a large-scale policy of liberation and progress in all fields". This new school takes issue with a "nationalism (which) was at bottom nothing but an inactive sentimentalism and traditionalism and was becoming the alibi for . . . unshakeable conservatism".

Nationalism in Quebec is also seeking its own image, its unique format, a picture of its past and future. But

what will the outline of its identity be?

This brings us to the central dilemma for the political future of this country: will the dynamic forces of the two nationalisms, English and French, run parallel to each other reinforcing and adding one to the other, or will they be at loggerheads, intensifying mutual isolation?

The latter can only result in a spiritual paralysis, a sea of mediocrity between our two Oceans.

x x x

Our past should serve to warn us. Canadians today are the impoverished children of two hundred years of a loveless marriage, of a surface cordiality that has been the modus vivendi for our own brand of apartheid through indifference. The half-dozen great leaders of this country who were the exceptions only prove the rule.

What basis is there then for the first alternative, namely that the nationalisms of both groups will coincide at vital points and reflect common elements in their image of themselves and their future?

Léger tells us that the French Canadians "have never yet had any theorists of nationalism". Is this surprising for a nationalism which remained dedicated to the past? The pivot of both Canadian and French Canadian history is the French defeat of 1759. What theory of nationalism can spring from a defeat? None. This is the dilemma of a theory of a backward-

looking French-Canadian nationalism. Only a revanchist movement can be based on looking back to 1759, and surely most French-Canadians have ruled that out. Extended reminiscence of the event by French-Canadians can only breed self-pity and a spiritual mortgage of the future.

There is only one course to follow, and that requires courage and a moral decision of the first order - consciously and deliberately to forget 1759!

* * *

The two nationalisms must both forget 1759, the English no less than the French. It is the one key to the mending of our broken soul as "Canadians" and "Canadiens", the one possibility of shaping a common image of our nationhood. Such a view of Canadian identity might be based on the principles of a progressive, egalitarian democracy and a thorough and genuine cultural pluralism.

Pierre Elliot Trudeau's view that "French Canadians have not really believed in democracy for themselves; and English Canadians have not really wanted it for others", is one way to sum up the past. That is no reason however, for pessimism about the future. We have seen equally well-entrenched attitudes and institutions change under our very eyes. Change itself is not one of the choices open to us, only its direction.

The historical process of forgetting is not an impossible phenomenon. What can the many new nations of Asia

and Africa do in order to take a responsible role in world affairs but forget? Could India retain her position on the international scene for one moment if she remained absorbed in her British past?

It is also the key to the success of Switzerland. For hundreds of years from the thirteenth century onward, ethnic strife divided the country. It remained for the values of the French Revolution in the eighteenth century to provide the basis for a common image of Swiss nationality.

On what do personal existence and personal relationships draw but the process of forgetting and of self-renewal?

I know that a proposal such as mine is open to misinterpretation. I am under no utopian illusions that it is a panacea of historical leger de main which will provide a facile solution to all our problems. Nor do I believe that French-Canadian survival will be assured except through French-Canadian institutions. Good intentions, no matter how necessary, are not enough.

Neither is this a proposal for a wholesale casting out of history. We are none of us merely the two-dimensional figures of the present. It is a mistake however, to think that history is only the material of the past. It is the mortar of the present and of the future. Is not this the real meaning of the work of such French-Canadian historians as Brunet, Frégault and Séguin who are dispelling the myth of the old French Canada as a benign bucolic realm?

These remarks are occasioned by the hope that the passing of Mr. Duplessis may mark the end of "Duplessisme", - a policy of massive intransigence at all costs, human, moral and democratic.

There are other objections that may be raised: psychological ones about "repressions" and political ones about shades of "1984". But there is the transcending consideration of a moral choice that we must make. Will our inner commitment remain to the loveless marriage that has persisted these past two hundred years, and whose spirit is 1759? Or, will our commitment be to that of human community, where our existence is in and through each other? Aristotle pointed the way twenty-five hundred years ago in his vision of true community (*koinonia*) cemented by bonds of good-will (*philia*).

The gingerly reminiscence of 1759 by such bodies as the C.B.C., no matter how sincere, well-intentioned and frank, is a commitment to the first course, as is any commemoration. The only power of this event in our past is to divide the country, with either a greater or lesser degree of subtlety.

Our maturity as one nation rather than two, will date from the year when September 13, 1759 is deliberately and universally forgotten.

* * * * *

NOT BEX ORGANIZATION ALONE

Abraham Rotstein

April 17, 1958.

NOT BY ORGANIZATION ALONE¹

I

Two books have recently appeared in the United States and Russia which offer important insights into the life of each country. In Russia there has appeared the novel Not By Bread Alone² which has created a world-wide stir, while in the U.S. there has appeared a sociological study of its middle class entitled The Organization Man³.

It may be presumptuous to focus on both books at the same time, for the landscapes of two very different worlds seem to come into view.

Not By Bread Alone is the epic struggle of the inventor Lopatkin to have his new discovery for producing cast-iron pipe adopted. He is opposed by the state organization in charge of cast-iron pipe which feels its interests and prestige to be threatened by the adoption of a machine superior to the one it was sponsoring.

In a remarkable struggle lasting seven years, Lopatkin endures deceit, poverty, slander, trickery, bribery, theft and even imprisonment in Siberia, until ultimately he triumphs with the aid of powerful friends and his machine is proved and adopted.

¹Any merit this article may have is due to the generous friendship and invaluable assistance of Professor Karl Polanyi.

²Not By Bread Alone, Vladimir Dudintsev, Trans. by Dr. Edith Bone, Hutchinson of London, 1957.

³The Organization Man, by William H. Whyte Jr., Simon and Schuster New York, 1956.

The author, Dudintsev, paints an intense and poignant world for us, scattered over vast distances, but full of colour and contrast. It contains small towns at the end of long railroads, and managers in chauffeured cars dedicated to exacting production quotas. It also contains back rooms in simple houses where inventors nurse their drawing boards for months on end, on diets of boiled potatoes and salt eaten off newspapers. And tying the whole world together is the mail service to the Ministry in Moscow: instructions, complaints, committee reports, appeals, further complaints, files and plans - rivers of paper on which the whole country floats.

But other things exist as well - fur-coats and fashions, soirees and intimate parties, evenings at the Moscow theatre, romance and dedicated friendship, all in the setting of an utter seriousness of life.

As the novel unfolds, we become aware however, of an overwhelming environment which weighs on our inventor and surrounds him everywhere, reminiscent in some way of the arid and intractable forces of primitive nature. Determined at all costs to give society the benefit of his invention, Lopatkin pits himself against this environment and travels a modern Russian Odyssey.

For the author, Lopatkin is "Everyman": "Everyman is an inventor, who is creating something new in his own sphere. Inventors can be anywhere..." "All normal people are born with creative impulses".

Lopatkin tells a supporter who brings him drawing paper, "You are giving me more than life... In order to stay alive, one needs bread. But however hungry I might be, I should always be ready to

exchange my bread for a spark of belief".

The American volume is a more straightforward work, but outspoken and vigorous. It is a study of the pressures of "The Organization", present in virtually every aspect of American life but which the author finds difficult to define precisely. At the root of these pressures is, on the one hand, "a bureaucratization of society that has affected every Western country", but more important is the attitude of "The Organization Man" who "wants to belong". His outlook is characterized by the "Social Ethic" that "rationalizes the organization's demands for fealty and gives those who offer it wholeheartedly a sense of dedication in doing so".

It is defined as follows: "By Social Ethic I mean that contemporary body of thought which makes morally legitimate the pressures of society against the individual. Its major propositions are three: a belief in the group as the source of creativity; a belief in belongingness as the ultimate need of the individual; and a belief in the application of science to achieve the belongingness".

The important contribution of Whyte's book lies in pointing out the existence of this ethic of "belongingness" not only in the framework of the corporation, or other agency of industry or commerce, but also in the hospital, laboratory, university, trade union, in the new suburbs, ("the packaged villages that have become the dormitory of the new generation of organization men"), in the elementary schools and in the best-selling novels.

Whyte's world is full of members of the rising American middle class constantly adjusting to each other both in large organizations

and in small informal groups. It is an intimate view of American life with its personnel managers, students of business administration, its "human relations", surveys and questionnaires, advertisements and "teams", and new theories of education.

It is a frenetic but purposeful environment pursuing "togetherness" as a moral quest. Behind this ready capitulation to the group is the vision of a frictionless utopia: "It is the long-range promise that animates its followers, for it realises... the vision of a finite achievable harmony."

In practice, this adherence to the "Social Ethic" or to the process of "belonging", results in an excessive degree of conformity. The author quite rightly avoids a tirade against the superficial symbols of conformity in U.S. life, (gray flannel suits, ranch wagons etc.), but his subject is, in effect, conformity at a more basic level and present as a matter of increased degree.

The major threat which this conformity poses is to individualism, which consists of "following one's destiny as one's conscience directs". In Whyte's words, "The group is a jealous master... and the better integrated with it a member becomes, the less free he is to express himself in other ways". The individual is "imprisoned in brotherhood", and is offered a "spurious peace of mind". In the face of this widespread conformity, his survival as an individual has become precarious and may require various techniques of subterfuge, some of which Whyte enumerates for us in detail.

While conformity in the U.S.A. is the theme of Whyte's study, it is the contention of this paper, that some distinctive features

of this conformity appear, on closer examination, to be central to Dudintsev's Russia as well.

Certainly both volumes raise many different questions, but in common they portray an anonymous oppressive conformity which seems to inhere in these two widely different forms of industrial society.

II

To point out that there appear to be some elements of conformity in the life of both Russia and America would be no more than a platitude. Without some level of conformity to the basic values of a society, there would be lacking any degree of unity or stability that is the prerequisite to having a society at all. As Whyte points out, the ideal of non-conformity per se is entirely empty and impossible to realize.

Moreover, is it not both misleading and naive to compare problems of conformity in America and Russia at all?

American life rests on freedom for the individual. This is the foundation of the American constitutional system, its long tradition, its attitude to minorities. Freedom is, in fact, at the root of its national character. The existence of the rule of law and democracy and their respective safeguards would seem far to outweigh any conformist elements that might exist.

Russian life on the other hand, is characterized by a massive uniformity and totalitarian control through such institutions as the secret police and terror. A rigid conformity would be little more than an obvious and direct function of the basic institutions.

To assume therefore, that there is some possible common question of conformity in both countries, might be either extremely farfetched or a gross oversimplification. Do the two environments as portrayed in these books in fact, share anything of significance at all?

The answer to this question lies in a clear appreciation of the kind of conformity with which we are concerned, namely, one which

is rooted not in laws or institutions or even in the fear of arbitrary power or abuse of law, but in public opinion itself. It is this conformity, anonymous because it is not centered in any particular person or institution, which compels compliance with the group to an excessive degree, and creates an oppressive atmosphere for the individual.

To take a peripheral area where one might least expect to come up against such a question, both authors reveal the existence of a striking similarity of attitude in each country toward research and invention, a field one might presume to be characterized by spontaneity and a wide latitude for the individual.

However, in Not By Bread Alone one of the bureaucratic protagonists refers in this regard, to "the primitive passions that jolt the economic routine". "You are a truly tragic figure", he tells Lopatkin, "... embodying... a whole epoch, which by now is irretrievably past and gone". He continues "We can do without your invention even if it is a genuine, a great discovery... without suffering any loss, because of our accurate calculations and the planning which ensures a steady advance". He states further that "collective research always leads to the quickest and best solution of any problem. The collective is superior to any individual genius".

Whyte points to an identical attitude in America: "Among Americans there is today a widespread conviction that science has evolved to a point where the lone man engaged in fundamental inquiry is anachronistic". He also tells us that "there is an overriding faith that we are on the brink of superseding discovery", and that there is a belief that "science has proved the group is superior to the individual".

Notwithstanding this common attitude, the scientists and bureaucrats in Dudintsev's novel "are still riding along on the technical methods of the day before yesterday", and it is Lopatkin's machine, the product of an individual inventor, that proves to be the great technical advance.

Likewise in the United States, Whyte tells us that "In the great slough of mediocrity that is most corporation research, what two laboratories are conspicuous exceptions in the rate of discovery? They are General Electric's research department and Bell Labs: exactly the two laboratories most famous for their encouragement of individualism - the most tolerant of individual differences, the most patient with off-tangent ideas, the least given to the immediate closely supervised team project".

Such an attitude toward the restriction of the individual's scope in the realm of research and invention in both countries must indeed be strongly entrenched, if it persists in spite of the relatively mediocre results it produces.

On further consideration, this attitude appears to be typical of a larger problem which looms up. Limitation of the individual's scope and his adherence to the presumed norms and values of the group seem to be widespread in many phases of life.

Whyte points to a growing "responsiveness to the environment" in the U.S. both in character and degree. It is a general movement toward "getting along isolated from why and to what and the getting along is for", to "co-operate just to co-operate". The intimidated individual seems to be coerced toward a mythical normalcy or adjustment.

Whyte asks, "adjustment to what? Nobody really knows - and the tragedy is that they don't realize that the so-confident-seeming other people don't know either".

The source of this pressure appears moreover, to be elusive and intangible. It seems to be a voluntary relinquishing of individuality to some non-existent average. With no visible tyrant or institution enforcing this adherence, we must regard its source, in the U.S. at any rate, as opinion or perhaps public opinion.

Turning to Dudintsev's Russia, we might guess that we would run up against a different situation, that our inventor's troubles would be with the massive institutions of the Soviet Union, the Communist Party, the Police or perhaps with an arbitrary accusation of subversive activities.

But we wait in vain for these villains to appear. Surprising as it may seem, two of Lopatkin's most important allies are members of the Party and Judiciary respectively. Moreover, while the usual evils of bureaucracy make their appearance, such as indifference, inefficiency etc. the reader is impressed with the widespread and accessible channels for complaint, recourse, reply and continuous appeal against this bureaucracy which are open to our inventor. At a crucial point in the story, it is his huge file of correspondence with the state organizations which is deemed most important to be saved.

Nor is the hero subject at any point to lawlessness or flagrant legal abuse. His exile to Siberia is based on a technicality, a security violation, which is nevertheless strictly according to the letter of the law.

There are admittedly some of the usual barriers which face most proponents of change everywhere - envy, resentment, vested interest etc., but the author gives us the feeling of some additional overwhelming obstacle in the environment.

The deputy-minister Shutikov tries to convey this condition to Lopatkin and compares the environment to "a sort of Scythian fortress": "Here am I. My superiors saw fit to saddle me with the responsibility for the production of pipes and notably for the production of pipe-casting machinery. When I studied the matter, I found that beside me, there was a whole group of other people whose life was bound up with the same business - with pipes. Indissolubly tied up. They built themselves a sort of Scythian fortress, surrounded by a wall, divided the duties up between themselves, and now live according to Malthus, limiting fresh births. The fortress may not be visible, but all the same it exists!"

"So you want me to give up?" Lopatkin asked hoarsely.

"You catch thoughts in flight, as a trout does a midge! It is not I who want you to give up, but they who want it. You can see for yourself how they have closed the gates against you!"

He continues, "the scientists are scientists. They are an iceberg that has sunk many a Titanic! Start a feud with them? No, that's not the best way of solving an economic problem!"

(Note the ominous use of the term they by a deputy-minister referring to his subordinates and colleagues.)

Lopatkin at one point rails against the bureaucrat, Tepikin and his idea of the collective. "Tepikin understands everything. He knows what 'collective' means, and he knows what its chief characteristic

is, something which I fully understood only when they pointed their fingers at me and exclaimed: 'there he is, the individualist, the self-seeker!' Now I know what a collective is. If one were to take the very largest or the very smallest unit of the Ardiyev set, and look into its soul, one would find a boundless solitude whistling through it like the wind over the open steppe. Although there is a whole gang of them, they form no collective".

At other points in the novel, the bureaucrats are described as part of an "invisible empire". (Note the elusive designation.) Also they "spin cocoons for themselves". In the state institutes "one must break through, like a salmon. Have you ever seen a salmon jumping up a waterfall"?

This impression of an oppressive and intractable environment is further reinforced by the number of defeated inventors that fill the novel. Many of these who quietly aid Lopatkin's struggle turn out to be former inventors who were crushed by the various state organizations while attempting to have their inventions realized. Lopatkin's closest friend is a warm but tragic old inventor who has gone partly mad in his struggle. He keeps his inventions sealed in a chest under the floorboards and eventually a fire destroys many of his valuable discoveries forever.

One inventor warns Lopatkin: "Go to our Ministry... and there on the shelves you will find... dozens and hundreds of little coffins and all of inventors like you... The followers of His Majesty Science are masters of the burial business". In a moment of despair after a meeting with the Institute Lopatkin exclaims "The day before yesterday,

in front of them all, I confirmed the axiom that inventors are survivors of a past age and will soon be extinct".

The drama of the novel is in fact, provided by the enormous difficulty of survival for the creative individual whom Lopatkin represents. The singular feat of his success, requires a superhuman effort, a brilliant invention and well-placed and powerful friends and even then the hero constantly travels on the edge of irrevocable failure.

Both authors indicate, on the other hand, that the environment of "the group" holds out rewards of its own. Whyte tells us that "The group is a tyrant; so also is it a friend and it is both at once. The two qualities cannot easily be separated, for what gives the group its power over the man is the same cohesion that gives it its warmth."

Likewise in Dudintsev's novel there is a poignant scene showing the warmth and sense of "belongingness" of "the team", when Lopatkin visits the theatre in the midst of his struggle, while he is still a lonely outcast, and longs for the acceptance and camaraderie of a group of people who appear to be from one of the institutes. Later when he gets his own "team", he tries to recapture this feeling by suggesting an evening at the theatre for all of them.

Tepikin, towards the end of the novel, tells Lopatkin how exceptional has been his success, and defends the collective, pointing out its benevolence, and invites Lopatkin to join. "'Listen, Comrade Lopatkin,' Tepikin suddenly said in a loud voice. 'Today you are the victor. And we are all amazed at the way you went through hell and high water. But your nature, dear comrade, is selfish. You are a

lone wolf. Before I met you I would have said that in our country it was impossible to fight alone. I still say it is difficult. The collective helps you, defends you, takes care of you and gives you material support at the right time. But you kept out of the collective. Yet we are always ready to extend to you...".

Lopatkin offers no complaint against the basic framework of Russian institutions such as the powers of compulsion and terror wielded by the police, judiciary etc. As mentioned earlier, it is one of the judges of the tribunal that has exiled him to Siberia on a legalistic (but actual) misdemeanor, who is later instrumental in securing his release.

Lopatkin's quarrel is only with what he takes to be the transient and tainted form of The Collective. Its characteristics are that it makes "a mess of everything it undertakes" and its personnel are "seasoned time-servers" who are characterized by "disillusionment, introversion and selfish calculation". Moreover, "They strike at everyone who thinks differently". It is then, particular individuals who are to blame, not institutions. However, the very ubiquity of these individuals leads one to suspect that they might well be designated as a general body of public opinion in the country.

In an epilogue to his novel, Dudintsev goes further, and sees the essential framework of Russian institutions as the vehicle of a new utopia which is the promise of Communist society. It is his notion of "the genuine collective" one presumes, which will bring about "a new world in which there is no injustice".

It is worth recalling, curiously enough, that Whyte's

Organization Men are also impelled by the vision of a utopia, "the vision of a finite achievable harmony" that will spell the end of conflict between the individual and the group. Whyte himself is no partisan of this utopia, and he advises us to fight The Organization. Dudintsev, on the other hand, tells us that the conditions portrayed in his novel are only the "birth pangs" of the utopian world to come.

Paradoxically following a similar course to the American novel The Caine Mutiny, of which Whyte makes mention, Dudintsev enlists our sympathies in an epic struggle for the individual, only to cast us ashore on the rocks of the group in another format. We must include him in the ranks of those adhering to the "Social Ethic", except perhaps for its third criterion, namely "a belief in the application of science to achieve the belongingness". Of this phase he is innocent.

The outcome of Dudintsev's novel is that everybody wins. Lopatkin with the aid of the manager of another collective, Galitski, (a member of the Party) is finally vindicated and prepares to launch a new state collective to build his machine together with his friends who supported him during the struggle. But the chief bureaucrat of the novel is also promoted and none of the other "time-servers" stand to suffer very much.

This casts doubt indeed on the transitory character of the evils Dudintsev depicts, and one suspects that this is an implicit recognition in the author's mind that some of the problems he portrays may be permanent features which are inherent in his environment.

III

The widely different industrial societies portrayed by Dudintsev and Whyte reveal similar features of an anonymous oppressive conformity which limits the scope of the individual in major aspects of his life.

For Whyte there seems nothing intrinsic to industrial society which would generate these pressures. "The fault is not the pressures of industrial society - an agrarian society has pressures as powerful - but in the stance we assume before these pressures".

Whatever the origins of these pressures, however, this general shift in "stance" toward conformity in an industrial society, compounds the problem in a new and serious way.

For Dudintsev, the difficulties are transitory, and are the prelude to a new utopia. (At one point he ascribes them to the remnants of capitalism. We doubt it.) Utopia is a classical guise for an intractable present.

In both industrial societies, we suggest, it is public opinion itself which is at the root of this conformity. Thus America's situation as portrayed by Whyte, seems to consist of the same sand dunes as are found in the totalitarian desert of Russia.

THE CONCEPT OF THE ECONOMY *and the*
IN UNDERDEVELOPED AREAS

Prepared for
Prof. N. Keyfitz

by
A. Rotstein
Feb. 9, 1960

Abraham Rotstein:

①

The concept of the economy and the underdeveloped areas.

I

The problems of economic development in the underdeveloped areas of the world raise many theoretical questions on varying levels of abstraction. The contention of this paper is that basic questions arise concerning the concept of the economy. The definitions of these terms relevant to the modern exchange economy lose most of their usefulness with reference to the economies of underdeveloped ~~areas~~ ^{regions}. There is a need for a concept of the economy that will encompass the process of continuous material supply in both these areas.

The scarcity postulate in particular is re-examined.

The concept of the economy and the underdeveloped areas

Secondly
The ~~first~~ second run:

(2)

The specific state in particular is examined,

On scarcity and underdevelopment argument here presented can be traced back to the second, posthumous edition of Karl Menger's "Grundsätze" (1923), which distinguished throughout between exchange economies (Verkehrswirtschaft) and the underdeveloped (unentwickelt) areas possessing no market system. Maintaining this basic distinction, a conceptual system was developed ^{since 1947} by Karl Polanyi and his associates at Columbia University. It starts from the two meanings of economic and leads up to a definition of the economy as an 'instituted process' claiming to be applicable in all the social sciences that touch upon the economy and its place in society. Comprehensive theoretical and empirical efforts were made to establish the new substantive ~~and~~ approach in the subdisciplines of economic history, economic anthropology and economic sociology. Important contributions were made by HARRY W. PEARSON and Walter C. Keadle, economics; Terence K. Hopkins, sociology; Paul Bohannan and C.M. Arensberg, anthropology; A.L. Oppenheim and R.F.G. Sweet, Assyriology.

Footnote (1) A detailed bibliography is provided.

II

The description and theoretical penetration of the modern exchange economy by economic analysis is an intellectual achievement of the first order. This discipline, founded on a few basic postulates, gave us a clear picture of how the exchange economy operates and a guide on the policy level to its most efficient operation.

One of these basic postulates is that economic goods are those goods which are scarce. Evidence of scarcity is taken to be that these goods have a price. G. J. Stigler tells us in fact, that "the central element of the 'economic problem' is scarcity".¹

Many things follow from this postulate including the maximizing of output, rational allocation, economizing, efficiency and our concept of the economy. Economic activity is thus seen to coincide with acts of rational allocation or of economizing with regard to scarce means. The economy is seen to be the locus of such economizing activities.

The modern exchange economy contains the following institutional features which make it amenable to economic analysis:

- (1) a general interrelated system of prices
- (2) gainful motives (of entrepreneurs)
- (3) an interrelated system of markets where these motives result in prices, (aided by money as a general means of exchange.)

For example, what is generally meant when it is said, as we have cited above, that scarce goods have a price, is that they may be bought and sold in their respective market.

The above institutions which set the rules of the game of everyday economic activity, permit the entrepreneur to maximize his returns through optimum allocation of his scarce means, or factors of production. In fact, no economic activity could be carried on unless it was consistent with these norms.

¹ G. J. Stigler, The Theory of Price, Revised Edition, The Macmillan Company, 1952. p. 1.

Firms which do not comply with the rules of the game as shown in profits on the balance sheet are soon disqualified through bankruptcy.

At this point we only wish to draw attention to the usefulness of the definition of economic goods as scarce goods and of economic activity as allocational or economizing activity within an exchange economy, whose institutions induce such behaviour in daily life. Most of the activities connected with livelihood in such an economy can be ^{described} analyzed and ^{explained} understood within the framework of these concepts. Economic analysis, which is essentially ^{an application of} the logic of rational action with regard to scarce means, was thus effective both on the level of theory (i.e. explaining how the economy works) and policy (i.e. how it might operate most efficiently).

3.

A more rigorous examination of the nature and limitations of the scarcity postulate and of the concept of the economy which is based upon it may indicate in what way this concept is relevant to underdeveloped areas. On the surface this may seem no more than sheer pedantry since where but in these underdeveloped countries are goods more "scarce"? Where is the "allocation" problem more urgent?

Yet the term "scarcity" as used in economic analysis has little to do with a natural (i.e. physical) shortage or with

an insufficient quantity, although it is often loosely used in this way. This postulate incorporates in fact, a rigorous set of conditions defining a situation in which choice occurs.

The new approach advises
 We would do well as economists to speak of scarcity situations instead of scarcity. Scarcity situations may be said to exist only when the following conditions apply:

- (1) The means in question must have alternative uses.
- (2) There must be a hierarchy of ends, with means insufficient to fully achieve all ends in the hierarchy. ✓
- (3) Choice must be induced by these insufficient means.

I am not sure of the use of the word "choice" in this context. It is a word which is used in a very broad sense and should be avoided.

These conditions may of course, exist independently of each other. The presence of any one need not imply the other two. For example, choice may be induced whether means are insufficient or not. If a person stands at a crossroads, where two different paths lead to the same place and have otherwise identical advantages and disadvantages, a choice must still be made between them if a person is to arrive at his destination. Choices may ^{also} likewise be necessary where means are abundant ^{rather than} as well as insufficient. Thus we cannot claim that it is merely choice which is the economist's concern. The means must have alternative uses as well as being insufficient. ~~the same~~

This is the important point to note

Nor does insufficiency of means per se lead to choice. No matter how insufficient goods may be, they are not scarce in the economist's sense unless they also have alternative uses among which choices may be made.

Thus in situations where either insufficiency, alternative uses or ~~choice~~ is absent, we cannot maintain that a

graded ends

Insufficiency alone cannot explain behavior over

Insuff means used
same way as sufficient

scarcity situation exists, ~~or from the point of view of the economist, that goods are "scarce"~~. *made explicit!*

If all three conditions are met, the rule to be followed in allocating scarce means states that no means shall be allocated to ends of a lesser grade than such ends as would in that manner remain unprovided for. This allocation may occur however, only if there exists a scarcity situation ~~as we have defined it.~~

in brief

The ~~modern~~ exchange economy is characterised by the universal existence of scarcity situations. The generalized use of money as a means of exchange and the existence of markets for the purchase and sale of ~~all~~ goods, gives to each good an unlimited number of alternative uses. (Money is the insufficient means with alternative uses par excellence.) With the quantification of the hierarchy of ends in terms of prices, economic analysis may render a total description of the exchange economy as a series of acts of allocation or economizing induced by insufficient means. Entrepreneurs for example, will behave on the principle that no factors of production will be allocated to production of less value than other production which would thus remain unprovided for.

Restrictions on alternative uses for the means may come from two sources, the absence of markets where the means may be exchanged for other means, and the existence of cultural or social limitations on the ~~technical~~ uses to which the means may be put.

It will be seen therefore that the two prerequisite

conditions which permit us to regard scarcity situations as universal in a modern exchange economy, are the presence of markets for all goods together with money as a generalized means of exchange and the existence of a social milieu or environment which permits "free choices" to be made.

4.

One of the ways in which underdeveloped economies are considered to be underdeveloped is in the absence of modern exchange institutions. Put differently, there are widespread impediments of various kinds to rational allocation or the efficient use of resources as would occur under an exchange system. These have been discussed in the literature under various headings such as lack of mobility of resources, absence of markets, compartmentalization of the economy, intersectional and interregional barriers, or the predominance of custom, tradition, politics and kinship, over considerations of efficiency and economic growth.

This may be manifested in such well-known situations as the rotting of surplus produce when no facilities for marketing exist^{*}, or the elimination of choice through the operation of custom and status considerations. From the point of view of the economist, these varied factors may be reduced to a single consequence. Whether as a result of physical or institutional

insert: * the limited role of neighbourhood markets in the traditional Asian village

conditions or both, many situations occur where goods have no "alternative uses", or very few compared with the modern exchange economy. Where they exist at all, these "alternative uses" may depend on small neighbourhood markets, or merely the physical characteristics of the goods in a specific situation where choice exists. The same conclusions may be drawn with respect to factors of production, particularly in the absence of labor markets and the existence of complex patterns of land tenure.

To the extent that these conditions are characteristic of an underdeveloped country, we would be forced to conclude that scarcity situations may, in certain instances not exist, and in others be of restricted scope.

It is therefore an open question for analytical or descriptive purposes to what extent the definition of economic goods as scarce goods, is a useful definition. It is also an open question to what extent a definition of the economy as the locus of economizing activity with regard to scarce means describes the economy as it actually exists.

Secondly, from the point of view of policy, where economic development is seen to be linked with the institution and extension of additional "alternative uses", in order to achieve more efficient use of resources over the whole economy, we are ill served by a concept of the economy which is based on the a priori assumption of universal and unrestricted scarcity situations - a condition essentially lacking and yet to be achieved.

The reader may have seen by now that the word "economic" has a basic ambiguity which permits it to be used now in one sense, now in another and sometimes in both senses together. On the one hand it may refer to economizing, or be synonymous with the adjective economical, while on the other it may refer to the material goods necessary to sustain livelihood. These are two utterly different roots of the word "economic". Economizing need not be restricted to the economy. One may choose to economize in one's theoretical assumptions in writing an essay, in one's moves while playing chess, or in one's I.C.B.M.'s for destroying a certain target. Economizing is a logical process of the mind and has no intrinsic connection with the economy.

Suffice
The other, or substantive root of economic refers to material goods necessary to sustain livelihood, whether these are "scarce" or not.

The question of whether a particular good is in a scarcity situation, we have shown to be contingent, and related to a given institutional situation. In a modern exchange economy, most goods are in scarcity situations, since the economy is organized in this way. There can therefore be no objection with reference to such an economy to the compound use of the term "economic", encompassing both meanings of the term simultaneously.

When however, the very process of economizing is itself

in question, or is the subject of study as in the underdeveloped areas, a substantive definition of the economy may prove more useful. Such a definition regards the economy as an instituted process which results in the continuous supply of material want satisfaction.

In short, this paper suggests a return to the empirical economy as it is actually found in underdeveloped areas. From such an unencumbered starting-point, scarcity situations might be made the subject of empirical research, rather than the subject of a priori assumptions. Their limited and specific characteristics may then be examined. Research may be directed to such factors as the extent and role of markets and monetization, intersectoral mobility, the characteristic patterns of operation of the non-market areas of the economy, and the relation between economic and non-economic factors. Scarcity situations differ here in unique and concrete ways from each other.

General interest is focused less on the allocation of scarce means among alternative uses than on the ~~means of~~ extension of these alternative uses.

7.

This writer is not unaware of the seeming naivete of a proposal which rejects at the outset much of the sophistication painfully acquired by economic analysis since the time of Menger. However, economic analysis was born in

the matrix of a modern exchange economy with its system of interrelated markets, where it proved supremely useful.

In a different economic setting, the underdeveloped areas, of which we do not yet understand a very great deal, a minimum general definition of the economy may prove safer and more useful. In particular, premature inferences will be avoided by shifting the role of "scarcity" from a general a priori assumption to a subject of concrete and specific investigation i.e. the scarcity situation.

Such a shift is not possible as long as "scarcity" is reified, i.e. as long as it is regarded as an intrinsic and universal characteristic of an economic good rather than an analytic concept of circumscribed relevance.

Do you think this is worth sharpening up as a note in a journal?

K

(75)

Does it not follow from your argument that development is in a sense the creation of scarcity, that this is partly an institutional, partly a psychological matter, that the greater the scarcity in this sense the faster the pace of development. You make a fine remnant point in separating out at least two sharply opposed meanings of scarcity: (1) choice among alternative uses (2) shortage of the goods needed for survival. Like other scientific legends, this one probably has its own subtle purpose — perhaps to make people realize that life amidst (1) is serious by implying (2) in the background of the choices. I think you have a real contribution but it should be tied on

Someone better acquainted with the economic literature. K.

March 10, 1960.

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SUMMARY

MEETING THE SOVIET ECONOMIC OFFENSIVE

1. Economic Tensions Between The Soviet Bloc and The West.
2. The Legacy of A World Market System.
3. A Program For Economic Coexistence

(To be expanded to about twice the present length)

A. Rotstein,
Dec. 11, 1958.

ECONOMIC TENSIONS BETWEEN THE SOVIET BLOC AND THE WEST

There is a growing concern and ominous fear about the Russian economic offensive. These three talks will attempt to point out why the West is singularly vulnerable in the international economic sphere, and ill-prepared for either cooperation or competition in the field of trade, loans or agreements to share raw materials.

Canada's dependence on international trade makes her particularly sensitive to this question.

The advantages of the Soviet trade monopoly include the ability to sell goods at less than existing world market prices, and so capture Western markets; enter into long-term agreements for the purchase of raw materials at agreed-upon prices and so control those materials in scarce supply; grant long-term loans at nominal rates of interest. The purposes of these transactions may be political, or military as well as economic.

(Recent examples and statistical estimates. E.g. Canadian aluminum).

Traditional Western trading methods are more rigid. Transactions generally occur via firms or individuals at market prices. It is well known, of course, that they are thus at a disadvantage when confronted by a governmental monopoly, because they are necessarily weaker and committed to selling at some level above cost or ending up in bankruptcy. Moreover, should a foreign trade monopoly desire in its own interests to enter into agreements with reference to repartition of raw materials, participation in business deals, sharing of markets, stabilization of world market prices, cooperation in investment plans, it would find it

difficult or impossible to do so, since individuals or firms are not generally enabled to commit themselves or others to such long-term agreements because of the uncertainty of which way the market will go. Thus the competitive advantage of the Russian trade monopoly is deadly. It could undercut anyone, anywhere at any time.

A full-scale Russian economic offensive which would invade Western markets, and capture raw material supplies (particularly in view of the impending shortage in the U.S., cf. the Paley Commission) might result in a serious disturbance of the domestic economy and large-scale unemployment. This might become a cause for war, while at the least, the very uncertainty about the scope and direction of future Russian economic activities creates insecurity and increases East-West tension.

Even though their activities may be politically motivated, do we expect the Russians, on the other hand, to stop having foreign trade, stop participating in world raw material supplies, or stop taking part in investment outside their frontiers?

There seems therefore to be no solution in the sphere of an orderly international economy to the coexistence of these two systems short of a dangerous scramble that may lead to war.

Moreover, the condition of many Western economies is not strong at present: e.g. the pound sterling, the franc, the U.S. recession.

The weakness and vulnerability of the underdeveloped countries to market forces is even more pronounced. As Gunnar Myrdal has pointed out: "the very large short-term fluctuations of their export prices... continuously put their exchange balance, the stability of their economy

and their development planning in jeopardy."

By contrast the Russians retain the full flexibility of an economic system which allows them to arbitrarily set any price level appropriate to their interests at the moment, to spread losses from particular projects over their whole economic structure so that no one industry is severely hit, and enjoy a wide mobility of resources and institutional arrangements to meet all requirements.

II

THE LEGACY OF A WORLD MARKET SYSTEM

(Resume of the previous talk)

The roots of our present dilemma go deep. It might be useful to examine some of the traditional premises in our thinking about the international economy.

The nineteenth century left us the vision of a world of competitive economies, automatic adjustments of supply and demand, national currencies linked to the gold standard, and the free flow of goods and capital across boundaries and continents in response to changing market prices. Every economy was linked to every other through fluctuating world prices. The international bankers dominated the scene and offered dire warnings as to which domestic and foreign policies would and would not threaten the rates of exchange of a country's currency.

(Explain balance of payments and gold standard).

Automatic adjustment of the balance of payments and stable exchange rates guided policy. Until 1914 for example, in this scheme of things,

the French franc maintained its value in gold unchanged for no less than 100 years. Equally impressive records were registered by other currencies: the Dutch guilder, ninety-eight years; the British pound sterling, ninety-three years; the Swiss franc eighty-six years; and the Belgian franc eighty-two years.

The rude shocks of the First World War were sufficiently great as to seemingly account for its chaotic aftermath. Sky-rocketing inflations, tariffs and state controls, unstable relations between currencies, war debts and reparations; these changes were not felt to be signs of a crumbling institutional structure but simply the heritage of the war.

We geared ourselves during the 1920's to bolster up the gold standard, rebuild shattered economies, stabilize and reduce tariffs, start once more the flow of international capital on the old scheme of things.

But the reconstruction was only on the surface. We sped along to the chasm of 1929 without the least forewarning of the superficial character of our efforts. A basic institutional transformation had begun in a silent and unrecognized way which could not be gainsaid. In the interregnum of the next ten years was swept away not only any semblance of order in the sphere of the international economy, but one after the other there collapsed around us, the liberal state and the democratic tradition, the League of Nations, and soon peace itself.

The trouble was that all the things in the international economy which were supposed to balance out automatically, showed no inclination to do so. The balance of payments as it deteriorated, forced either a

restriction of imports - which is equivalent to exporting your troubles to other countries - or led to a deflationary policy and domestic unemployment. Country after country in this dilemma decided to throw in the towel - and went off the gold standard while continuing to pay lip-service to the old ideals.

The Second World War and its aftermath gave us a number of new institutions in the international economic field. The enormous international debts following the first World War were averted through ^{the} lead-lease and subsequently by that amazing precedent in enlightened self-interest ~~and~~ Marshall Plan and Point Four.

But the lack of an automatic, smooth, self-regulating adjustment of currency, trade and investments persisted. In fact one of the effects of this massive flow of U.S. dollars to the rest of the world was to compensate for the trade deficits of many countries and ensure the stability of their currencies.

However, intrinsically, the present international economic system of the free world is dangerously unstable. Serious problems would exist even if there were no Soviet bloc at all.

Is it possible then, to base an international economic order, as we are in fact doing today, on short-term expediency, recurrent crisis and a hankering after the golden days of freely fluctuating currencies, and self-adjusting world markets and balance of payments?

How will we meet the complete flexibility of the Soviet trade monopolies in prices, methods of payment, long-term loans, low interest rates?

A PROGRAM FOR ECONOMIC COEXISTENCE

(Resume of two previous talks).

Adlai Stevenson described the situation very well last June when he said:

"We are witnessing, I believe, the last stages of the old, world-wide, self-regulating, international trading and investment system which we in America have largely taken for granted. At the same time, as it recedes, we see expanding, eager to take its place, the new Communist techniques of grants, gifts, loans, trade, aid, barter, technical assistance, raw materials at cost, or plain dumping, all bent to a single political purpose - the reinforcement of Communist power.

And, to give this crisis its full dimensions, it is occurring just at a time when America's need for secure trade abroad and for steady access to foreign materials is growing in proportion to our soaring population and diminishing resources. Moreover, the change comes at a time when the emerging peoples of Asia, Africa, the Middle East and South America are demanding with more urgency than ever before a larger share in the world's wealth."

A solution need not wait on the disappearance either of the Soviet foreign trade monopolies or the market system. We must realize however, that no systematic, general, or automatic way of dealing with international economic problems exists. Solutions lie basically in developing accepted practices in the field of the international economy both on the part of the trade monopolies and the free countries. These may be based on treaty or simply on business devices to meet the situation.

~~Such an outlook might encompass the following three principles:~~

Such an approach implies the permanence and growing role of governments as monitoring agencies and parties to agreements in the international economy.

It envisions these government agencies drawing on special funds, managing surplus disposal programs, matching and meeting the competition of the Soviet bloc in prices, terms of payment and loans. Many of these agencies already exist and have been continuously used in the post-war period for such undertakings as the Marshall Plan, Point Four, and other foreign aid and defence programs. Their powers and resources will have to be extended.

Under the aegis of government participation, a distinct separation in principle and practice should be made between a country's domestic and her external economy to the extent that international circumstances require it. Aside from the political and military requirements which may make such a program a necessity, it would have the salutary effect of preserving and insulating domestic free markets from the outside shocks to which they would otherwise be subject. The situation requires that we be prepared for coexistence as well as "non-coexistence" if such is the trend of world affairs.

There must also be the general recognition by Western countries that a direct international responsibility attaches to countries with a positive balance of payments. It would be their recognized duty and obligation to follow some course of action to alleviate the strain which this balance causes on other countries.

This may be done in various ways, such as extended credits, loans, aid programs or gifts, in addition to the more orthodox methods of lowering tariffs and reducing the rate of interest.

Once trade and currency arrangements are not channeled exclusively through the market, as they traditionally were, hitherto unexplored avenues to cooperation in the international economy would be opened.

It may be the economists who will take the strongest objections to these proposals. To them I can only say that we may have reached the point where traditional economic theory is not of much help in facing this basic challenge in the international economic field. Aid, low interest loans, barter and surplus disposal programs, grants to underdeveloped countries are by their very nature, outside the purview of the classical economist.

Others, less endowed with classical economic theory may find that what I have proposed is nothing but the crystallization of existing practices going on today, for which many of the necessary government agencies already exist.

Canada has a special interest in this question in view of our exceptional dependence on foreign trade. About 24% of our total expenditures are imports and 21% of our total output exported.

We have also pioneered the well-known article 2 of the North Atlantic Treaty.

In distinguishing between the short and long run, Lord Keynes warned us, that in the long run we are all dead. Today it may be more true to say that in the short run we may all be dead. It is the long run, if we survive, which is going to require a painful revision of our traditional concepts and the severing of our thought from a century that has long since run its course.

close to
the final draft

IS ECONOMIC COEXISTENCE POSSIBLE?

1. Economic Tensions Between the Soviet Bloc and the West.
2. Guidelines to a Modus Vivendi.

A. Rotstein.
Feb. 11, 1959.

Is coexistence possible between the economic systems of the Soviet bloc and the West in the international economy?

This evening I hope to examine some of the difficulties which stand in the way of economic coexistence. In my second talk I intend to explore the possibilities open to the West for resolving these problems.

The international economy comprises a variety of activities besides trade. It includes such things as foreign investment, loans, markets for raw materials and rates of exchange of currency.

As an indication of some of the problems that may come up in this sphere, the Russians have recently upset the world commodity markets for tin, platinum and aluminum.

In the later case for example, Canada was particularly affected. The Russians made an unexpected appearance in the London market and offered aluminum at 10 pounds sterling per ton less than the going Canadian and American price. The Russians might easily have sold 50,000 tons of aluminum compared to the 1,000 tons they had sold in the previous year, had they not agreed voluntarily to a 15,000 ton limitation. American and Canadian suppliers in turn decided to cut their price by two cents a pound. With Canada's great dependence on

her export trade, this type of problem is certainly a major Canadian concern.

In total, it should be noted, Russian trade with the West is small. In 1957, exports to countries outside the Soviet bloc were somewhat over 1 billion dollars - on a par approximately with Denmark.

Nevertheless, without wishing to add to the clamor of the cold war, it is important to have a full appreciation of the potentially harmful consequences of Soviet trade to Western economies. The dimensions of the problem are as follows:

The state trading organization of the Soviet bloc countries can make an appearance overnight in any of the established world markets, offer a commodity at lower than market prices and accept special terms of payment either in local currency or under a barter arrangement. It may moreover, make long-term contracts for the purchase of raw materials at agreed-upon prices and so control those materials in scarce supply. This is particularly dangerous in view of the growing shortage of raw materials in the United States. In general, the state trading organization of the Soviet bloc has a competitive advantage which is deadly. It could undercut anyone, anywhere, at any time.

A threat of this magnitude might result in the disruption of our domestic economy and in large-scale unemployment and is certainly liable to become a cause for war. At the least, it creates widespread insecurity and is a source of tension between the West and the Soviet bloc.

It is true that these state trading activities may have political rather than economic objectives, but aside from the political factors, there are inherent dangers to the West which spring entirely from economic sources. I should like to return to this question in a moment.

How can these dangers be alleviated? Can we reasonably expect the Russians to stop having foreign trade, stop participating in world raw material supplies which they require, or stop taking part in investment outside their frontiers?

Why are we so singularly vulnerable in the international economy?

The crux of the matter is that in the West, economic transactions are carried on by firms and individuals. They in turn are restricted to trading at some price level above cost or ending up in bankruptcy. The Soviet state trading organization on the other hand, acts as the representative of the Government, with all the resources, capital, credit, and diplomatic support of the

Government behind it. The state trading organization has moreover, great flexibility in pricing, with no particular need to sell above cost in order to stay in business. Losses from a particular venture may be spread over the whole of the domestic economy. In a business transaction between a firm in the West and the Soviet state trading organization, and even more so, in any competitive situation between the two, the state trading organization invariably overshadows the individual firm in every regard, and is certainly no equal trade partner at all.

As Mr. Nathanael V. Davis, President of Aluminium Ltd. stated recently when discussing the Russian move into the aluminum market:

"Although we are ardent supporters of free trade and competition among friendly nations, we are convinced that a private industry alone cannot compete against the resources of a state".

Thus, represented as it is in the international economy largely by individual firms, the West is no match for the state trading organization at all.

The interest of the Soviet bloc in trade is rather different from our own. It is chiefly an interest in specific imports to supplement the requirements of a 5 or 7 year plan for the domestic economy. The state trading organization has no interest in selling as such,

except to provide the foreign exchange to buy the items it needs. In such a case, it would try to sell one of the intermittent surpluses that turn up in a planned economy, or perhaps a commodity that is less urgently required than the one being sought. It is not the selling price which is crucial, but acquiring the necessary foreign exchange as conveniently as possible.

To the outside observer, the Russian economy often appears paradoxical. It has now become clear^{for example,} that the aluminum sold in London, to which we referred earlier, was in relative shortage domestically all the while. One member of the Presidium of the Communist Party declared recently that the aluminum shortage was so severe that the new goal of the Seven Year Plan which attempts to increase aluminum production by 1965 to three times the 1958 level, would be inadequate.

Another example of the way in which state trading works was provided recently by the Poles who sold butter in the London market and brought the price down, much to the annoyance of New Zealand. This was not particularly motivated by an effort to create friction in the Commonwealth, but because there had been a slump in the West European demand for their coal and they urgently needed foreign exchange.

As far as excluding the state trading organization under anti-dumping regulations is concerned, Mr. Douglas Dillon has pointed out that such a concept as "dumping" loses its conventional meaning when applied to a planned economy whose cost figures and domestic selling prices mean something quite different from our own.

Thus it appears that even if the state trading organization relinquished its political objectives entirely, it might prove impossible for it to carry out its duties without endangering Western economies beyond its intentions. There are many features of a planned economy, particularly the unexpected strains and stresses of the new and ambitious Russian Seven Year Plan which will result in the need for importing commodities, and consequently the need for quick and unexpected sales of domestic goods, below world market prices if necessary. Even with much good will and the best of intentions, the Russians may be forced to cause intermittent and unwitting havoc in the Western economy.

Mr. Mikoyan on his recently-completed American tour tried to reassure U.S. businessmen that Russia would not undercut world prices. It would however be unrealistic for the West to rely on such a promise which represents a quite artificial restriction of the powers of the state trading organization.

It appears therefore, that the Western system in the field of the international economy has serious limitations in facing up to the potential problems posed by the state trading organization of the Soviet bloc.

Solutions that call for the improvement of our productive efficiency and the easing of trade barriers among Western countries do not meet the problem, since they do not decrease our vulnerability to these potential disruptions.

What solutions do lie open to us, forms the subject of my next talk.

IS ECONOMIC COEXISTENCE POSSIBLE?

1. Economic Tensions Between the Soviet Bloc and the West.
2. A Modus Vivendi for the West.

Presented on the C.B.C.
Post-News Talks,
February 23 and 24, 1959.

by

Abraham Rotstein.

ECONOMIC TENSIONS BETWEEN THE SOVIET BLOC AND THE WEST

Is coexistence possible between the economic systems of the Soviet bloc and the West in the international economy?

In facing up to this situation Western countries are under a severe handicap. This evening I hope to examine aspects of this problem.

The international economy comprises a variety of activities besides trade. It includes such things as foreign investment, loans, markets for raw materials and rates of exchange of currency.

As an indication of some problems that come up in this sphere, the Russians have recently upset the world commodity markets for tin, platinum and aluminum.

In the latter case for example, Canada was particularly affected. The Russians made an unexpected appearance in the London market and offered aluminum at 10 pounds sterling per ton less than the going Canadian and American price. The Russians might easily have sold 50,000 tons of aluminum compared to the 1,000 tons they sold in the previous year, but they agreed voluntarily to a 15,000 ton limitation. American and Canadian suppliers in turn were forced to cut their price by two cents a pound. With Canada's great dependence on her export trade, this type of problem is certainly a major Canadian concern.

In total it should be noted, Russian trade with the West is small. In 1957, exports to countries outside the Soviet bloc were somewhat over 1 billion dollars - on a par approximately with Denmark.

Nevertheless, without adding to the clamor of the cold war, it is important to have a full appreciation of the potentially harmful consequences of Soviet trade to Western economies. Here is the problem:

The state trading organization of the Soviet bloc countries can make an appearance overnight in any of the established world markets, offer a commodity at lower than market prices and accept special terms of payment either in local currency or under a barter arrangement. It may moreover, make long-term contracts for the purchase of raw materials at fixed prices and so control those materials in scarce supply. This is particularly dangerous in view of the growing shortage of raw materials in the United States. In general, the state trading organization of the Soviet bloc has a competitive advantage which is deadly. It could undercut anyone, anywhere, at any time.

A threat of this magnitude might result in the disruption of our domestic economy and in large-scale unemployment and is certainly liable to become a cause for war. At the least, it creates widespread insecurity and is a source of tension between the West and the Soviet bloc.

It is true that these state trading activities may have political rather than economic objectives, but besides the political factors, there are inherent dangers to the West which spring entirely from economic sources. I should like to return to this question in a moment.

How can these dangers be alleviated? Can we reasonably expect the Russians to stop having foreign trade, stop participating in world raw material supplies which they require, or stop taking

part in investment outside their frontiers?

Why are we so singularly vulnerable in the international economy?

The crux of the matter is that in the West, economic transactions are carried on by firms and individuals. They in turn are restricted to trading at some price level above cost or ending up in bankruptcy. The Soviet state trading organization on the other hand, acts as the representative of the Government, with all the resources, capital, credit, and diplomatic support of the Government behind it. The state trading organization has moreover, great flexibility in pricing, with no particular need to sell above cost in order to stay in business. Losses from a particular venture may be spread over the whole of the domestic economy. In a business transaction between a firm in the West and the Soviet state trading organization, and even more so, in any competitive situation between the two, the state trading organization invariably overshadows the individual firm in every regard, and is certainly no equal trade partner at all.

As Mr. Nathanael V. Davis, President of Aluminium Ltd. stated recently when discussing the Russian move into the aluminum market:

"Although we are ardent supporters of free trade and competition among friendly nations, we are convinced that a private industry alone cannot compete against the resources of a state".

Thus, represented as it is in the international economy largely by individual firms, the West is no match for the state trading organization.

The interest of the Soviet bloc in trade is rather different from our own. It is chiefly an interest in specific imports to supplement the requirements of a five or seven year plan for the domestic economy. The state trading organization has no interest in selling as such, except to provide the foreign exchange to buy the items it needs. In such a case, it would try to sell one of the intermittent surpluses that turn up in a planned economy, or perhaps a commodity that is less urgently required than the one being sought. It is not the selling price which is crucial, but acquiring the necessary foreign exchange as conveniently as possible.

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As far as excluding the state trading organization under anti-dumping regulations is concerned, Mr. Douglas Dillon has pointed out that such a concept as "dumping" loses its conventional meaning when applied to a planned economy whose cost figures and domestic selling prices mean something quite different from our own.

It appears therefore, that even if the state trading organization relinquished its political objectives entirely, it might still prove impossible for it to carry out its duties without endangering Western economies. There are many features of a planned economy, particularly the unexpected strains and stresses of the new and ambitious Russian Seven Year Plan which will result in the need for importing commodities, and consequently the need for quick and unexpected sales of domestic goods, below world market prices if necessary. Even with much good will and the best of intentions, the Russians may be forced to cause intermittent and unwitting havoc in the Western economy.

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Solutions that call for the improvement of our productive efficiency and the easing of trade barriers among Western countries

do not meet the problem, since they do not decrease our vulnerability to these potential disruptions.

Some of the possibilities that do lie open to us, forms the subject of my next talk.

A MODUS VIVENDI FOR THE WEST.

In my previous talk I pointed out that Western countries stood under severe limitations when faced with the question of coexistence in the international economy with the Soviet bloc. The latter is represented by a state trading organization against which private firms and individuals in the West are no match. This organization has no need to earn a profit and has all the capital, resources and credit of a large state behind it. It might offer goods at lower prices and thus capture traditional Western markets, and obtain control over those raw materials in scarce supply by offering long-term contracts at fixed prices.

We might further expect that the stresses and strains of the new and ambitious Russian Seven Year Plan will result in greater requirements for certain commodities and manufactured articles from the West than previously. The possible disruptions to Western employment and to the domestic economy generally, following such large-scale economic activities of the state trading organization might go far beyond any of its political objectives. These disruptions may have economic origins and simply be a consequence of urgent requirements for foreign exchange to purchase imports from abroad.

The West is relatively defenceless against these transactions. But there is something even more surprising about these Western limitations.

Suppose the Russians in their own interest wish to cooperate in the international economy, that is, participate in a plan to partition equitably scarce raw material supplies,

organize joint investment projects or enter into long-term agreements to stabilize markets, prices and currency. To whom in the West might they turn with such projects? Individual firms cannot commit others to general commodity agreements and in fact, would not even on their own account be able to stabilize prices for a period, let us say, of ten to twenty-five years, if such an agreement were needed.

We are forced to come to a very peculiar conclusion: In the international economy today, the West cannot compete effectively with the Soviet bloc, and moreover, cannot even cooperate to any significant extent. The crux of the question for the West, as we have pointed out, lies in the relative weakness of the private firm, no matter how efficient it may be, when confronted by the trading organization representing a large state.

It would be unrealistic to assume that the Russians will stop having trade because it may cause us great perplexities. Must we answer our main question therefore, by saying that economic coexistence is a highly dubious prospect for the West? Must a workable solution await the disappearance of one or the other system from the international economic scene?

One of the difficulties that interferes with a solution is our lingering nineteenth century vision of how the international economy should be carried on. It may sound rather irrelevant to bring up the 19th century at this point in face of the novel and harsh realities of the present, but its image is the one in which we think the international economy should operate, and this is one of our great obstacles to a solution.

This picture of the international economy was a universal one taking in all countries, and was called the gold standard system. It pictured a world of free trade and convertible currency. The value of the currency in gold was kept stable through compensating movements of trade. This trade was ^{governed} ~~organized~~ through automatic changes in a country's internal price level. The government was not supposed to intervene even though a country in balance of payments difficulties for example, might be forced into an internal deflation and serious unemployment in order to right the balance.

During the 1920's the principle of a convertible currency within the gold-standard system remained in the forefront, even though various restrictions and agreements had to be devised to artificially bolster this system. (Import quotas, exchange equalization funds, bilateral trade treaties, barter agreements, moratoria, stand-still agreements - all of these restrictive measures were devised to preserve the convertibility of a country's currency within a world gold-standard system)*

Large-scale unemployment, which was one of the consequences of these trade restrictions, was the reason that one country after another departed from the gold standard in the 1930's. At that juncture, the same restrictive trade measures that had been used to bolster the gold standard, were now used to find a way of getting along without it.

The whole trend of events in the international economy since the 1930's has been away from the gold standard system and toward controls and regional arrangements. However, the old idea lingers on and we have never developed a new picture that more

accurately describes the greatly changed circumstances that have arisen since then. (We imagine that this nineteenth century pattern is the "natural" pattern for world trade, while any other pattern is "peculiar".)*

New features on the international economic scene in the post-war period include grants, gifts, loans at nominal interest rates, barter, technical assistance, and so on. Let us take stock of some of the new developments.

U.S. grants and credits to other countries in the post-war period amounted to over \$60 billion. These included both military aid as well as such major schemes of assistance and reconstruction as the Marshall Plan.

A variety of new agencies with special powers were created to administer these schemes, that is, to make off-shore purchases, place contracts, carry out technical assistance, and arrange credits. These agencies include the International Cooperation Administration, the Commodity Credit Corporation, the Export-Import Bank and the Development Loan Fund.

The role played by these agencies in the international economy is growing and now includes the granting of long-term low-interest loans to less-developed countries, the guaranty of U.S. foreign investment against expropriation, and the guaranty of convertibility of earnings into U.S. funds.

In Canada for example, we have the Canadian Commercial Corporation which was established by the government in 1946, to act as an intermediary for foreign governments, including the U.S. Armed Forces, when making direct purchases in this country. (It also arranges for procurement which occurs under the Colombo

Plan. Another such crown corporation is the Export Credits Insurance Corporation which ensures Canadian exporters against default of payment by foreign purchasers, and administers guarantees for contracts made with foreign governments.)*

Perhaps the solution to which I have been pointing is now becoming more obvious. The West needs no radical new innovations or institutions to coexist in some measure of security with the Soviet state trading organization. We simply need a new insight into the latent powers of existing institutions namely, these already-established government agencies in the international sphere. These can be used as intermediaries or parties to agreements with the Soviet state trading organization in some association with private firms. Only a government corporation of our own would have adequate resources whenever required, to compete in price in order to safeguard important markets, deal with surplus disposal problems, accept special conditions of payment, enter long-term stabilization agreements, share available raw materials supplies and be prepared to participate in cooperative ventures if these should prove feasible. (The Soviet state trading organization would have a partner that was its match, and private firms could avail themselves of the necessary support and assistance they might need in dealing with those extraordinary conditions which they were not equipped to handle themselves.)*

Why are we reluctant to think of these institutions as instruments of cooperation in the international economic sphere?

It is partly because we have developed an extraordinary nostalgia for the past. Today the old gold standard system is

being pursued under the name of convertibility, although there is no general conception of what this really implies. In spite of the recent reports of the so-called convertibility of the pound for example, the British know that if they instituted true convertibility, much domestic capital would flee the country to the dollar area. It is this pursuit of the past and obsession with a will-'o-the-wisp, which prevents us from understanding the power of the new institutions we do have.

(The implications of such a new intermediary role for government agencies are many. Wherever the market mechanism does not prevail in the international economy, new forms of trade, currency, barter arrangements and business procedures will prove possible, which have not been considered previously, though these may evolve only through hard bargaining and mutual concessions.)*

("But", some may say - "here is the thin end of the wedge! With government prominently involved in this sphere of international trade, how long before it will dominate the domestic economy as well. Aren't we in this way introducing the Russian system into this country by the back door?"

On the contrary, such proposals will strengthen and protect our domestic system of free markets from the jeopardy in which it stands at the moment.)* It is only by this type of buffer between our international economic activities and our domestic ones that we can preserve free markets against all the unpredictable political vagaries and economic stresses of the Soviet bloc. (It will be recognized that these proposals are

no more than the extension and crystallization of already-existing practices in the international economy.)*

This is not the first time that we in the West are in the aftermath of the collapse of a universal system. Over 400 years ago another universal system, the Christian Commonwealth of the Middle Ages collapsed under the religious wars. In the wake of the terrible strife between Christian and Moslem, Protestant and Catholic and of the various new sects among themselves, Christendom was on the verge of chaos and anarchy.

At that time, a new idea was put forward for all the nations by the Dutch philosopher Grotius. He advanced the principle that all states were to be treated as sovereign and equal, regardless of their religion. This should become the new foundation of peace and international law. States might believe what they liked at home, but should deal with each other as equals in the international sphere.

In the collapse of our own universal vision of a world of free markets, it is the spirit of Grotius which we must summon up today.

* Passages given between brackets had to be omitted from the radio version because of time considerations.

DRAFT

[6 Abe Rotstein]

OCT. 1, 1960

THE REALITY OF SOCIETY

An essential element of the twentieth century is the succession of negative utopias, actual and literary, which have been made the home of man. Most of these have as their background, in one way or another, the relation of man to a machine society. The threat to inner life or to our intimate being posed by an industrial civilization is the central concern. Nebulous and concrete, of many shapes and almost nameless, the core of the dilemma is, in a broad sense, religious.

The impact of the machine occurred initially on Western civilization shaped and defined as it is by its own commitments. Man as we know him - a creature of progress, of achievement, of striving and of art - had truly confronted the void of death by an affirmation of the continuing possibilities of life. On the certainty of our mortality and the uncertainty of its hour were built the high achievements of our life, an affirmative response to an immutable void.

Yet a greater burden shaped man's existence. Transcending physical death lay the possibility of denying the ultimate meaning of his own life, of gainsaying its moral structure and spiritual imperatives. Every moment confronted him anew with the danger of negation of his inner being. Apprehension and moral fulfillment walked with him alone on the edge of an abyss. Again man confronted in fullness his true condition and on it built his inner freedom knit together of the confrontation of this hope and fear. On this was based his journey calling to love, to faith, to hope.

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His first condition may have been revealed by the story of Adam in the Old Testament. The second may be connected with the name of Jesus. Ultimate inner freedom, our true condition is the mainspring of the institutions of a free society. In its name do we invoke the right to speak out, to teach, to assemble, to dissent.

What then has the machine to do with all this?

While the constricting effects of mass society can be detailed in their political, sociological and economic configurations, a heroic polarity of 'individual versus society' is too shallow a portrait of our situation. While the machine requires inevitable radiating arms of social organization and coordination, nothing but our wishes for the benefits of industrial society can account for its existence.

The polarity resides within us. It is we who have handed over massive power to central authority and have established a network of compulsion and uncertain consequences for the lives of others. Not proliferating evils external to us are responsible, but our own wishes and opinions. Power is only the concrete form of the cluster of opinions which we all hold.

Economic value is no less a paradigm of the unknown consequences of our wishes and valuations on the rewards and recognition granted to others.

To have no opinions nor valuations is not open to us. Nor are their involuntary consequences within our grasp.

Knowledge of our condition, of the reality of society, can create real freedom while putting an end to imaginary freedom.

What is this reality? It is expressed neither in the concrete institutions of the social configuration nor in a "realism" of premature resignation. It is the religious tension which makes it incumbent to pursue our inner freedom in the knowledge of limits which exist, but whose extent we cannot know, *set by the involuntary consequences of our actions,* - an inner freedom which is fatefully qualified, but without which we cannot live. *Freedom is the righting of love.*

It is a road which has neither the landmarks of history nor science to guide us. Knowledge of ultimate limits can come only through striving in that very condition of uncertain hope and fear which is now fatefully qualified in terms of our commitment to it. Life in an industrial society is possible only within that tension. *No. The transformation of society is the basic problem.*

To institutionalize our freedoms and extend them into the dark heart of our massive bureaucratic structures is incumbent on us from our commitment to inner life, and a search for ultimate limits - habeas corpus in the trade union, ironclad safeguards on civic liberties, judicial appeal boards in the large organization, These are the institutional freedoms we can have.

Institutions can work consistently and strongly for the individual as well as against him. How shall we structure them and to what purposes?

Yet the suspension of inner freedom is our condition. The foundations of our existence have shifted and the pristine cry for absolutes is in vain. In that way will we only relinquish gratuitously the freedoms open to us. Affirmation of our freedom within the uncertain search for and knowledge of ultimate limits is the spring of life in an industrial society.

DRAFT #5

ROBERT OWEN

AUGUST 22, 1958.

By Abe Rotstein

In the maelstrom of the first days of the Industrial Revolution, ~~moral~~ portents of a new era studied the social firmament: mysterious and inexplicable increases in the number of the "unemployed poor", a plethora of imaginative and ingenious schemes of social engineering to make profits or build new social communities with ^{the poor,} them, increases in wages accompanied by a multiplication of misery, deterioration of social and moral standards, crippling of children in the new factories and unheard of notions of the animal character of man and his victimization by natural laws of geometric growth.

With vision and compassion, Robert Owen, alone among his contemporaries, sensed the meaning of the new era and the unyielding character with which it would vest society. His was a prophetic personality and within the first quarter of the nineteenth century, he ran the gauntlet of the next hundred and fifty years. It is the mark of his genius that he perceived the portent of the era from its first glimmerings. "Some change of high import", said Owen, "scarcely yet perhaps to be scanned by the present ill-taught race of men is evidently in progress".

The year 1771 ushered Robert Owen inconspicuously into the world in a small Welsh Village, scarcely two years after Arkwright's water-frame and James Watt's patent on the steam engine made their equally inconspicuous entry.

The Manchester of the time, the site of Owen's first close acquaintance with machinery, was at the beginning of an expansion which was to increase the population six-fold in the next 60 years. Its growth paralleled the similar six-fold expansion in the value of England's cotton exports. Soon after the turn of the century, for

example, the cotton trade was already estimated to be employing some 80,000 persons including children.

At school in his Welsh village Owen was somewhat precocious, but his formal education ceased at the age of nine when he began to work in a neighbour's shop. He read a great deal, and was an introspective and weak child. He may have had the fear of working in a mill all his life.

About the age of fifteen Owen came to Manchester, and in a few years, with a hundred pounds of borrowed capital, he was hunched on his first venture manufacturing cotton spinning machinery. A year later he was directing one of the largest spinning mills in Manchester, employing some 500 people. He was an eminently able and successful manager, and before long, Owen writes, he was regarded as "the first fine cotton spinner in the world".

The new economic torrent of the Industrial Revolution was cascading over England through the framework of the market. Owen's grasp of the laws of the new economy was poor (most of his major writings were formulated before 1820). He did not perceive clearly the intricacies and mechanics of a nascent market system, neither the dominant role of capital nor the hegemony which a self-regulating market was shortly destined to ^{assume} wield over society.

Only Aristotle, some ²⁰⁰⁰ ~~2500~~ years before him, had given expression to the inimical character of the market for the pillars of human community. In his time/ however, Owen went further, and recognizing the market economy for what it was, a social artifact, he focussed unerringly on the central features of the new age: machine and society.

A superficial assessment of Owen has left the general impression of a wistful dreamer concerned with some doubtful utopian colonies in England and America. Although many of his ventures were unsuccessful, they had a superb relevance for society. He was the first to

see that the entry of the machine had brought "lamentable and permanent evils" and if the machine was to benefit the human race many things would greatly have to change.

His eminent success in business and practical administration/ did not prevent him from seeing the beginnings of the wider social drama around him centered on the machine. He pointed to its boundless role and indeterminate effects, while he struggled against the new reality and challenge which a technological society began to pose.

His story is comprised in the progressive unfolding of the portent of the machine. From the beginning he was pushed by events from one stage to the next until he had faced up to the main issues of the following century. One by one he was forced against all of the major problems of a modern industrial society.

It was an unwilling progress towards the discovery of society, made at the behest of an overweening selfless passion. He was harassed by the fear that his insights might momentarily topple the social structure. He hoped perhaps, that reticence, secrecy and a careful gradualism would save the day from the menace of chaos and revolution. But ultimately, he felt that he must state his case in its starkest and most uncompromising form. No one penetrated further into the problems of industrial life under a market system.

* * * *

Robert Owen, the man, was at the least, unusual.

He enjoyed an immense popularity, even though he was shunned by some as a dangerous radical, and later, as a religious heretic. He was the intimate of Prime Ministers and Archbishops, Presidents and

royalty. On many occasions they endorsed and even distributed his writings. Both the charm of his personality and his brilliant success as a manufacturer opened all doors to him. On his first visit to France, he was acclaimed as the "lion of Paris". It may have been his Welsh origin that allowed him, by exception, unrestricted entry across the aristocratic thresholds, even though a man of the people. Other commoners, such as Cobden and Bright, leading the powerful and influential free trade movement, could hardly get the public's ear. But Wales had no nobility of its own and Owen's humble origin was no hindrance to him.

Harriet Martineau tells us, that much to the chagrin of his more conventional opponents, "when they were expecting, as they declared, to hear of his being in Bedlam, they heard of his being at Court, introduced to the young Queen by her Prime Minister, Lord Melbourne".

As one ^{Owen} obsessed, he never knew a single doubt nor deviation in his own outlook on the world but nevertheless took absolute tolerance as his standard. He remained a persuasive democratic leader of Lanark village, yet detached and autocratic with those who could claim to be his equals. He treated them as children to be patiently led to the fullness of the truth he had seen. His quiet and continuous insistence led to quarrels with many fellow workers in the movement and in his colony in America.

He maintained that the force of reason and the demonstration of his new truths was sufficient to recreate society immediately on new foundations. The age of co-operation which would follow could "ameliorate the condition of the producing class throughout Great

Britain and Ireland in less than five years".

His personal qualities were unmatched. His was a complete selflessness and lack of vanity, and abundant generosity. He had unlimited patience, and was utterly impervious to unjust accusations. He had an impersonal detached faith in his cause and was unswayed and unimpressed by King or Emperor. No one was more tactful or reserved even though he was utterly impervious to logical argument.

He had a peculiarly noble pride and once turned down a valuable business offer because he would receive only one-third partnership instead of one-half.

His work was often rendered in biblical imagery and his own commitment came to him as a revelation. "The whole, as though they had been delineated on a map, were laid open to me. Shall I now at this eventful crisis make the world known to itself? People would be blinded by the truth "and their sight would be destroyed by the intensity of the day that is beginning to dawn upon them". The recognition was irreversible for "the principles on which the New View of Society is founded are true... never more but with life will they be removed from your minds, and your children's from the end of time". Man must be reborn: "the minds of all must be born again, and their knowledge and practice commence on a new foundation". He regarded his world-famous achievement at New Lanark as "the harbinger of that period when our swords shall be turned into ploughshares and our spears into pruninghooks; when universal love and benevolence shall prevail; when there shall be but one language and one nation; and when fear of want or of any evil among men shall be known no more". Throughout his writings were sprinkled such evocative passages as

"from this hour", "from this day forward", henceforth", "the period is approaching" and the sentence: "I came not among you to establish a name, but to relieve you from the errors and evils of all names".

And yet/ with Owen, radical insight encompassed a total tolerance: "to blame and to be angry with our fellow-men for the evils which exist, is the very essence of folly and irrationality, and that notions which can give rise to such feelings never could enter into the composition of any human being that had been once made rational".

Being "rational" ^{meant} ~~was equivalent to the precept of~~ a knowledge of society: that it was society which formed the individual's character and this, ^{through some unaccountable logic,} ~~as if by magic,~~ removed ~~from~~ the reasons for all anger and punishment.

His compassion for humanity was a dedication unto death: "whatever may be the consequence, I shall now perform my duty to you, and to the world; and should it be the last act of my life, I shall be well content, and know that I have lived for an important purpose". He made superlative sacrifices of fortune and family, and not a few concluded he was insane (which, at one time, Owen considered favorable to his purposes and didn't wish to contradict).

He was opposed to violence and class war and was convinced that the rational demonstration of superior methods would win the day. If it failed to do so - and this, too, was part of his creed - there was no help, neither on earth nor in heaven.

His whole progress took place under an everlasting concern that chaos would accompany too rapid change. This was his abiding fear. He felt possessed of an insight which had the power instantly to change the world if he were to reveal it, yet at the same time he knew that

he must take every conceivable safeguard to prepare the way, and only bring about reform through "temporary intermediate arrangements". Always in his mind lay the reminder of the French Revolution, or of an interregnum even more terrifying. "A reform of any of our great national institutions, without preparing and putting into practice means to well train, instruct, and advantageously employ, the great mass of the people, would inevitably create immediate revolution... and all Europe and the Americas would be plunged in one general scene of anarchy and dreadful confusion, of which the late French Revolution will give but a faint anticipation". It was a fearful dilemma.

Owen combined the sweep of the prophet with the practical attention to detail of the administrator. He was an eminently successful business leader entirely aware of practical necessities and careful steps. Harriet Martineau tells us about New Lanark that "the management of the mill and the farm, the school and the ball-room, everything requiring the exercise of the economic and administrative faculties, was of a rare quality of excellence under his hand". Change was to be allowed only after a convincing demonstration of its actual superiority: "it is absolutely necessary to support the old system and institutions under which we now live, until another system and another arrangement of society shall be proved by practice to be essentially superior".

This singular approach demanded as we shall see, the maintenance of the existing class structure of society, in spite of his disdain of the empty life and parasitism of the rich. His was a message for the whole of society and he insisted that reform could occur within the existing institutional framework and might even be made to pay dividends: "as the New Lanark establishment belonged to parties whose views were

various, it became also necessary to devise means to create pecuniary gains from each improvement, sufficient to satisfy the spirit of commerce".

Not until ^{would George} ~~it would be~~ the end of the century before Bernard Shaw, in his reconstitution of human character in an industrial society, ^{would} portray in his plays ^{the} ~~such a peculiar~~ figure of the 'saint' in a ^{similar} ~~like~~ simplicity, modesty and selflessness of character.

Owen ~~and everywhere he travelled~~ with the positive self-assurance that he had seen the ^{central} ~~real~~ question which the machine had raised. As his father-in-law often said to him, "Thou needest be very right for thou art very positive".

* * * *

Owen's most memorable achievement was the transformation of the backwoods factory village of New Lanark into what his biographer called "the model factory, model school and model village of Europe".

Owen arrived at the turn of the century to take charge of the cotton mills of New Lanark which had been built some fifteen years earlier in the rough, uncultivated Scottish lowlands near the falls of the Clyde. It was a primitive community with bad roads and a few poor inhabitants. Owen recounts that on the trip from Glasgow to New Lanark, a distance of some thirty miles, three toll-keepers refused to take his gold-piece in payment of the toll, because they had never seen a gold coin before. "I concluded", said Owen, "that I had come into a very primitive district".

The mills were built near the falls to make use of ~~the~~ water power for the spinning machinery. The population of 1300 consisted

to a large extent of thieves, criminals, drunks and prostitutes. The self-respecting Scottish crofter of the lowlands would not work the long day of 14 to 16 hours in the unhealthy conditions of the new factories, nor would he send his children. Only the starving peasants from Ireland and the West Scottish highlands, made destitute by the enclosures, could be induced to work in the factories. These had acquired the character of a rootless displaced population, crude, destructive and ^{brutalized} ~~lacking in any character or standards~~.

The labour force consisted mainly of some 500 children, known euphemistically as "the parish apprentices". These were children, ^{seven twelve} ~~five to ten~~ years of age, who had come from the poor house and were in the care of the public authorities. The parish was pleased to shift the burden of their maintenance to the factory owner and few questions were asked about what happened to the children after that.

The previous owner David Dale, Owen's father-in-law, had made some provision for the children's education, lodging and medical care. He was a benevolent employer according to the standards of the time, and when one of the mills burned down, soon after opening, Dale continued to pay the wages of the workers until the mill was restored.

The general conviction of the day, however, was that England's prosperity rested on child labour, long hours and low wages. ^{The work day} ~~Hours~~ rose to fourteen and sixteen hours a day, and both working and living conditions became more wretched than they had ever been before the introduction of manufactures. Workers were taxed far beyond their strength, and their only solace was found in the abundant gin-mills. But the saddest offspring of the new era were the children - "feeble, pale and wretched", spindle-legged, often crippled, wracked by disease

and with poor chances of survival during their relentless days in the factory. Employers forced wages down, and so the entire family was required to work for a bare existence. As Owen put it, "we are unacquainted with any nation, ancient or modern, that has suffered its hundreds of thousands of children of seven to twelve years of age to work incessantly for fifteen hours per day in an overheated unhealthy atmosphere, allowing them only forty minutes out of that time for dinner and change of air, which they breathe often in damp cellars or in garrets, in confined narrow streets or dirty lanes". Owen called it "white slavery" and thought conditions much worse than any he saw later among American and West Indian Slaves. "I can make manufacturing pay", said Owen, "without reducing those whom I employ to misery and moral degradation".

Owen also discerned, soon after his arrival at New Lanark that "theft was very general, and was carried on to an enormous and ruinous extent, and Mr. Dale's property had been plundered in all directions, and had been almost considered public property".

At first, every change that he made was regarded with suspicion. Owen tried to seek out those workers in a position of influence to explain his point of view and objectives but he was still hindered at every turn. In 1806, however, the Americans placed an embargo on the export of cotton, and most cotton factories had to suspend operations. Owen however, continued to pay full wages to all for four months, amounting to some 7000 pounds, and this marked the turning point in his relations with the workers.

Owen's program of reform at New Lanark encompassed the whole range of life in the community. He reduced the hours of work to twelve,

including an hour and a half for meals, raised wages, provided free medical care, organized stores where ^{first} ~~top~~ quality food and clothing were sold at cost, and started a savings bank. In the factory, he devised a "silent monitor" for each worker, a four-sided piece of wood, each side of which was a different colour to denote the behaviour of the worker, from "bad" through "indifferent", "good", and "excellent". The previous day's conduct was openly indicated by the silent monitor placed beside the worker and was registered permanently in a book of character, "never to be blotted out". Before long, a great improvement was noted with the "goods" and "excellents" being in the great majority. Owen also carried through a rearrangement of production methods and replacement of machinery reminiscent of modern industrial engineering and scientific management.

He devised comfortable clothes for the workers who, till then, wore cumbersome frock-coats, tails and other elaborate clothing. For women ^{Particularly,} ~~as well,~~ he wanted to dispense with existing notions that sought to protect female modesty in elaborate layers of burdensome apparel.

The "parish apprentice" system of child labour was abolished and Owen refused to hire children under ten years of age, while those between ten and twelve were to work only six hours a day.

Houses at New Lanark had been built by David Dale at the time that the mills were constructed, and they consisted of only one room to house an entire family. There were few sanitary facilities and refuse was piled high before the front door of each house. One of Owen's first projects was to add a second story to each house, thus providing another room. He also laid streets in the village and

arranged to have refuse carted away regularly, forbidding it to be piled up again. He induced the workers to organize their own committee to raise the standard of health, cleanliness and general housekeeping. Without punishment, but meeting with great opposition and indifference at first, living conditions and standards soon rose to what ^{Cole} termed "the cleanest and most sanitary manufacturing village in the country".

Owen recognized the workers' need for recreation and amusement as an essential relief from their work, and he encouraged such activities, throwing open the surrounding woods for public enjoyment. Temptations such as gin mills were removed from the vicinity, although good whiskey could be obtained in Owen's stores.

The heart of Owen's position, ~~as we will see, as well as~~ his entire hope for lasting reform, lay in education. It is the educational system of New Lanark which became its most important feature. It brought him his greatest renown and was the forerunner of the school reform movement of the twentieth century. For Owen, education was the means of character formation, which in turn was the basis of a well-functioning society, the achievement of happiness, the prerequisite for reconciling differences of creed and country, and instrumental in the promotion of the millenium. Education would allow the release of the vast powers of the machine, bringing abundance for all.

Education was not to be for a favoured few, serving as the trappings of caste and class, but the free universal right of all. No one was turned away from his school at New Lanark.

Owen anticipated virtually all the principles of modern education. His emphasis was on the training of individual ability and achievement,

and independent thought rather than the rote memorization current at the time. He understood that the whole personality was involved in the educational process. He questioned the value of existing books, especially at the early stages of the child's training, and introduced charts, maps, and models, instead. The curriculum including dancing, singing, gymnastic exercises, and open-air activities, studies of surrounding natural objects and walks in the country. He made use of many types of games and devices reminiscent of the later Froebel techniques, ~~such as~~ ^{of} coloured squares and blocks for learning. Visitors to New Lanark were greatly impressed and Owen remarks that "the dancing, music, military discipline, and geographical exercises were especially attractive to all except 'very pious' Christians". No rigid schedules were kept for each activity, but indoor work would be followed by outdoor physical exercise and games as the teacher discerned the mood of the class.

Most homes, Owen felt, were unfit places for the young child, and this led him to the idea of his "infant schools". The very early years were the important ones for the formation of character, and Owen looked forward to the time when every child ^{who was} of a year old would be placed in a "rational infant boarding school". When he visited Europe some years later, Owen saw the schools of Father Oberlin, Pestalozzi and Fellenburg, but his own schools were then well under way, and seemed to him more advanced.

Later, when he was coping with the problem of the unemployed, Owen urged the combination of schemes for national employment with apprenticeship training of the children.

His concern with education derived from the realization that simply changing the environment was not in itself sufficient to

ensure permanent changes in character, unless training was begun from infancy.

Owen was also a pioneer in adult education, ~~moreover, was not neglected~~ and his evening lectures and programs were the first major achievement in popular education among the workers.

These projects received a great stimulus when he completed a special building in which to house them known as the "New Institution", dedicated to a system "which shall give happiness to every human being through all succeeding generations".

Owen acquired an international reputation for his achievements at New Lanark and some twenty thousand visitors came to see the results of his work in the years 1815 to 1825, including European royalty and American senators. They made the remote journey on the bad roads to see a factory community that was both humane and successful.

His great experiment offered a demonstrable, overwhelming testimony on behalf of his beliefs. New Lanark exhibited the general appearance of industry, temperance, comfort, health and humanity. And moreover, as a financial venture, it was a resounding success.

It demonstrated to Owen that the communities around the new factories, of which there were now many and many still to come, could be run in surroundings with infinite possibilities for good.

Owen's whole being revolved around the new import of the machine. He saw that its development would be boundless and that

"its extension will go on ad infinitum". He felt almost personally responsible at having introduced the machine age.

Like John the Baptist, he emerged from his years in the wilderness with a mission: "I have been silently preparing the way for upwards of five-and-twenty years".

* * * *

The first step in Owen's discovery of society was the recognition of the dominant influence of environment on character.

The persistence of society's evils, Owen felt was due to a false belief that the individual was responsible for his actions and for his own character. But, "the character of man is, without a single exception always formed for him". It was the environment which was instrumental in forming the individual's character, and therefore the solution to all evils lay in creating a healthy and favourable environment which in turn would mold individual character in the same pattern. "Any character, from the best to the worst, from the most ignorant to the most enlightened, may be given to any community, even to the world at large, by applying certain means; which are to a great extent at the command and under the controul, or easily made so, of those who possess the government of nations".

This implied a crucial shift of responsibility from the individual to society. Owen's instinct had hit upon the vital point. He regarded society as more than a political aggregate of individuals, but as having an independent and prior reality of its own.

The years of New Lanark saw Owen's best writing, and a full

statement of his outlook came forth in the years 1813 to 1821, years of continuous revelation. His essays were well received in the highest circles and widely distributed. His first work "A New View of Society: Essays on the Formation of Character", written in 1813, was distributed by Lord Sidmouth, Secretary of the Home Department, to the leading governments and universities of Europe, and to each English archbishop and bishop. John Quincy Adams, the American ambassador, sent a copy to the governor of each state in the United States. At the conference of the great powers at Aix-La-Chapelle, Lord Castlereagh presented Owen's "Two Memorials on Behalf of the Working Classes". Owen also had reason to believe that the Prime Minister, Lord Liverpool, and many of his cabinet, were converts to his views.

Man's basic motivation, thought Owen, was his "self-interest" or "desire to obtain happiness", and this could "only be attained by conduct that must promote the happiness of the community". In other words, man's self-interest could not be realized outside of society, and there, only by ^{fostering the welfare of} ~~making~~ the community ~~happy~~. This was the basis of Owen's doctrine of co-operation. "When these truths are made evident, every individual will necessarily endeavour to promote the happiness of every other individual within his sphere of action; because he must clearly, and without any doubt, comprehend such conduct to be the essence of self-interest or the true cause of self-happiness".

It was the ^{limited} focus on the individual and his responsibility that was at the root of Owen's violent stand against ^{organized} religion. Religion preached individual reward and punishment and held that not society, but the individual was to be reformed. This was directly contrary to everything that Owen stood for.

Owen discovered capitalism and its laws through the problems of unemployment. Although the socialist norm was implied in his premises, he was only inch by inch thrust to envisage it ^{socialism} as a total solution.

The boom of the Napoleonic wars ended with the victory of 1815, and England was soon enmeshed in the grave perplexities of the depression years. Up to that time, no distinction had been made between the unemployed and the ordinary members of the labouring class known as "the poor" who had presented a long-standing problem. Various imaginative schemes had been put forward to deal with pauperism and make it pay. From Beller's "Colleges of Industry" in 1696, a self-supporting community to number three hundred laborers, to Bentham's "Industry-Houses", the notion persisted that profits could be made from social communities of the poor as well as solving the problem of unemployment. Bentham himself had been a partner in New Lanark and had earned a dividend; Ricardo was on the committee to raise funds for it.

New Lanark had been superlatively successful: welfare improvements, increased productivity, a spectacular advance in the social and moral level of the community, and moreover high profits.

But this had happened in the boom period of the Napoleonic wars. Owen had known only a labor ^u shortage in New Lanark and was suddenly amazed to see the large number of unemployed whose ^{membership} numbers continually varied. Sometimes there were more and sometimes fewer.

The term "unemployment" itself was unknown and at first, Owen referred to the situation as "unusual general distress" for which he thought the machine was responsible. "The immediate cause of the present distress is the depreciation of human labour. This has been

occasioned by the general introduction of mechanism into the manufactures of Europe and America, but principally into those of Britain, where the change was greatly accelerated by the inventions of Arkwright and Watt".

The situation did not call forth a single petition about the condition of "the poor" and Owen was ^{deeply troubled.} ~~much moved.~~ Moreover, the Malthusian explanation which was ^{frequently invoked} ~~mustered~~ to explain the ^{sudden} proliferation of "the poor" seemed to make nature responsible for the whole problem; ^{tended to increase} ~~with the propensity to increase~~ population in a geometric progression. It seemed that one could ^{not} ~~not~~ solve the problem without controverting the laws of mathematics and biology.

Owen's reply was simple, namely, that man is born singly, and has the capacity of producing much more food than he requires. Malthus' theory, therefore must be a fallacy. "The annual increase of population is really one by one; we know its utmost limit - it is only, it can be only, an arithmetical increase; whereas, each individual brings into the world with him the means, aided by the existing knowledge of science, and under proper direction, sufficient to enable him to produce food equal to more than ten times his consumption. The fear, then, of any evil to arise from an excess of population, until such time as the whole earth shall become a highly-cultivated garden, will, on due and accurate investigation, prove a mere phantom of the imagination".

Falling prices added to the hardships, increasing the burden of both the war debt and the poor relief rates.

A public meeting was called to discuss the new array of economic problems in the City of London Tavern. However, no one seemed able

to offer an answer. As Owen put it, "All at the meeting appeared to be at a loss to account for such severe distress at the termination of a war so successful and the commencement of a peace so advantageous, as it was thought, to this country".

A committee was formed by the meeting and Owen testified to disbelieving ears on the extent to which the new machinery had now become widespread over England. That the committee was unaware of the extent of the growth of machinery is narrated by Owen as follows: "Here I was asked by Mr. Colquhoun - the celebrated city magistrate and political economist, who had lately published his 'Resources of the British Empire' - how much I thought this new mechanical and chemical power now superseded manual labour. 'It now must exceed the whole amount of manual producing power'. 'What! Mr. Owen! exclaimed Mr. Colquhoun and many others - 'exceed the labour of more than five millions! - Five millions! it is utterly impossible'".

Owen held on a different occasion, that the productive capacity of existing machinery was equivalent to a mature labour force of one hundred million persons.

He saw that business was being stifled by the new Ricardian policy of regulating the issue of currency and credit in accordance with the domestic gold standard. He took a position against gold and considered currency reform a most urgent need.

He was forced against these problems of emerging capitalism, unemployment and currency and sought for a solution.

It came in the form of Owen's proposal to construct the Villages of Union.

The continuing unemployment after 1815 was a grave shock, and the more so as no distinction was yet envisioned between the unemployed and "the poor". Although the urgent concern was the solution of "mass unemployment", yet drawing on his New Lanark experience and his general views of the influence of environment on character, Owen put forward a proposal.

He thought that by organizing communities on the land within the scope of the Poor Law, "the poor" would produce for each other's needs. In this way he approached the market as an "artificial" institutional framework which could simply be bypassed, dispensing with the rich and their motive of gain. "There can be no doubt that it is the artificial law of supply and demand, arising from the principles of individual gain in opposition to the general well-being of society, which has hitherto compelled population to press upon subsistence".

These Villages of Union were to contain some 1200 persons on 1000 - 1500 acres. The buildings would be arranged in parallelograms and the public buildings would include dormitories for the children over three. Communal kitchens, joint lodgings and common land would be more economical than separate cottages and individual plots. There would be "the principle of united labour expenditure, and property, and equal privileges". Funds required to establish such a village were estimated by Owen at about £96,000, or £80 per inhabitant. The annual interest on such a sum of £4 per head, would be cheaper than the per capita expenditure on the unemployed from the poor rates. These communities would then become the only form of public assistance to the poor.

*Too late to be
employed in
the parish intended.*

Owen soon saw that the scheme had several weaknesses: it would institutionalize and stabilize the unemployed and even attract additional paupers rather than getting rid of them as ~~was the object~~ ^{the parish intended,}

~~of the parish.~~ Moreover, ^{Owen} It appeared to him that if the depression were to grow, mass unemployment might prove too great a burden for the parish whose resources ^{would} might run out, sweeping away the whole scheme.

No one showed interest in his scheme so that
Owen He then put forward a second plan some six months later in September of 1817, ~~to cope with the wave of growing unemployment.~~ *Later on*

Since the time of John Bellers' plan, 120 years before, the poor rates had multiplied some twenty-fold although the population had only trebled. Clearly radical solutions were urgently required.

was more radical and
His new scheme, extended the Village of Union to those classes already employed. ^{He called} ~~calling~~ for workers to indenture themselves for a seven year period and receive a capital sum at the end of that time. He hoped ^{thereby} ~~thus~~ to stabilize employment by immobilizing the labour class. Employers would be attracted to the scheme by the absence of a basic wage commitment since subsistence from the land would enable low wages to be paid. The plan would however provide long-term job security, halt the spread of unemployment, and ^{thus} ~~remove~~ a major threat to his Villages, ~~for the unemployed.~~

He realized that great concessions would have to be made to the structure of society along the basic lines of its existing divisions, particularly its class structure, and also ^{also} ~~noted~~ differences of religious sect and political party. He recognized that it might founder unless there was some element of community among the participants.

Specifically, Owen distinguished four main classes; the parish paupers, the workers, the artisans with some property, and the rich.

The parish paupers contained the infirm, the aged, the children of the poor, and the unemployed, and these would be "advantageously combined in certain proportions into each 'Parish Employment Settlement'". (There was to be no parish relief from any other source). The second was the working class without property who would combine with the rich or fourth class. The latter would supply the capital, from £1,000 to £20,000 to profitably employ the second class. This working class would be voluntarily indentured for seven years and might at the end of that time receive £100, (or £200 after twelve years), and enter the "voluntary associations" of the third class. This was the artisans and tradesmen with some property i.e. between £100 and £2000. (Classes 3 and 4 formed "voluntary associations", while the working class was "indentured" and the paupers administered).

In addition to the paupers' villages, other Villages of Union therefore, would consist either of individuals of Class 2 and 4 (workers and the rich would be together) or Class 3 (artisans with property).

~~These villages would be the main occupation. The Villages of Union~~
Agriculture would be the main occupation. The Villages of Union would have a regime of abundance for there would be an extensive use of machines at the same time that economies would be achieved through ~~these~~ communal cooking and living arrangements. Savings would be possible through which, in modern terms, communal kitchens, day nurseries, and kindergartens, could be secured. In fact, there would be a large surplus of products, which would be exchanged among the Villages of Union, valued according to their labour content. ~~(mental or manual)~~. The improvement in the standard of life due to the spreading use of machinery, would result to the great benefit of the working class, without any reduction in the profits of the employers. The capitalist would be attracted to this scheme by the possibilities of cheap labour which a working class,

settled and self-supported on the land could offer. For the worker, the long-term attraction of the £100 or £200 at the end of seven or twelve years, would keep him voluntarily indentured and provide a stable labor force.

The pauper villages too would become self-supporting, and would be supplied with qualified instructors and administrators to direct the establishment.

Essentially, the whole of society was taken in under Owen's second or modified scheme, or as he said, "The whole frame of society may remain as it is". Gradualism would rule the day. "The institutions of our forefathers, erroneous as they were, must not be handled with violence, or rudely touched. No: they must be still preserved with care, supported, and protected, untill the new state of society shall be far advanced in quiet practice".

The Villages of Union by pooling their resources in collective living, Owen thought, would be cured of the ~~egotistic~~ delusions of individualism that are the bane of all existing religions. Soon the motive of gain would disappear. "It will be quite evident to all, that wealth of that kind which will alone be held in any estimation amongst them may be so easily created to exceed all their wants, that every desire for individual accumulation will be extinguished". The machine would cease to be the enemy of the worker, and become his backer and ally. The worker's life would prosper and unfold, while the existence of the rich would contain no more than the pitiable iniquities of the parasite.

At the same time, the basic frame of society, the market system would remain since profits would be required out of which to pay the

capital sums to the indentured workers and there would be no nationalization of industry.

Although his postulates might lead to socialism, Owen didn't aim at a socialist society. He refused to consider taking anything from the rich or endangering law and order in any way. ^A

Instead, the ^{re}would be gradual accumulation and distribution of capital, and stable employment. ^A

The old state of society would continue to exist peacefully alongside the new, but it would become immediately apparent how inferior it was and the problem would be to restrain the influx to the new society: "the old state of society will not bear one moment's comparison with the new; and that the only real practical difficulty will be to restrain men from rushing too precipitately from one to the other". The transition would be voluntary and peaceful. It hinged on the triumph of example.

Owen was thus the originator of one of the most important ideas in the history of socialism. Towards the end of the nineteenth century when Marx, (who held Owen in high regard), wrote his Critique of the Gotha Program he said that there must be a period of transition based on the demonstrable superiority of the communist example. This became a key doctrine in the German social democratic movement and is of crucial relevance ^{even today.} ~~in the present world situation.~~

The emerging market system placed a fatal obstacle before the scheme. Goods produced in the new institutions would simply create more unemployment in the private sector, which was the essential criticism Daniel Defoe had made of Bellers' plan in 1704. The trade ^{depression} could not be overcome in this way. ^A

The whole scheme ran counter to the economic developments culminating in the Poor Law Reform Act of 1834. The capitalist class ^{wanted} an unhampered, mobile labor force, and Owen's indenture scheme would restrict change and efficiency for stability and employment. The movement towards a self-regulating market system was pressing forward including a free labor market.

Moreover, it soon became clear that none of the unemployed and paupers would enter such a scheme unless compelled by the parish authorities ~~was refused to act~~, and Owen had excluded compulsion from the start. ^{Moreover, the parish authorities refused to act.} As well, no organic community could result from linking the unemployed, and unemployables, in a common fate "as a community of work and expenditure". ~~Identified by Owen as a community~~

For the other classes, no association existed for carrying the scheme through. What would induce investors to entrust their capital to the Village administration outside their direct control, and how was the product to be divided up among the various groups in the community? The secret of successful collective ventures lies not so much in increased numbers as in the strength of voluntary association of which there was here none. These and other questions ^{excluded} obviated the ultimate possibility of such a solution.

Owen had compromised a great deal in formulating his second plan. He realized that the only way to begin was precisely with those elements which he hoped mankind would later transcend: the rich with their profit motive, and the division of society into classes, and partisan groups. He had to acquiesce to these aspects of society if his villages were to have any possibility of being started at all. His recognition and incorporation into his second plan of these real, and for him abhorrent, features of the society around him was a lesson.

His hope lay in education - that if he could but make a start, his schools and the self-evident truths of his scheme would win the day, and divisions among men would eventually disappear.

However, what might have been a practical plan to deal with the village destitute in 1696, when Bellers propounded it, was ^{in 1818, only} ~~as~~ a ditch dug by children ~~playing~~ on the beach to stop the ~~march of the tide,~~ ^{if applied in 1818.} The ocean of capitalism that was headed by the juggernaut of the machine, was breaking in upon mankind.

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After a few years, Owen saw that he was making no progress toward starting a Village in England, and the New World, he thought, might perhaps offer a more suitable locale for his plan than the Old. In 1824 he left for America to inspect a site of 30,000 acres and a village, which the Rappites, a religious sect of German peasants, had put up for sale. He purchased the area and a year later formed the Co-operative Community of New Harmony. However, the difficulties were insuperable. Quarrels and dissensions rent the inhabitants who were from widely varied backgrounds. The community split into several smaller communities and the venture dissolved in a few years. The discipline and control which Owen could maintain in his factory community of New Lanark was altogether lacking here in a voluntary community. Owen lost the bulk of his fortune, about 40,000 pounds, and returned to England in 1829.

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In the meantime Owen's doctrines had largely been taken up by the new and growing trades union movement. Since the repeal of the Combination Acts in 1824 the workers had been free to organize. Owen founded the modern trade union movement and became its leader virtually against his will. In his Report to the County of Lanark, Owen had already put forward the principles of labour as a standard of value, and in 1832 he founded the National Equitable Labour Exchange where producers' co-operatives could exchange goods on the basis of "labour time". The idea of a private issue of notes was by no means unusual at the time, and for a while the "Labour Notes" were circulated in London without difficulty. However the venture failed during the trade crisis of 1834. Owen intended the "Labour Notes" to replace the gold standard, but he did not realize that setting labour hours on commodities in a market system ^(which set its own prices) was doomed to failure.

The Grand National Consolidated Trades Union was formed in 1833 and consisted of a number of guilds of craftsmen, artisans, retailers and other "trades" along with the working classes. At one time it ^{membership of} claimed comprised almost a million members and formed one of the largest social movements of the day. The purpose was "to form themselves into lodges, to make their own laws and regulations - for the purpose of emancipating the industrious and useful classes from the difficulties which overwhelm them". Owen kept to the idea of the economic autonomy of the laboring class.

The workers and artisans wanted a general strike but he insisted on gradualism and non-violence from the start: "All the individuals now living are the suffering victims of this accursed system, and all are objects of pity; you will, therefore, effect this great and

glorious revolution without, if possible, inflicting individual evil... without bloodshed, violence or evil of any kind, merely by an overwhelming moral influence, which influence individuals and nations will speedily perceive the uselessness and folly of attempting to resist".

The power of this new trade union alarmed the manufacturers, and after a year of strikes, lock-outs and prosecutions the "Grand National" was shattered. The National Building Guild, organized to provide employment and "superior dwellings" for the various members of the building crafts, did not fare much better.

The one movement to survive, of all the many that came forward in his name was the consumers' co-operative movement started by the "Rochdale Pioneers" in 1844 with a small store in Toad Lane. Owen however, was little interested in this venture which ended up as the largest consumers' organization of the world and ^{was} ~~has~~ the most lasting ^{organization} ~~impact~~ of the Owenite movement.

The later years of Owen's life were occupied for a while by the unsuccessful experiment in establishing a Village of Union in Hampshire called Queenwood. Owen was appointed Governor and began erecting extensive buildings and a fine school, when the financial strain on the enterprise proved too great and forced it to give way.

Owen died at the age of 87 after writing a lovely autobiography reiterating his views as firmly as ever.

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Owen was a true hero of the age: philosopher, friend of kings, multi-millionaire, a Ford, Nobel and Carnegie rolled into one. In this favoured position and in his absolute dedication to mankind, lies the key to his depth and comprehensive perspective.

From the first, he saw the import of the machine and read man's future from its face. In that naked dawn, technology revealed its essentials to him. He never envisaged retreat or defeat but faced up to the reality with all its implications. He held on to the machine whether it was to bring salvation or would be accompanied by everlasting suffering. Either humanity would be saved or salvation must be given up as hopeless. In any case, reason had gone to its limit and complaint was of no avail.

Owen's efforts were swept away by the onrushing forces of a burgeoning market society, man's initial response to the machine. For some, the postulates of this society were regarded as the limit of human initiative and valour. But Owen saw beyond the market to a society built on different moral foundations. What he reiterated was his recognition of a truth indelibly stamped on our consciousness in a technological civilization - the transcending reality of society for man's inner existence.

His life was a personal testament to this truth. His initial determination was boundless and heroic but implicit in it was the resignation to bear up to the unavoidable. But before man could resign himself to those evils of the machine which were intractable, the limits had first to be tested.

The standard that Owen set leaves us in awe.

THE TWO MEANINGS OF "ECONOMIC"

Draft of a Master's Essay

Abraham Rotstein
April 16, 1952.

LAST DRAFT

"When I use a word," Humpty Dumpty said in rather a scornful tone, "it means just what I choose it to mean - neither more nor less."

"The question is," said Alice, "whether you can make words mean different things."

"The question is," said Humpty Dumpty, "which is to be master - that's all."

(Through the Looking-glass)

"What's the use of their having names," the Gnat said, "if they won't answer to them?"

"No use to them," said Alice; "but it's useful to the people that name them, I suppose. If not, why do things have names at all?"

"I can't say," said the Gnat.

(Through the Looking-glass)

CONTENTS

	Page
Preface	1
I Introduction.....	2
II The Rise of Market Economy.....	3
III The Formal Meaning And Market Economy.....	11
IV A Substantive Approach.....	20

PREFACE

The clarification of the two meanings of "economic" is really a springboard into the major events of the nineteenth and twentieth centuries. In an essay of this kind, however, the treatment of the factual and historical data could at best be spotty. A fuller account of the roots of twentieth century civilization will be found in the work of Professor Karl Polanyi, whose work this essay follows closely.

I wish to thank Professor Polanyi for his patience and encouragement while this essay was being written.

INTRODUCTION

The general theme of this essay is that the word "economic" has two distinctly separate meanings whose fusion in common parlance could once be ignored with impunity in reference to a market economy, but whose consistent separation is mandatory for a clear understanding of economic processes today, and for the avoidance of grave misconceptions in regard to the role of the human economy generally.

In the present usage, the substantive meaning of the word "economic" refers to man's attempt to provide the material necessities and services required to maintain life, while the formal or catallactic meaning refers to a logical method of dealing with scarce means.¹

The following propositions are discussed:

- (1) Both the theory and policy of a market economy could be explained by economic analysis based on the formal meaning of the word "economic", while earlier and later economies could not, neither on the theoretical nor the policy level.
- (2) For the treatment of these latter economies, an approach based on the substantive meaning of "economic" is necessary.
- (3) An attempt is made at a substantive discussion of certain contemporary economic phenomena.

¹cf. "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." Lionel Robbins, An Essay On The Nature And Significance Of Economic Science, (2nd ed.; London: Macmillan and Co., Limited, 1935), p.16.

CHAPTER II

THE RISE OF MARKET ECONOMY

The world is today in a period of transition from a unique experiment in its history- the attempt to transform all of human civilization into a self-regulating set of markets: the market economy. This chapter will be devoted to the history and analysis of the market economy.

The approximate dates of the market economy are 1834-1933, beginning with the English Poor Law Reform Act and ending with the final collapse of the world gold standard. It brought to the world an unprecedented era of progress and prosperity.

In theory, a market economy is an interconnected system of markets for all the elements of industry such as labor, land, money and its products. It treats all these as commodities produced for sale and allocates all income as the sale of one or another of these commodities. Its distinctive feature is that all the separate markets for various commodities are coordinated into one great market system which then functions automatically and is completely self-regulating.

But much as the market economy encompasses certain genuine commodities actually produced with the intention to be sold, it contains others not so produced - land - nor so intended - labor. For land and labor are not real commodities at all in the sense of "goods produced for sale". Land is the locus of man's social existence, it is the place where he builds his home, where he lives in a community, where he engages in his occupation. Land encompasses moreover, the natural resources, rivers, minerals,

forests, landscape of a country, it is the basis and root of all social existence.

Furthermore, the commodity labor cannot be divorced from its real owner, man. To control labor is at the same time to control the fate of its bearer, man. And to control both of these together, is to control completely the constituent elements of society- its shell, land, and its kernel, man. Market control of society means precisely to hand over "the fate of man and nature to the play of an automaton running in its own grooves and governed by its own laws".¹

What exactly these laws consisted of, we shall state in the next chapter. Suffice it here to say that a market economy was intended to function as a single, automatic, self-regulating mechanism, and by these operations incidentally disposing of the fate of society in its control. The important aspect of this development is not the creation of conditions whereby supply and demand interacted to produce a price which cleared the market, for such conditions existed previously; but that the three elements of production, land, labor and money, were for the first time bought and sold as commodities in a coordinated market system.

But much as its operations may have been conceived as being automatic, the creation of market economy was achieved through deliberate design.

¹Karl Polanyi, "Our Obsolete Market Mentality", Commentary, Vol. III No.2 (February, 1947), p.110.

The labor market was created with the passage of the Poor Law Reform Act of 1834 and thereby underwrote modern capitalism. Its economic significance rested on the fact that the unemployed could no longer get relief as they could heretofore under the Speenhamland Law. The laborer had to seek his price on the market, and if this labor market was to function freely and competitively, then the fear of hunger even to starvation had to be used as an incentive to force the laboring class to conform.

This presents a strange contrast to previous English social history, e.g. the Statute of Artificers (1563) which provided among other things for yearly wage assessments by public officials:

Still it can be said that for the two and a half centuries in question (1563-1813) the Statute of Artificers laid down the outlines of a national organization of labor based on the principles of regulation and paternalism.²

The Act of Settlement of 1662 restricted the mobility of the laborer keeping him to his fixed abode. It was partially repealed in 1795 in the press of a burgeoning industrial revolution which needed a mobile labor class for its continued growth. But in the very same year this measure was thwarted by an innovation in Poor Law administration (i.e. Speenhamland) which provided in effect grants in aid-of-wages and family allowances:

²Karl Polanyi, The Great Transformation, (New York: Rinehart & Company, 1944), p. 87. (Parentheses mine).

The magistrates' famous recommendation ran: When the gallon loaf of bread of definite quality 'shall cost 1 shilling, then every poor and industrious person shall have for his support 3 shillings weekly, either produced by his own or his family's labor, or an allowance from the poor rates, and for the support of his wife and every other of his family, 1 shilling 6 pence; when the gallon loaf shall cost $1\frac{1}{6}$, then 4 shillings weekly, plus $\frac{1}{10}$; on every pence which the bread price raises above 1 shilling he shall have 3 pence for himself and 1 pence for the others.³

Although the actual scale of the above measure was never enacted, it succeeded nevertheless in protecting the village against dislocation and postponed the establishment of a competitive labor market until 1834.

The Poor Law Reform is startling in the abruptness and significance of the change which it created. At one blow all relief was withdrawn except for those who submitted to the deep psychological opprobrium of declaring themselves paupers and entering the workhouse. *Or to seek his own price on the market* The laboring man became a commodity while the grim mentor of starvation kept a relentless watch on the system.

Likewise the evolution of land into a market commodity appeared strange in contrast to what had gone before:

Land, the pivotal element in the feudal order, was the basis of the military, judicial, administrative, and political system; its status and function were determined by legal and customary rules. Whether its possession was transferable or not, and if so, to whom and under what restrictions; what the rights of property entailed; to what uses some types of land might be put - all these questions were removed from the organization of buying and selling, and subjected to an entirely

³ Ibid., p. 78

different set of institutional regulations.⁴

But both the deed and doctrine of a market economy decreed otherwise, and although the advance of the land market took place over a longer period, it was no less relentless:

'The condition most favourable to the prosperity of agriculture exists,' wrote Bentham, 'when there are no entails, no unalienable endowments, no common lands, no right of redemptions, no tithes....'... To extend this... one way or another was the aim and effect of legislation such as the Prescriptions Acts, the Inheritance Act, the Fines and Recoveries Act, the Real Property Act, the general Enclosure Act of 1801 and its successors, as well as the Copyhold Acts from 1841 up to 1926.⁵

Further:

Industry 'was primarily rural and needed sites for its mills and laborers' settlements.' Furthermore, there was a 'forcing up of the production of food and organic raw materials to serve the needs of a rapidly growing industrial population on a national scale.' All this meant 'the subordination of land to the needs of a swiftly expanding urban population.' Although the soil could not be mobilized, its products could. '...The growth of towns induced landlords to produce primarily for sale on the market...' This market was at first regional. But 'Eventually agglomeration of the population in the industrial towns of the second half of the eighteenth century changed the situation completely- first on a national, then on a world scale.'⁶

⁴ Ibid., pp. 69-70.

⁵ Ibid., p. 180.

⁶ A.M. Sievers, Has Market Capitalism Collapsed?, (New York: Columbia University Press, 1949), p.64. The inner quotations are from K. Polanyi, The Great Transformation, op. cit.

Thus land, the locus of vital non-economic functions was left to the disposal of the automatic whim of the real-estate market.

And the third fictional commodity demanded by the market economy was money. The belief that money is a commodity like any other commodity, acquired chiefly as a convenient medium of exchange, is known as the commodity theory of money. When gold is used as this medium it becomes subject to the law of supply and demand, i.e. its price and quantity are determined as those of any other commodity, and the name for such a system on an international scale is known as the gold standard.

But this originates some real problems, for the quantity of this commodity cannot be greatly altered within a short period of time, while the volume of business may alter a great deal. A large increase in the volume of business with a relatively fixed supply of money would mean a decrease in prices. And although in the long-run, all prices would be equally affected, in the short run selling prices would fall much faster than costs (e.g. overhead, labor, rent etc.). This is enough to ruin many enterprises and presents a grave threat to all of productive organizations.

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... Scarcity of money was a permanent, grave complaint with seventeenth century merchant communities.⁷

⁷ K. Polanyi, The Great Transformation, p.193.

Thus, on the domestic scene, token money (both bank and fiat) was developed to protect productive organization from the extinction that threatened it when a deflation accompanied increased business activity. Thus arose the policies of central banking and monetary management to serve as a buffer against the havoc that an international commodity money might wreak on local productive organization:

The manufacturer could, therefore, hope to hold his own... 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 their best under the threat of hunger, so that wages were regulated by the price of grain. The three great measures formed a coherent whole.⁸

The market economy was the initial response to Industrial Civilization, for the use of elaborate, expensive machinery demanded a steady assured supply of raw materials and labor, and large, reliable markets. Its logical outcome was the surge toward a single planetary economy spanned by the gilded archway of an international gold standard. Social policy was clear: to remove all obstructions that would hinder the progress toward grinding society into a fine set of mobile atoms, (and, if one is to believe the Euler Theorem), each receiving what it deserves and deserving

⁸ Ibid., p.138.

what it receives.

Thus our basic point remains; the growth of the market system, fostered and nurtured by legislative deed and doctrine alike, meant the reduction of all commodities, both genuine and fictitious, to the law of supply and demand- to be treated as if they were produced for sale. In the case of labor and land, this meant the reduction of man and natural environment- the warp and woof of society- to the arbitrary operations of a social robot ^{powerful} more than that ever dreamed of by a George Orwell or an Aldous Huxley. The essential humanity and locus of society were subjected to a grave and pernicious threat of disruption. In the case of money, we have seen that, ironically enough, productive organization itself was similarly threatened.

This then remains to be said, that those partisans of the market economy who saw in its coming the messianic vision of maximum efficiency in operation, and optimum justice in distribution, could not have more gravely misread its social significance.

CHAPTER III

THE FORMAL MEANING AND MARKET ECONOMY

Market economy manifested certain institutional features which made it highly amenable to theoretical explanation. These were:

- (1) a general interconnected system of prices,
- (2) gainful motives of entrepreneurs,
- (3) markets in which these motives resulted in prices- the constitutive aspect of market economy.

This implied that entrepreneurs were trying to maximize their returns through manipulation of scarce means (factors) which had alternative uses.

Here was a situation, which, by coincidence resembled a certain logical principle, the logic of rational action in regard to scarce means.

By itself, the logic of rational action implies simply that appropriate means shall be used to achieve a particular end- "appropriate" that is, in a pragmatic sense, namely, anything that will achieve the particular end, whether by laws of nature or convention.

For example, if one's end is to appear clean, then washing is the appropriate means; if it is to go to heaven after death, then the appropriate means are prayer and virtuous living.

This has thus far, no reference to economics. But if we qualify the means as "scarce means", we have a variant called formal economics. The term "scarce means" implies the following:

- (1) insufficiency of means to achieve ends fully,
- (2) versatility of uses, i.e. there must be more than one use to the means,
- (3) scales of preference of ends, i.e. there must be a graded scale of preferred ends.

The logic of rational action in regard to scarce means then states that "No means shall be allocated to ends of a lesser grade than such ends as would in that manner remain unprovided for".

But this logical maxim, which is in effect a principle of conservation (i.e. being "economical"), applies to many phases of living from early morning breakfast-routine when time is scarce, to throwing up a boom town near an oil well where labor and materials may be scarce.

This principle is called "formal economics", although it has no necessary connection to economic life or to the operations of that segment of society known as the economy. It is by coincidence that this principle is relevant to the operation of the market economy, where the activity of entrepreneurs is guided by the principle that no factors shall be allocated to production of a lesser degree of value productivity than such other production as would in that way remain unprovided for.

It is the application of the principle of formal economics to the various sectors of the market economy that has enabled us to treat it on a theoretical level, and has produced a body of thought called economic analysis.

Perhaps the market economy can be visualized concretely as an engine or a machine, of which the substance is a set of mutually coordinated markets, e.g. raw materials markets, a

labor market, a real estate market, etc. Then the power to which this engine is harnessed is the desire for gain of the entrepreneur and the fear of hunger of the worker. The input to this machine consists of labor and material resources, and its product, the economic goods and services we consume- complete with price tags attached. Moreover the engine is equipped with a self-regulating "governor" or "thermostat" device which will automatically regulate the prices and quantities of goods and services produced, speeding up or slowing down production in response to an increase or decrease in price.

This engine ensures the performance of a second function in addition to that of production: the allocation of product among the various input factors according to rule, namely, that no part of the value of the product shall be allocated to factors of a lesser degree of productivity than such others as would in that way remain unprovided for; or stated differently, just so much we would be given to each unit of a factor as to cause the gain involved in having the last unit of it remain, equal to the loss of total dividend if that unit were to be withdrawn; in which case the total product will be exhausted and there will be no residuals.¹

¹ cf., the Euler Theorem: "the sum of the payments to each factor at the rate of its marginal productivity exhausts the total product. If $P = F(A, B, C, \dots)$ where P is product and A, B, C, \dots are the various factors of production, ...

$P = \frac{\partial P}{\partial A} \cdot A + \frac{\partial P}{\partial B} \cdot B + \frac{\partial P}{\partial C} \cdot C + \dots$ ". George J. Stigler, Production and Distribution Theories, (New York: The Macmillan Company, 1941), p. 325.

The general formula or principle of operation of this engine we designate as formal economics, or the logic of rational action with regard to scarce means, while the blueprint (i.e. the formula applied to the workings of its various parts), we call economic analysis.

Mere acts of exchange for the purpose of gain without a market, or a market functioning under different principles such as duty or status motives, will not produce a price system, although prices in the sense of ratios or equivalencies may exist.

The price system is the constitutive aspect of the market economy, while its concrete components, namely, the motive of gain and the mutually coordinated system of markets are designated as institutional factors. The paradox is interesting, for though the roots of the market economy lay in the adoption of elaborate and expensive machinery, all of society was soon placed under the hegemony of an institutional machine determining the fate of society's real embodiment, man and nature.

To the partisans of a market system, economic policy was clear, the removal of all obstructions, institutions, legislation and combinations that impeded the operations and adjustments of this economy. But the adjustments of the market mechanism as it operates without hindrance are best revealed in the assumptions and body of thought known as economic analysis. It is thus that economic analysis becomes ipso facto the goals and guides toward which to direct policy.

Thus we find that the following propositions hold:

- (1) The formal meaning of the word "economic" refers to a logical principle of dealing with scarce means and is of universal applicability to various fields of human rational action where scarce means obtain. It is valid independently of the existence of the empirical economy at all.
- (2) The application of this principle to the market economy resulted in economic analysis due to the particular institutional character of this economy, namely, the gainful behavior of individuals in markets which resulted in prices. Thus economic analysis is known as the theory of price.
- (3) Policy for a market economy was to follow along the lines laid out by economic analysis if the mechanism was to function automatically.

In explaining the operations of this economy, the substantive meaning of the word "economic" was never wholly lost sight of. In the works of certain eminent economists a number of basic distinctions were made which reveal a roughly similar intent.

For example, J.B. Clark contrasts "capital-goods" and "capital":

The vast stock of working appliances that the United States possesses can enable more men to work than are now working; but sixty-five billion "dollars" not confined to these appliances but free to invest themselves in any other things, could give openings to a much greater number of additional workmen. There is a radical difference between the margin of employment that is offered by a particular stock of capital-goods and the one that is offered by a given capital...²

² J.B. Clark, The Distribution of Wealth, (New York: The Macmillan Company, 1931), p.113.

Karl Marx contrasts "productive capital" and "money-capital":

M-C, ('the exchange of a sum of money for a sum of commodities') ... is therefore at the same time, seeing that it is a stage in the dependent circulation of capital, a process of transforming capital-value from its money form into its productive form. It is the transformation of money-capital into productive capital.³

Thorstein Veblen discusses "Business" and "Industry":

Progressively during the past quarter-century the process of economic life has suffered a measure of bifurcation, amounting to something very like a dichotomy of the economic community and its work and interests. More and more the economic process has been falling apart into Business and Industry; so that in practical effect any given economist's analysis and canvassing of the data will almost perforce run to a conclusion within the confines of the one segment or the other.⁴

These distinctions: capital-goods, capital; productive capital, money-capital; Industry, Business; are roughly similar examples of the substantive and formal usage of the same terms, the first term referring to its general substance, and the second to the particular form in a market economy.

Indeed some writers tried to explain the workings of the price system by the use of substantive terms only. For example, the attempt was made to deduce the value of goods from their

³Karl Marx, Capital, (Chicago: Charles H. Kerr and Company, 1933), Vol. II, p. 34. (Parentheses mine, inner quotation Ibid, p. 32).

⁴Thorstein Veblen, "Economic Theory in the Calculable Future", Essays in Our Changing Order, (New York; The Viking Press, 1934), p. 10.

utility or their ability to satisfy various wants. But though man's physical dependence on air, water and bread was greater than his dependence on gold and diamonds, yet the price of the latter was consistently higher than that of the former. These efforts were foredoomed to failure, for prices stemmed not from the substantive aspect of a good, its utility, (i.e. its ability to satisfy wants), but from its formal or market aspect, its scarcity, (i.e. its role as a scarce factor to be allocated according to a logical principle).

Only the use of the formal meaning of "economic" will produce a theory of price, for price results from the gainful behavior of individuals on markets, which allocate scarce means in a logical fashion. Formal economics, the logic of rational allocation of scarce means is valid as a logical principle independently of the existence of market economy at all- but by the coincidence of a particular institutional arrangement it will yield a theory of price and explain this economy. For a market economy is an elaborate supply-demand-price mechanism. Substantive excursions could tell us little about price. It seemed a sterile occupation to study the individual characteristics of market institutions if these were subordinated to the functioning of the market mechanism. One could forget completely about the institutional, ecological or technological aspects of the economy, for everything became a commodity at a definite price. With the checkbook you could disregard climates and continents, international boundaries and physical ones. The whole planet danced to financial threads.

Thus, much as certain substantive distinctions were made, they were never used, simply because there was no need for them. The formal meaning became the sole vehicle for economic analysis for it alone could explain price.

Sometimes the use of the word "economic" merged the two meanings. For example, Alfred Marshall writes:

Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing.⁵

This is the substantive use of the word "economic", but Marshall's work contains both substantive discussions and the development of formal tools of analysis under this definition.

Max Weber writes:

Human activity is called 'economic' in so far as it is aimed at the procuring of useful services or a chance of procuring them...goods are an aggregate of such separate single services... economic activities proper are such as entail a peaceful disposal of goods which is directed primarily towards economic ends.⁶

Here again the substantive definition is given, but Max Weber

⁵ Alfred Marshall, Principles of Economics, (8th ed.; London: Macmillan and Co. Limited, 1938), p.1.

⁶ Max Weber, "Terminological Introduction", General Economic History, trans. K. Polanyi, mimeograph.

was aware of the formal root and his merger of the two meanings was deliberate rather than uncritical as in the case of Marshall. Such a merger of concepts is not per se invalid, especially since both meanings coincided in reference to the market economy, and thus the distinction was not necessary.

But we offer as a critique of this concept , the unfortunate consequences of its indiscriminate application in the study of all other economies. And here a consistent distinction is mandatory.

CHAPTER ~~III~~^{IV}

A SUBSTANTIVE APPROACH

Paragraph
The empirical economy is a recurrent process in every society which centers around man's attempts to satisfy his wants within his natural and social surroundings. Thus it has an ecological, technological and institutional aspect as it is related to his natural surroundings, his tools or his social institutions. But the production and distribution of material goods is often only an incidental aspect of these institutions which embody distinct purposes and procedures of their own in accordance with the values and objectives of a particular society. Thus the economy permeates society as a whole and has generally no separate existence apart from the functioning of the other social orders such as the political, religious, and cultural etc. (The question of what society is and how it functions is a ^{problem} ~~question~~ for the sociologist).

Where certain specifically economic institutions existed, there was no reason to assume that they were either interconnected into a system, that gain was their basic motive, or that any particular theoretical discipline could explain their operations. Certainly formal economics, although a universally logical principle, could not explain the operations of any economy other than a self-regulating market system, because of the absence of market motives and institutions.

For example, the Trobriand Islanders of Western Melanesia have organized their system of distribution on a sexual basis, i.e. family and kinship. The male must provide for his sister and her family by delivering the finest specimens of his crop which he will

display both in his own garden and before the recipient's storehouse, thus earning the credit due to his fine gardening and good behavior. But his own wife and children will be fed by the reciprocal operation of the same principle. Moreover, a substantial part of his produce is delivered to the chief who keeps it in storage to be redistributed at feasts, gatherings, to distant neighbours etc. according to the rules of etiquette. However, all these economic functions are absorbed in the operation of a set of social conventions and non-economic motivations.¹

Again:

The characteristic feature of primitive economics is the absence of any desire to make profits from production and exchange.²

Moreover, less exotic climes and societies present a similar pattern:

Whether we turn to ancient city-state, despotic empire, feudalism, 13th-century urban life, 16th-century mercantile regime, or 18th-century regulationism-invariably the economic system is found to be merged in the social. Incentives spring from a large variety of sources, such as custom and tradition, public duty and private commitment, religious observance and political allegiance, judicial obligation and administrative regulation as established by prince municipality or guild. Rank and status, compulsion of law and

¹ cf., K. Polanyi, The Great Transformation, p. 48.

² R. Thurnwald, Economics in Primitive Communities, (1932), quoted in K. Polanyi, Commentary, (February, 1947), p. 112.

threat of punishment, public praise and private reputation, insure that the individual contributes his share to production.

Fear of privation or love of profit need not be altogether absent. Markets occur in all kinds of societies, and the figure of the merchant is familiar to many types of civilization. But isolated markets do not link up into an economy.³

General Economic History, being concerned with the actual economies of the past, studies the changing role of the economy in society and the way in which the economic process is embodied in economic and non-economic institutions. But for a critical or comparative study of economic institutions along historical, social or technical lines, substantive terms are required.

To take the three institutions, trade, money and markets, for example; if we use formal or catallactic terms, trade appears as a two-way movement of goods through the market, money is a means of indirect exchange to facilitate such a movement, and the market is the locus of exchange embodying a supply-demand-price mechanism. Thus these three are functionally related and where one was present the existence of the other two could almost automatically be assumed.

But this was a condition exclusive to the market economy, for defined substantively, trade is a method of acquiring goods not available on the spot and may be independent of the market such as in gift trade and administered or treaty trade. It may center in

³Ibid., p. 112-113.

the meeting of different groups trading collectively at pre-supposed rates of exchange, with neither individual traders nor the gain motive present. Since trade means that goods are moved between people, a substantive treatment of trade may include a discussion of personnel, goods, transportation, and the relationship of the parties involved.

Money, defined substantively, consists of quantifiable objects used for payment, as a standard, for hoarding or exchange. But different objects may be employed for each of these uses which may remain separate and independent.

Likewise the market is an organized meeting of supply crowds and demand crowds for purposes of exchange. The motive here is personal advantage although prices may either be fixed or determined by supply and demand.

It is only in modern times that all trade has become market trade, that money is all-purpose money, that the market embodies a price mechanism which determines supply and demand, and that all three have become an almost inseparable unity. Thus, swinging a market lens over all of history and society sharply distorts our perspective. This is known as the economic fallacy and consists of ~~an~~ extending criteria of the market economy to all human economy, or conversely, seeing no market forms, to declare that there is no economy.

That our whole historical perspective needs revision, and that basic confusions exist among our very first-rank economists can be seen in the following excerpts from the work of Lord Keynes and George J. ^tSigler.

Lord Keynes writes:

It would be a fascinating task to re-write Economic History, in the light of these ideas, from its remote beginnings; to conjecture whether the civilizations of Sumeria and Egypt drew their stimulus from the gold of Arabia and the copper of Africa, which being monetary metals, left a trail of profit behind them in the course of their distribution through the lands between the Mediterranean and the Persian Gulf, and probably further afield; in what degree the greatness of Athens depended on the silver mines of Laurium- not because the monetary metals were more truly wealth than other things, but because by their effect on prices they supply the spur of profit...⁴

But rewriting Economic History as a history of the inflation and deflation of the price level as Lord Keynes suggests, is a questionable pursuit, for it makes unfounded assumptions about the existence of a modern price system and the nature of price altogether. Historical writings tell of an entirely different kind of price such as Pliny's reference to a price administratively determined:

L. Migtius Augurinus... reduced the price of corn on three market days... (and) T. Seius distributed corn to the people in his aedileship.⁵

Secondly, early standards of exchange were often not metal at

⁴J.M. Keynes, A Treatise on Money, (New York: Harcourt Brace and Company, 1931), Vol II, p.150.

⁵The Natural History of Pliny, trans. Bostock and Riley, Vol. IV, ch.4.

all, but, for example, barley, as in early Dynastic times in Mesopotamia, or cattle as in early Rome, where sheep and oxen were the first means of exchange.⁶

Professor Stigler writes:

Every economist - and non-economist - necessarily knows a great deal about economics from observation. As a result, almost every economist would answer correctly point-blank questions on general economic theory. Thomas Mun must have been aware of the marginal productivity doctrine in his conduct of the East India Company, yet, the doctrine was not formulated satisfactorily before 1890.⁷

However, it is more likely that Thomas Mun would have blinked twice had he been confronted either with this doctrine or the future market economy. Without a free labor market and with a plethora of restrictions on land, raw materials and terms of trade, his times were vastly different from the theoretical assumptions of economic analysis.

The classification of economies, motives and economic institutions can only be accomplished by keeping to the substantive meaning. Definitions of economic which blend the two meanings are apt to read the market motives of gain and hunger into all

⁶ cf. Stanley Cook, The Law of Moses and the Code of Hammurabi, (London: Black and Co., 1903).

⁷ George J. Stigler, Production and Distribution Theories, (New York: The Macmillan Company, 1941), p.9.

economic institutions.⁸

Professor K. Polanyi has provided us with certain substantive categories by which all empirical economies may be classified.⁹ These categories refer to the way in which the factors of production, land and labor are integrated in a particular economy. Each category is accompanied by an institution which makes this mode of behavior effective.

Reciprocity is a form of behavior where at least two groups behave similarly toward one another in economic matters. This cannot be effective however without the accompanying institution of symmetry whereby these symmetrical groups are clearly designated. For example, in the "fish and chips" arrangement of the Trobriand Islands, a coastal village will deliver fish to an inland village in return for yams which will be delivered at another time. The symmetrical partners in this case are whole villages.

Redistribution obtains within a group when goods are channelled to a central authority and then allocated by virtue of custom, law, or decision. This requires the institution of centrality whereby goods are channelled to and from the center.

Householding consists of production for one's own group.

⁸ Contrary to general usage there is no such thing as an "economic instinct" (or propensity) as there is a hunger instinct, a sex instinct etc. The satisfaction of man's material wants occurs as a result of a variety of social institutions and status motives which organize production and distribution. The market economy alone institutionalizes the motives of hunger and gain.
cf. K. Polanyi, Commentary, op. cit. p. 111.

⁹ The following discussion is based on chap. 4 of The Great Transformation, op. cit.

(oeconomia), be it the family, the settlement or the manor. It depends on the institution of autarchy or self-sufficiency.

Barter alone is the pattern which governs the behavior of those who exchange goods for the maximum personal advantage. The institution of the market makes the bartering intent effective and results in prices. However, the presence of rates of exchange or equivalencies- commonly referred to as prices- does not in itself demonstrate the existence of exchange for gain as a dominant pattern within a community.

The forms of integration discussed above need not be mutually exclusive, and several subordinate forms may coexist with the dominant one. For example, in our own day, the dominant pattern of exchange has been modified by reciprocity such as in Lend ^{and Christmas or birthday gifts,} & Lease, and redistribution such as is the character of the modern taxation system.

It is the contention of this essay that the use of substantive terms is not only mandatory for an understanding of the past, but is useful for an understanding of the present as well. For with the decline of the market economy there has been a decline in the usefulness of market economics.

The collapse of the market economy on a world scale (which may be dated with the collapse of the world gold standard in 1933), was due to no random occurrence, nor to the erratic or eccentric behavior on the part of certain classes or governments. Its roots lay deep within the nature of ~~the~~ market economy. For a market system implied that the elements of industry, labor, land, and

money, were to have their fate determined as commodities on a supply-demand market. But, as we have shown above, this placed the fate of man, his natural environment and productive organization at the mercy of an arbitrary automaton.

The spontaneous mobilization of society in self-protection was the second great force in the development of the nineteenth century:

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.¹⁰

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.¹¹

In effect, this protective function is the key to the rise of certain contemporary classes and institutions, such as trade unions to protect labor¹² and monopoly and the central banking system to protect business enterprise. And in this struggle of classes

¹⁰ Ibid., p.76.

¹¹ Ibid., p.139

¹² "Mises justly argued that if workers did not act as trade unionists, but reduced their demands and changed their locations and occupations according to the requirements of the labor market, they could eventually find work." This sums up the position under a system based on the postulate of the commodity character of labor. It is not for the commodity to decide where it should be offered for sale, to what purpose it should be used, at what price it should be allowed to change hands, and in what manner it should be consumed or destroyed." K. Polanyi, op. cit. p.176

and institutions market civilization itself was engulfed.¹³ Market economists could only evoke such epithets as "rigidities", "approximations", "wilful stubbornness", or "shortsightedness", to account for this burgeoning of a society mobilizing for the preservation of its essential humanity, which went against all theory and "reason".¹⁴

Today, with an increasing segment of economic activity taking place outside the jurisdiction of the market, we must revert back to the intrinsic content of economic processes and institutions (i.e. substantive terms) if we are to comprehend economic events at all intelligently. Distinctions which we could afford to ignore when the market served as the great "leveller", must now be distinguished anew, e.g. exporting countries and self-sufficient ones, borrowing countries and lending ones, those with varied exports and those with single products etc.

For example, according to orthodox economic analysis, the location of mines and factories in any particular country has no undue economic significance. Other countries wishing to obtain metals or manufactured goods may do so by sending goods of equal

¹³ This is the main theme of The Great Transformation (op. cit.,) where a much fuller account exists than can be treated here. This work is, in effect, a substantive treatment of contemporary civilization, but only from the institutional aspect, taking the ecological and technological factors as given.

¹⁴ Strictly formal concepts have no way of treating as important a social reality as economic crisis, for their relevance depends on the maintenance of certain artificial institutional conditions. It was only after several years of crisis and recession that the theoretical possibility of underemployment equilibrium was demonstrated by Lord Keynes, through the use of new concepts, thus legitimatizing the "economic bastard" of the '29 collapse.

value in exchange, either to the particular country or to a third one. But when trade between various countries is restricted as a result of non-convertibility of their currencies and restrictions on foreign trade, the analysis has no meaning. If the mines are situated beyond the borders of a given country, it will be obliged to exploit poorer mines within its own borders or in some other politically accessible territory, at an increased cost for equipment and labor. Thus political boundaries assume a great deal of economic significance.

A case in point is that of modern Japan beset by the problems of currency and the cutting off of its main source of supply by the political developments in China. Currency and boundaries, two factors of no particular significance in market economics, now become two cardinal determinants of economic development. We quote at length because this particular case is a good illustration of several aspects of our main theme:

The Japanese are prospecting in remote regions of Southeast Asia to replace the resources cut off when the Communists took China... supplies furnished by the U.S. during the occupation will become prohibitive in price once the Japanese are on their own...

Investment of up to 50 million dollars in various Southeast Asia countries will be needed, the Japanese figure, to replace China's raw materials. Many of the projects are ruled out at present because of civil wars and terrorism. For instance, it took four battalions of British troops to escort one survey party to an iron-ore project in Malaya. But the Japanese are getting their plans set anyway...

Coking coal from India, for instance, is not much cheaper than American coke. But it can be bought with sterling rather than scarce dollars. So can other Asiatic raw materials. Steel experts figure that with raw materials coming from Southeast Asia rather than America, Japanese steel will cost about the same as American steel landed in Japan. But they believe the Japanese will have an edge in the world market because they will not have to sell their steel for dollars...

An exhaustive survey by Japanese economists and technicians indicates that Southeast Asia can produce sufficient raw materials to meet all the needs of the country's steel industry if investments to develop these resources are supplied- either by Japan, the U.S., the World Bank, local governments or a combination of theses..

... ore which the Japanese would get at a fixed price...¹⁵

Every paragraph cited above demands the revision of our concepts. For example, in the catallactic sense, capital is a fluid, mobile stream whose parentage is of no particular significance and which will flow unimpeded to whatsoever area of the world offers promise of profit. But the last paragraph above, should indicate that parentage or ownership is a most important distinction, and that investment is not necessarily directed by maximum opportunities of gain. What the market made homogeneous, the reality of the world makes distinct, and the stringency of circumstance invokes a consistent substantive approach.

Furthermore, the condition of "fixed price" quoted above is an example of self-protection against eventualities of the market mechanism.

Every current newspaper and magazine picked up at random bears evidence of non-catallactic economic phenomena, from the T.V.A. through to the E.R.P. And it is the substantive category "reciprocity" which can treat such economic phenomena as the Fullbright foreign scholarship scheme or Lend-Lease; or the

¹⁵ "Japan's Problem Now; To Live Without China", U.S. News and World Report, February 29, 1952. The paragraphs are not in the same order as their appearance in the article.

term "redistribution" which can treat phenomena such as the national unemployment and health insurance schemes. All along the line, as Wall Street gives way to Capitol Hill, the area of usefulness of cataliactic terms diminishes.

The reference in the previous quotation to "an exhaustive survey by Japanese economists" reminds us of Veblen's counsel on the role of economics:

Economic science should for its major incidence and with increasing singleness and clarity, be a science of business traffic, monographic, detailed, exadting, and imbued with a spirit of devotion to things as they are shaping themselves..¹⁶

With this spirit we are in complete accord, but not with the institutionalist impatience with the whole project of market economics. For Veblen impugned the credibility and usefulness of orthodox economic theory on the grounds that the market economy was a substantive economy. But supply and demand actually directed markets, and economic analysis is the logic of the supply-demand-price mechanism; and thus the particular substantive features disappeared in the analysis of this mechanism. For example, there was no need to study the specific features of trade such as transportation, freight rates, insurance, safety-devices etc., when they all reduced to prices which merely had to be tallied up.

There is no point in discounting the relevance of formal concepts to the market economy when these provided a good picture of its operations. This applies equally to the concept of the "economic Man" which was a useful fiction even though the social sciences discredited the general hedonistic theory of human behavior. Much as Veblen's "substantive" rebellion against the reign of the "formal" was premature, his time has now come and ~~xx xx~~ substantive tools must be brought to the fore.

A substantive approach will subsume a much larger class of phenomena both ancient and modern, if we step outside the bounds of market criteria. The propositions obtained, however, will not necessarily hang together in a pattern as previously, for they will be distinctly individual. But this will open the door for the contact of economics with the other social sciences. Firstly, the change in economics from a logical enquiry to an inductive social science, and secondly, the supplanting of the concept of the "economic man" (which was a valid concept for a market economy), will lead to a total view of man in society.¹⁷ Moreover economics will acquire a new neutrality which it did not possess when formal concepts designated both theory and policy. These now become genuinely separated.

¹⁷In effect, this, the meaning of Professor Polanyi's work, which draws on cultural anthropology, sociology, psychology and political science for an economic analysis based on substantive concepts. In a sense, substantive economics is the sociology of economic institutions.

However, reality is a fine web and not easily covered by theoretical structures. This is especially true today, when in a period of transition from economic liberalism, we are in a mixed economy embodying both exchange and redistributive forms of integration. The channel of "centricity" in the redistributive sphere of the economy has become the government whose role in the deliberate regulation of economic life has vastly increased in the past fifty years.

Today, government activities include control and manipulation of the banking system; commodity ~~commodity~~ controls, purchases and other stabilization operations; actual participations as promoter, financier and operator of large-scale public works and other enterprises; the control, almost exclusive in many instances, of economic relations between the United States and the rest of the world; and the employment of taxation and deficit financing to redistribute wealth and income from one group in the population to another through loans, grants, subsidies, benefits and other welfare services.¹⁸

All these activities are backed by a proposed budget for the year beginning July 1952 of more than 85 billion dollars. It is estimated that about sixty per cent of this will go for military defense.¹⁹ No substantive treatment of contemporary economies can

¹⁸ It is interesting to note that business enterprise itself, has become an auxiliary of the "centricity" institution of government (i.e. the channeling of goods to the center whence they are reallocated) by its deduction of taxes from salaries and wages which are then forwarded to the government. Likewise, for the trade union where the "checkoff" system exists.

¹⁹ "Who Pays the Taxes", Consumer Reports, March, 1952, p.151.

afford to ignore the role of war and the preparations for war on the economy both in its exchange (i.e. market) and redistributive aspects. For example, the United States federal, state and local governments plan to take thirty-three per cent of the United States national income in taxes during the coming year (largely for military needs) although it has been estimated by Colin Clark that taxes above ^wtwenty-five per cent of the national income will lead to continuous inflation.²⁰ Nor are we at all aware of the incidence of this taxation. Professor Musgrave writes that "The search for quantitative estimates of incidence leads the explorer through a wasteland of muddled concept, inadequate theory and lack of data."²¹ Here again, catallactic concepts must be revised in favour of a substantive approach.

A recent report states, moreover, that arms production has become a permanent feature of our economy:

Military assets of the U. S., weapons and physical plant, are to be built up to a 200-billion-dollar level. They're now at 150 billion.

New weapons, planes, ships, guns, ammunition, plus upkeep of bases and other physical plant, will take 20 billions a year just to avoid obsolescence.

Plane replacement, permanently, will cost a minimum of 8 to 10 billions. New ships to replace warships grown old, will take 1.5 billions a year minimum...

Armament is the great new industry of the 1950's. It's here to stay.²²

²⁰ "Arms Costs Outdo High Europe Taxes", The New York Times, March 16, 1952. p.1.

²¹ Ibid.

²² U.S. News and World Report, February 29, 1952, p.5.

This seems to focus on a great danger of our time - the deliberate reliance on military expenditures as a "deus ex machina" to resolve our basic economic and political problems.²³ Insofar as this is true, it is a false and facile solution, for it is based on the destruction of economic value - an ironic subversion of the purposes inherent in society and devouring the substance of the nation.

It would be a sorry thing indeed, if, on the threshold of a new vision of freedom through the conscious direction of machine civilization, a wilful military technocracy were to replace the old automatic behemoth.

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²³ The term "total war" points, in fact, to one kind of possible reintegration of the economy within general societal objectives, at the price, of course, of society being subjected to the needs of military organization.

There are interesting analogies between the military economy and the early development of the market economy. In the former, the army tears away millions of men from a communal, organic mode of life, which is not unlike the disruptions that occurred at the beginning of the market economy.

JULY 17/51

PRELIMINARY STATEMENT FOR A PROPOSED MASTER'S ESSAY

In the works of certain eminent economists a number of basic distinctions are made which reveal a roughly similar intent. They contrast, for example:

Capital goods-----	Capital
Means of Production-----	Titles to Property
Industry-----	Business.

Generally speaking, the first column of terms points to the substantive connotation of the term, while the second points to a certain catallactic or formal meaning.

Because the empirical economy manifested certain institutional characteristics, namely:

(1) gainful motives

(2) a self-regulating market economy which translated these motives into prices,

formal economics- the logic of choice of the alternative uses of scarce means- was able to produce a discipline that could explain the workings of this price system.

Substantive terms could not explain prices, because prices did not follow from any intrinsic property of the goods themselves, but from their role as commodities or scarce means in a self-regulating market economy, which could best be explained by a branch of the logic of rational action in regard to scarce means. Because these substantive terms were not useful in this sense, i.e. did not lead to a theory of

price, they were generally speaking, either ignored or fused with their catallactic meaning.

As the dominance of the self-regulating market over society decreases, there is a growing area of economic activity to which catallactic terms have no relevance, i.e. where economic activity is embedded in general societal objectives, e.g. social security, unemployment insurance, local and national health insurance schemes, lend-lease, the E.R.P., the Fulbright foreign scholarship scheme etc. These phenomena require substantive terms if they are to be dealt with at all intelligently by the economist.

Also certain distinctions which the economic theory could afford to ignore in a world which pretended to be one self-regulating market, must now be distinguished anew, such as the difference between exporting countries and self-sufficient ones, borrowing countries and lending ones, those with varied exports and those with single products etc.

Also for the study of Economic History, substantive terms are required for a critical or comparative study of economic institutions along historical, social or technical lines.

It is proposed then in this essay, to discuss along the lines indicated above, the following:

- (1) the two meanings, formal and substantive of the word "economic"

3.

- (2) the parallel distinctions of the formal and substantive meaning of certain terms drawn by J.B. Clark, Karl Marx and Thorstein Veblen in their work-such as the examples cited above.
- (3) how the formal meaning of "economic" could produce a discipline explaining price, while the substantive could not and how consequently the latter was ^rgenerally ignored or fused with the formal by many orthodox economists.
- ((4) why the substantive meaning is coming up again today with reference to problems in the national and international spheres and ^{is necessary} ~~as-a~~ for a clearer understanding of the problems of economic history.

A. Rotstein

July 17, 1951.

12-25-1951

EXPANDED OUTLINE OF A PROPOSED MASTER'S ESSAY ON

"THE TWO MEANINGS OF ECONOMIC"

The general theme of this paper is that the word "economic" has two distinctly separate meanings whose fusion in common parlance could once be ignored with impunity in reference to a market economy, but whose consistent separation is mandatory for a clear understanding of economic processes today, and for the avoidance of grave misconceptions in regard to the role of the human economy generally.

The following propositions are discussed:

- (1) Both the theory and policy of a market economy could be explained by economic analysis based on the formal meaning of the word "economic", while for earlier and later economies this was not possible, neither on the theoretical nor the policy level.
- (2) For the treatment of these latter economies, an approach based on the substantive meaning of "economic" is necessary.
- (3) The suggestion is made that for most contemporary countries, the current economy may be deemed a "military economy", with related analogies to the first stages of the development of market economy.

The present usage is such that the substantive content of the word "economic" refers to man's attempt to provide the physical necessities and services required to maintain life, while the formal or catallactic meaning refers to a logical method of dealing with scarce means, *Abbott*

(3) An attempt is made to distinguish between the two meanings of the word "economic" in the context of the human economy.

II

The depression of '29 wrote finis with a resounding crash to a strange experiment in the history of human civilization, the attempt to transform society into an automatic self-regulating mechanism-- the market economy.

A market economy is an interconnected system of markets for all the elements of industry such as labor, land and money. It treats these as commodities produced for sale along with all other commodities, consequently allocating all income as the result of the sale of one or another of these commodities.

Much as the market economy may have been envisioned as an automatic mechanism, its creation was achieved through wilful design and deliberate planning. The labor market was created in 1834 by the Poor Law Amendment Act, the money market in 1844 by Peel's Bank Act, whereas the land market was created by a series of measures beginning with the Prescriptions Acts and extending through the Copyhold Acts from 1841 up to 1926.

The important aspect of this development is not the creation of conditions whereby supply and demand interacted to produce a price which cleared the market, for such conditions existed previously, but that the three elements of production, land, labor and money, were for the first time bought and sold as commodities in a coordinated self-adjusting market system.

This was tantamount to declaring all of society and social existence no more than one great market where its substance, land and nature, were offered as if they had been produced for sale. In other words, labor as a mere commodity would have as little to say as to where and for what purpose it should be used and what price it should receive as, say, coal. Likewise land as

as a commodity, might, indeed, should, be exploited, denuded and sold as called for by the dictates of the market.

Thus would the very warp and woof of society, human beings and their habitations, be mobilized in the hegemony of a social robot more powerful than that ever dreamed of by an Aldous Huxley or a George Orwell. Such a behemoth demanded neither the steering nor guidance of society. It was intended to be self-controlling and self-adjusting to any unwarranted joggle of its mechanism.

The policy of society was simple and clear: to remove all obstructions that would hinder its progress toward grinding society into a fine set of mobile atoms, (and, if one is to apply the Euler Theorem), each receiving what it deserves and deserving what it receives.

III

Market economy manifested certain institutional features which made it highly amenable to theoretical explanation. These were:

- (1) gainful motives of entrepreneurs, and
- (2) markets in which these motives resulted in prices- the constitutive aspect of market economy.

This implied that entrepreneurs were trying to maximize their returns through manipulation of scarce means (factors) which had alternative uses.

Here was a situation which resembled a certain system of logic, quite by coincidence; the logic of rational action in regard to scarce means.

The logic of rational action by itself, implies that appropriate means shall be applied to achieve a particular end- "appropriate" tant is in a pragmatic sense, namely, anything that will achieve the particular end, whether by laws of nature or convention.

If we qualify the means as "scarce means," we have a variant called formal economics, as long as the following conditions are present:

- (1) insufficiency or scarcity of means to achieve ends,
- (2) versatility of uses
- (3) scales of preference of ends.

This principle stated that "No means shall be allocated to ends of a lesser grade than such ends as would in that manner remain unprovided for".

This, by coincidence, was the underlying principle that guided entrepreneurs in the course of their economic activity, namely, that no factors shall be allocated to production of a lesser

degree of value productivity than such other production as would in that way remain unprovided for.

Applying this principle to the concrete workings of the market economy produced a body of thought called economic analysis.

Perhaps our economic system can best be visualized concretely as an engine or a machine, of which the material substance is a set of mutually coordinated markets. Then the power to which this engine is harnessed is the desire for gain of the entrepreneur, and the fear of hunger of the worker. The raw material fed to this machine consists of man and nature, and its product, the economic goods and services we consume, complete with price tags attached. Moreover this engine is equipped with a governor or thermostat device, which will automatically regulate the quantity of goods and services produced, speeding up or slowing down the engine as necessary.

Moreover, this engine ensures the performance of a second function in addition to that of production: the allocation of the product among the various input factors according to rule, namely, that no part of the value of the product shall be allocated to factors of a lesser degree of productivity than such others as would in that way remain unprovided for; or ^tated differently, just so much would be given to each unit of a factor as to cause the gain involved in having the last unit of it remain, equal to the loss of total dividend if that unit were to be withdrawn; in which case the total product will be exhausted and there will be no residuals (cf. The Euler Theorem).

The general formula or principle of this engine we designate as "formal economics", or the logic of rational action with regard to scarce means, while the blueprint, (i.e. the formula

applied to the workings of its various parts), we call "economic analysis".

Mere acts of exchange for the purpose of gain without a market, or a market functioning under different principles such as duty or status motives, will not produce a price system although prices in the sense of ratios or equivalencies may exist.

The price system is the constitutive aspect of the market economy, while its concrete components, namely, the motive of gain and the mutually coordinated market system are designated as institutional factors.

But the analogy we have summoned is more than an heuristic illustration. It is of the essence of the matter and presents an interesting paradox. For though the roots ~~of the roots~~ of the market economy lay in the adoption of elaborate and expensive machinery, all of society was soon turned into a machine feeding on society's real embodiment, man and nature, and by its workings dictating both price and policy.

In trying to explain this economy, certain authors distinguished between terms whose meaning was derived from the formal use of the word 'economic', and other parallel terms whose meaning derived from the substantive use of the word.

For example, Thorstein Veblen writes:

"Progressively during the past quarter-century the process of economic life has suffered a measure of bi-furcation, amounting to something very like a dichotomy of the economic community and its work and interests. More and more the economic process has been falling apart into Business and Industry; so that in practical effect any given economist's analysis and canvassing of the data will almost perforce run to a conclusion within the confines of the one segment or the other;".

Other examples of such distinctions are Clark's "capital goods" and "capital", and Marx' "means of production" and "titles

to property", which were important to the understanding of these authors' ideas.

Indeed some writers tried to explain the workings of the price system by the use of substantive terms only- but these efforts were foredoomed to failure, for prices stemmed not from the substantive aspect of a good, its utility, (i.e. its ability to satisfy wants), but from its formal aspect, i.e. its role as a scarce factor to be allocated according to a certain principle.

For example, although water has a greater utility than diamonds, i.e. it will satisfy a more urgent want, yet the latter is consistently higher in price due to its greater scarcity.

However these substantive excursions could tell us little about the market economy. It seemed a sterile occupation to study the individual characteristics of market institutions if these were subordinated to the functioning of the market mechanism.

It was the formal terms which became the vehicle for economic analysis, for you could not explain the price system except by formal or catallactic reasoning.

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IV

Although formal economics could explain with great insight the workings of a market economy, the body of doctrine it produced was essentially time-bound.

Though this logical principle could be universally applied to any empirical economy, indeed, to any ~~empirical economy~~ human situation where scarcity, versatility and preference obtained, it could not explain the workings of that economy-other than for a self-regulating market system. For the human economy, by and large, consists of a set of processes whose purposes and rules of operation are deeply embedded in societal objectives generally, and where certain specifically "economic" institutions existed, there was no reason to assume them to be in any way interconnected into a system. Nor was there any reason to assume gain as the basic motive.

For example, the Trobriand Islanders of Western Melanesia have organized their system of ~~distribution~~⁺ on a sexual basis, i.e. family and kinship. The male must provide for his sister and her family by delivering the finest specimens of his crop which he will display both in his own garden and before the recipient's storehouse, thus earning the credit due to his fine gardening and good behaviour. But his own wife and children will be fed by others. Moreover a substantial part of this produce is delivered to the chief who keeps it in storage, to be distributed at feasts, gatherings, to distant neighbours etc, according to the rules of etiquette. However all these economic functions are absorbed in the operation of a set of conventions and non-economic motivations.

The economistic fallacy is a rampant danger to which we are

liable in the study of General Economic History, It consists ~~in~~ of extending ~~market~~ criteria of the market economy to all human economy, or , conversely, seeing no market forms, to declare that there is no economy.

An example of this fallacy, is to treat ~~that~~ catallactic triad of trade money and market~~s~~ as if they were always co-terminous- which they are in a market society. For here, given any one of these, we may assume that the other two cannot be far behind. For trade is, ^{only} accomplished via money as ⁱn indirect means, within the locus of the market.

But defined substantively, trade is a method of acquiring goods not available locally; money is a means of payment and in certain cases a standard of value, often fixed by the authorities; and a market is a meeting place for barter or for buying and selling;; and these have ^{historically} independent origins and functions.

For example, trade may be of three sorts, gift-countergift, administered or treaty trade, and market trade. Else, how could we with market terms account for phenomena such as the following:

"The requisite foreign materials- copper from Sinai, gold from Nubia, ebony, perfumes and spices from Arabia or Somaliland, lapis lazuli and other magic gems from Asia- were largely secured by expeditions dispatched by the state, manned by royal servants and led by government officials". (J.H. Breasted, A History of Egypt).

Or, "the Queen of Shaba gave Solomon 120 talents of gold, spices and precious stones". (I Kings 10)

Likewise we should find it very difficult to account for Pliny's story of the Roman emperors that, "L. Minutius Augurinus ... reduced the price of corn on three market days (and)...

T. Seius distributed corn to the people in his aedileship".
(The Natural History of Pliny) , Bostock and Riley, Vol.4 ch.4.)

A market lens limits and distorts our historical perspective. Indeed, any critical or comparative study of motives or institutions along historical, social or technical lines must be based on a consistent separation of substantive and formal terms, and we must be fully aware of the limited relevance of the latter.

The collapse of the market economy on a world scale was due to no random occurrence nor to erratic or eccentric behaviour on the part of certain classes or governments. Its roots lay deep within the nature of the market economy. For market economy implied that the elements of industry, labor land and money, were to have their fate determined as commodities on a supply-demand market. But the use or misuse of the commodity labor incidentally decrees the fate of its bearer, man; and the uses to which the commodity land is put, means concomitantly the fate of our rivers, landscapes, natural resources, and soil fertility. Likewise, the sporadic fluctuation of the money supply means the periodic choking of enterprise and industry.

The spontaneous mobilization of society in self-protection was the second great force in the development of the nineteenth century. And in the final struggle of classes and institutions, market civilization itself was engulfed, having simultaneously by its birth spawned the seeds of its own destruction.

Formal economic theory could only evoke such epithets as "rigidities", "approximations", "wilful stubbornness", or "short-sightedness", to account for this burgeoning of a society mobilizing for the preservation of its essential humanity. It remained for a Lord Keynes to legitimize the economic bastard of the '29 collapse by the demonstration of the theoretical possibility of underemployment equilibrium.

With the decline of the market economy, there has been a decline in the usefulness of market economics. Thus, with an increasing segment of economic activity taking place outside the jurisdiction of the market, we must revert back to the intrinsic content of economic processes and institutions, (i.e. substantive

12.

terms), if we are to comprehend economic events at all intelligently. Certain distinctions which we could afford to ignore when the market served as the great "leveller" must now be distinguished anew,

e.g. exporting countries and self-sufficient ones,

borrowing countries and lending ones,

those with varied exports and those with single products etc.

Moreover, only substantive terms such as "reciprocity" and "redistribution" can throw any light on such current phenomena as national unemployment and health insurance schemes, lend-lease, the E.R.P., the Fulbright foreign scholarship scheme, the T.V.A. etc. All along the line, as Wall Street gives way to Capitol Hill, the area of usefulness of catallactic terms diminishes.

For example, according to orthodox economic theory, it is ~~not~~ immaterial whether a territorial unit containing mines and factories lies on this or that side of the frontier. If it is on this side, the populations of other territorial units wishing to obtain coal or other manufactured products must send goods of equal value in exchange to the particular ^{nation or} other producer. But when relations between various economic units are restricted as a result of non-convertibility of their currencies and control of foreign trade, the argument loses its force. If the coal or iron mines are situated beyond the borders of a given unit, it will be obliged to exploit poorer mines within its borders, mines with a smaller output, and to consent to increased expenditures for equipment and labour. Thus, trade within economic units and trade between economic units become different in character.

As Veblen writes: "economic science should for its major incidence and with increasing singleness and clarity, be a science of business traffic, monographic, detailed, exacting, and imbued with a spirit of devotion to things as they are shaping themselves".

Such an approach will subsume a much larger class of phenomena, both ancient and modern if we remove the limitations of our investigations to subjects displaying market criteria. The propositions obtained, however will not necessarily hang together in a system as previously, for they will be distinctly individual propositions and generalizations. Moreover, economics will acquire a new neutrality which it did not possess previously, for theory and policy will now become two independent spheres of thought.

Moreover, with the decline both of the influence of the market, as well as the relevance of formal economic theory, new doors will be opened for the contact of economics with the other social sciences. Firstly, the change in economics from a branch of logic to an inductive social science similar to the other social sciences, and secondly, the supplanting of the old concept of "the economic man" (which was a valid concept for a market economy), will lead to a total view of man in society.

Today, and extending in most cases at least since 1939, all major countries of the world have had a major, or at least significant segment of their economies involved in the manufacture of armaments and other preparations for war. Likewise their political and diplomatic skills have been geared either to a prosecution of or a reaction to an impending threat of war. Nor does it seem that it will be less so in the near future.

We are faced with a situation of permanent preparedness.

In such a case it might be useful to characterize these economies as "military economies", recognizing all the while the significant hybrid of market elements present in countries such as the United States, Canada etc.

In their organization of the labor force, there are interesting analogies between the early development of the market economy and that of a segment of the military economy, the army, and where present, the forced labor camps. The army tears away millions of men from a communal, organic mode of life, and subjects them to a hierarchy organized with the sole imperative of collective action and performance. Early capitalism gave rise to a similar performance. Moreover if we leave aside pure soldiering for a moment and think of the labor camps and five year plans of Germany and Russia, the horrors of Dickensian England are left behind at a single burst.

The phrase "total war", points to the reintegration- indeed, mobilization- of the economy within general societal objectives, but focuses on the great danger of our time-- the subjection of all of society to the needs of military organization.

It would be a sorry thing indeed, if on the threshold of a new vision of freedom through the conscious direction of machine civilization, a wilful ~~technocracy~~ military technocracy were to supersede the old automatic behemoth.

veterans benefits: reciprocity cum redistribution?

implications of this re-embedding
Our message also re-embedding but of a different character.

Aug 4/51

OUTLINE OF THE ARGUMENT FOR A PROPOSED MASTER'S ESSAY ON
THE TWO MEANINGS OF "ECONOMIC".

The general theme of this paper is that the word "economic" has two distinctly separate meanings whose fusion in common parlance could once be ignored with impunity in reference to a market economy, but whose consistent separation is mandatory for a clear understanding of economic processes today, and for the avoidance of grave misconceptions in regard to the role of the human economy in society generally.

The substantive content of the word "economic" refers to man's attempt to provide the physical necessities and services required to maintain life, while what we call the formal or catallactic meaning refers to a logical method of dealing with scarce means.

The origin of existant confusion of these two meanings stems from the fact that in our particular market economy the process of man's satisfying his wants occurs in a way which can best be understood with reference to a logical principle of allocation of scarce means, namely that: 'No means shall be allocated to ends of a lesser grade than such ends as would in that manner remain unprovided for'.

The application of this logical principle to our economy has produced a discipline i.e. economic analysis, which explains quite well the workings of the system.

What, then is the nature of our economic system which makes this possible?

Perhaps the economic system can best be viewed as analogous to an engine or a machine.

Analogy to the workings of a machine system - Knight

This machine consists of a system of markets and it is harnessed to two sources of power which make its wheels turn, namely, the desire for gain of the entrepreneur and the fear of hunger of the worker. The machine's operations yield us the economic commodities and services we consume, complete with price tags attached. An important feature of this engine- as with many comparable mechanical ones- is the governor or the device which allows for self-regulation; i.e. if too many commodities are being produced, the inputs will be curtailed, while if too little is being produced, operations will automatically be speeded up.

The power without the engine (i.e. mere acts of exchange for the purpose of gain without a market) will not produce a price system, nor will the engine function automatically in the same way with a different means of power such as duty or status motives. The price system is the constitutive aspect of our economic system while the power and body of the engine, i.e. gain and a self-regulated market system we designate as institutional factors.

The price system ensures the performance of a second function in addition to that of production: the allocation of the product among the various input factors according to rule, namely, that no part of the value of the product shall be allocated to factors of a lesser degree of productivity than such others as would in that way remain unprovided for, or stated differently, just so much will be given to each unit of a factor as to cause the gain involved by having the last unit of the factor remain, equal to the loss of total dividend if that unit were to be withdrawn, in which case the total product will be exhausted and there will be no residuals. (cf. Euler's theorem).

The general formula for this engine we designate as "formal economics" or the logic of rational action in regard to scarce means while the blueprint of its actual workings we call "economic analysis".

II

Many authors such as Clark, Marx and Veblen distinguished between the catallactic or formal meaning of certain terms and their substantive connotations, e.g. Clark's distinction between "capital goods" and "capital", Marx' "means of production" and "titles to property", and Veblen's "industry" and "business" were parallel distinctions which were very important for an understanding of these authors' system of ideas.

In general though, it was the formal terms which became the vehicle for economic analysis, for you could not explain the price system except by formal or catallactic reasoning. Prices stemmed not from utility but from scarcity, i.e. not from any intrinsic property of the goods themselves, but from a certain relation they had to society as scarce means to be produced and allocated according to a certain logical formula. This formula could in fact be universally applied in regard to any empirical economy or for that matter to any human rational action where scarcity was involved, as long as the following conditions were present:

- (a) insufficiency or scarcity of means to achieve ends
- (b) versatility of uses
- (c) scales of preference of ends.

Only for the market economy could this formula produce a discipline or blueprint of its workings, for the market economy consisted in essence of a set of self-regulating mutually coordinated institutions commensurate with society itself, whereas the human economy in general presented no such inter-connected automatic device, but a set of processes whose general purposes and rules of operation were deeply embedded in societal objectives generally, and where certain economic institutions were present there was no

reason to assume them to be in any way inter-connected into a system.

Substantive terms, not being able to produce a comparable blueprint of the workings of the economy, were generally ignored for the more useful catallactic meaning. It seemed a sterile occupation to study the individual characteristics of market institutions if these were subordinated to the functioning of the market mechanism.

III

Today, with an increasing segment of economic activity taking place outside the jurisdiction of the market, we must revert back to the intrinsic content of economic processes and institutions, i.e. substantive terms, if we are to comprehend economic events at all intelligently. Certain distinctions which we could afford to ignore when the market served as the great "leveller" must now be distinguished anew, e.g. exporting countries and self-sufficient ones,

borrowing countries and lending ones,

those with varied exports and those with single products etc.

Moreover, only substantive terms such as "reciprocity" and redistribution can throw any light on such current phenomena as national unemployment and health insurance schemes, lend-lease, the E.R.P., the Fulbright foreign scholarship scheme, the T.V.A. etc. All along the line, as Wall Street gives way to Capitol Hill, the area of usefulness of catallactic terms diminishes.

Secondly, in the area of economic history, we are coming to realize, that seminal thinking must be based on a consistent separation of substantive and catallactic terms, for example, we can no longer treat the old catallactic triad of trade, money and markets as co-terminous, for these three institutions have historically independent origins and functions. Moreover, only with substantive terminology can we succeed in avoiding the economistic fallacy, i.e. extending

5.

criteria of the market economy to all human economy, or conversely seeing no market forms, to declare that there is no economy. Indeed, any critical or comparative study of economic institutions along historical, social or technical lines must avoid the use of catallactic terms, if the results are to be at all productive. Substantive terms are required to deal with economic motives and institutions.

Only such a new approach in economic history will give us true insights into the character of our times, namely that man is not a commodity and was not meant to be crucified on a cross of gold, that nature is not for sale, and that society is not a market. Finally, economic policy must once and for all be rid of the ^{that} paralyzing bogey, the sole condition of freedom is a free market.

For the clarification of problems such as these, only a substantive approach will remove the catallactic blinders from our eyes and enhance our vision of the true role of ^{the} economy in society.

Abraham Hotstein

NOTES OF INTERVIEW WITH K. POLANYI
JUNE 28, 1951

THE TWO MEANINGS OF "ECONOMIC"

Schmoller and Menger confused the controversy.

On Weber, see Gerth Mills and the Parsons volume. Weber discusses Neurath who in 1915 had a typical substantive approach. Before Neurath there was Ballod who had a statistical approach to reckoning in kind, and Engel who dealt with statistics and the value of life (expectancy?, ~~insurance?~~) on Ricardian foundations.

There are three kinds of substantive approach, ecology, technology and institutions.

In ecology there is Forde, Evans-Pritchard, Neuer and Ritter in geophysics, the most eminent of the human ecologists. There is also Barnes and Barnes on human ecology, but this is sociological. We mean the land, sea, flora, economic ecology.

In technology there is the tools, taken up by Marxism.

The institutional has arisen since Veblen. Veblen made the distinction because of his historical approach. It is not sufficiently substantive. The Great Transformation deals with the substantive economy only in its institutional aspects. It takes technology and ecology as given.

The economy is a more or less recurrent process in society which we can't explain. What we try to show is the economic process in a definite society. The answer as to what is society in general, is a sociological problem.

The economic process is a result of all orders, political, religious, and cultural. Wants and needs are culturally defined. Also technology. To compare economic institutions in different times and places is the only way to get results.

Economics actually started with the substantive idea and only very late did a new concept start, the formal, and people forgot about the substantive. But it still exists in the institutions ecology and technology.

Only under a market can you completely forget about the other aspects. Everything becomes a commodity at a definite price. Actually with the check book you can disregard climate and continent. There is no ecological limitation and it does away with the specificity of trade (transportation...). The other meaning got lost because there is no need for it.

Economic theory is not irrelevant but pretty good, although it doesn't fit the facts completely. The institutionalist critique is that the market economy is a substantive economy. It is impatient, but supply, demand and prices actually direct markets. We could quite easily forget about duplication.

Marx is very insistent on the substantive, on real human beings. Businessmen's terms are only abstractions. This is broken by his Ricardianism which leads to a labor theory of value that is metaphysical. Labor is always thought of as an invisible abstraction. It assumes labor is a value-giving process and this congealed value is crystallized and that's the form in which labour passes into the commodity.

We think it is pure metaphysics because of natural science methods.

Other substantive fields are being worked on, duplication in rent theory, diminishing returns (Schultz, J.B. Clark, Dist. of W.(?)) size and organization of the firm - purely substantive but has its formal theory. Also the optimum use of labor is substantive but has a formal theory (Elton Mayo). The size of the firm is being worked on, by E.A.G. Robinson. These are all substantive problems but are being treated entirely formally. The actual physical man and factory has disappeared.

I should show that the substantive features disappear in the market.

Today there is no market. If there is an issue in China, Washington sends a cruiser. Thus the substantive features become important. There is no freight and insurance market, safety transportation etc. Also there is redistribution (The Marshall Plan).

The task is to explain prices around which everything is geared. One of the prices is income.

You can't compare the savage with the man who makes the theory. 'Scarce' means the operation of a price system. The things which are not scarce have no price.

Nov. 12/64

Summary of a lecture by
Talcott Parsons, University of
Toronto, Nov. 10, 1964

Title: The Concept of a Society

(The following summary is written
from memory and is not
intended to be comprehensive)

In the shift today to
what we may call (a bit
facetiously) "macro-sociology"
two main interests are present:

1. a renewed interest in a
concept of society as an
evolutionary system
2. a new interest that extends
to a systematic approach to

"inter-societal systems".

If we start with the Aristotelian concept of self-sufficiency in reference to a (self-contained?) society, five criteria may be specified:

1. maintenance of territorial control (sovereignty, national borders)
2. Control of economic productivity

[I believe T.P. means the economic process]

including the relative security of expectations within the society and with reference to foreign trade

3. Control of Population - growth of population as well as

3.
the composition of population,
socialization, the family, & education.

4. The Mode of Cultural
legitimation - referring to
the core of values and
norms in the Max Weber sense
5. Collective identification or
solidarity.

While primitive society
may exhibit complex
characteristics in such things
as the kinship system, evolution
is identified with a process
of differentiation. Among

there is the differentiation
of money and markets,
~~which~~ In a primitive society
the economy is embedded in
society.

Inter-societal systems
may emerge in various
ways. (Example of Europe
in the 18th century,
referring to the rise of
new states, shifting alliances
and diplomacy. - special
reference to Russia).

Inter-societal systems
may encompass societies

of different social and economic systems.

[My impression from a seminar with T.P. the following day was that the main interest could be paraphrased as a sociology of international relations - ~~but~~ not in a global, but a regional sense]

A.R.

Outline - CHAPTER III - REDISTRIBUTION

1. Brief introduction to the economy

(a) redistribution describes the economy of the state sphere centered on the palace - also includes external trade.

(b) the non-state sphere is discussed in
chap. 4 - reciprocity (incl. cooperation, rotation)
chap. 5 - exchange institutions
i.e. markets
chap. 6 - wealth and the compound

2. The Palace Economy

(a) no division possible between the economic functions and revenues of palace and state

(b) the Annual Customs

(c) The palace household and palace revenues

(d) Taxes

3. Economic Planning

(a) The census

(b) agricultural policy and conservation

(c) supervision and setting certain equivalencies

4. State Bureaucracy and local autonomy