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THE INTERPLAY OF CAPITALISM AND SOCIALISM IN THE AMERICAN ECONOMY*

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BY SOCIALISM I mean the historical movement of protest against economic disorder and social injustice in capitalism.¹ A discussion of its role in the United States divides logically into two parts: in the first place, why there was not, and is not, in this country socialism in its typical form; and secondly, what then has

* AUTHOR'S NOTE—I wish to dedicate this essay to the memory of my dear friend Siegfried Marcé. It is based on a lecture first presented in the Universities of Hamburg and Bonn and later, in the present revised form, in the General Seminar of the New School's Graduate Faculty. It is here published by agreement with J. C. R. Mohr (Paul Siebeck) in Tübingen, who is simultaneously publishing the German version, "Was Amerika aus dem Sozialismus gemacht hat," in the *Hamburger Jahrbuch für Wirtschafts- und Gesellschaftspolitik*, vol. 2 (1957).

¹The confusion in the use of the words economic system, socialism, and the like, to which the present writer has contributed his full share, may lead the reader to expect something very different from the discussion here presented. A pure, uniform economic system based on one sole principle of organization cannot be imagined even in theory, far less exist in reality, and at any rate every capitalist market economy must rest on a more or less extended public economy of quite different structure and must be limited and supplemented by it. This fundamental dualism of economic principles within one body economic has been explored in all directions by Hans Ritschl; his books are rich in ideas and also vigorous in polemical defense. Public economy is now the institutional definition of socialism, and the TVA in the United States is just as bitterly decried as socialism as were the railroads in Bismarck's Germany. It would be a rewarding task to describe the interplay in the American economy of "capitalism" and "socialism" in the sense of institutions of market economy and public economy, for the public sector on federal, state, and municipal levels is really very significant, far more than is usually assumed; moreover, such an analysis would focus attention on unique American achievements (for example, the eighty or so national and state parks, often of very large dimensions, have withheld the most scenic places of the country from commercial exploitation and, particularly in the Western states, have created model arrangements for the enjoyment and recreation of the less well-to-do). But an analysis of "capitalism" and "socialism" in this sense is entirely outside the purposes of the present discussion.

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become of the movement of protest, on the one hand, and of capitalism, on the other hand. The conventional assumption that socialism simply evaporated in the American climate is as fallacious as the opposite political slogan of creeping socialism in the United States. To anticipate the result of the present analysis: two mighty rivers unite for still greater power in their common course, but their waters remain distinguishable by color and speed far down the river bed.

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The general reason for the United States' deviation from the typical European course of events is the absence of feudal tradition, still more generally, the absence of a closed society.² This country entered life as a bourgeois society (despite the well known qualification concerning the South). Hence standards of rank in society are unknown, most of all standards concerning what befits the lower classes. If in England twenty years ago a highly educated and sensitive person like Virginia Woolf could lament that cultured life becomes impossible if the servants no longer know their places (the same expression that the American South uses in speaking of the Negroes), such a sentiment is alien to bourgeois America. There may indeed be a thousand capitalistic interests in holding the wage level down, but nothing in the fundamental structure of the country prevents a rise of wages when it is technically possible. In the feudalistic atmosphere of Europe, Malthus, Ricardo, and Marx summoned up all their

² The present phase of American business life is discussed, with many interesting details, by Adolf A. Berle, Jr., *The 20th Century Capitalist Revolution* (New York 1954); John Maurice Clark, *The Ethical Basis of Economic Freedom*, two lectures published by the Kazanjian Economics Foundation (Westport, Conn., 1957); Peter F. Drucker, *The Concept of the Corporation*, an analysis of General Motors (New York 1946); J. Kenneth Galbraith, *American Capitalism, The Concept of Countervailing Power* (Boston 1952); George W. Storking and Myron W. Watkins, *Monopoly and Free Enterprise*, Twentieth Century Fund (New York 1951). See also my contributions to the periodical *Kyklos*, 1956, no. 4, and 1957, no. 1.

³ Edgar Salin, "Industrielle Revolution," in *Kyklos* (1956) pp. 299 ff., draws the same distinction between the United States and Europe.

acumen to make special peculiarities of the labor market responsible for the lag of wages behind rising productivity and for the ensuing increase of profit; that wages lag appeared natural to them. The opposite appeared natural to the American Carey (and incidentally to Adam Smith, the herald of economic harmony).

The vastness and emptiness of the country prevented the freezing of the social stratification. One may put this factor in the first place; Marx and Sombart have done so, Marx in order to explain the possibility of evading exploitation, Sombart to explain the failure of proletarian socialism in the United States.⁴ But then it would be consistent to suspect that the closing of the frontier, the exhaustion of the land supply, must produce a new feudality, while in reality the frontier spirit of adventure continues to keep society open.

In the same context must we understand the absence of those moral and aesthetic inhibitions to the pursuit of efficiency which are peculiar to feudalism. The pursuit of efficiency as a supreme good demands ever renewed experimenting and organizing, directing and redirecting of people on the basis of business accounting that is, a maximum of physical and mental mobility combined with exclusive concentration of all energy on the one point. Scientific orientation and rationalization are important elements in the rise of the bourgeoisie; feudalism cannot stand up to them, because it attributes its own existence to religious sanction. Bourgeois America is not only free of such inhibitions but is confirmed in its attitude by a different set of religious principles.

Hence it is only here that bourgeois capitalism found a really free development, that its achievement could unfold in full. Only here have the economic laws become, to a certain extent, the laws of social development; only here has the liberal promise of rising prosperity for all been put to the test of verification. The

⁴In general theory Franz Oppenheimer, in many books published during the first three decades of this century, presented the proposition that a free-market economy without an open frontier produces the class society known as capitalism, while a free-market economy in combination with an open frontier produces the "community of the free and equal," in which wages can rise indefinitely.

unmistakable result is that reality has exceeded the promise. Poverty has been conquered, as a matter of principle; there is no tenable economic reason for its continuance in the "economy of abundance," while it obviously was unavoidable in the "economy of scarcity" of the past. The unique achievement of the United States in world history consists in having unlocked the sources and awakened the forces that made an economy of abundance of the economy of scarcity. In the perspective of world history, which may be too quietistic, one may perhaps say that in so far as there are still pockets of poverty, these are natural in view of the unavoidable unevenness of such a rapid transformation; and they, too, will be drawn into the further upward trend. But it is more important to state that such a persistence of poverty is usually caused not by economic but by sociological factors, in the first place by local tendencies in racial relations. The Negroes are America's proletarians—but obviously this is not an economic proposition.

Schumpeter's well known prognosis of the capitalist future, from 1942, started from the figures of 1928, the year before the big crash, that is, the top point reached until then. From 1870 to 1928 the production of consumption goods showed an average rise of 2 percent a year, compounded—interruptions through depressions notwithstanding (J. M. Clark, in his *Ethical Basis of Economic Freedom*, uses the same rate of growth). By projecting this rate of growth from 1928 through the next fifty years, and assuming at the same time that in this period the population rises by one-third, from 120 to 160 million, Schumpeter found that the average real income per head would be doubled after the fifty years. But if we confront this prognosis with the figures of the real development to 1955-56, we find that the per capita share of consumption income has increased by almost 60 percent during these 27 years, although the formidable shrinkage of the 1930s is taken into account, and although the population figure, the divisor, has risen much more rapidly than Schumpeter assumed, in that it had already reached 165 million in 1956 instead

of only 160 million in 1978. For a full appreciation of the figures we must further take it into consideration that, roughly speaking, production would have grown correspondingly more if it had not been for the simultaneous radical shortening of the work week. And, finally, the improvement of the qualities of cheap commodities eludes any statistical estimate but adds a further weighty increment to economic welfare.

The figures are astonishing not only in themselves; they are still more remarkable in view of the conviction held by both liberalism and Marxism that monopoly is a fetter on productivity. The overwhelming weight of giant enterprises in the incredibly productive American economy is indisputable. The theory, however, asserts that productivity is promoted only by competition and is hamstrung by monopoly, because the latter draws its profits with impunity from the exploitation of the consumers abandoned to it. From this argument the liberals inferred that the thing to do is to prohibit or break up the monopolies; the Marxists inferred that it is the proletarians alone who can save productivity from monopoly capitalism and hence they must seize power. All this is obsolete in the presence of the figures. Almost fifty years ago Schumpeter pointed out that progress is systematized and individualized in the big enterprises, and that it is, of course, the strongest enterprises which support the largest and best laboratories. One can go beyond this and maintain quite generally that the contrasts between monopoly and competition on the one hand, and between static and dynamic mentality on the other hand, do not coincide at all, that there has always been, and is today, static competition, and that this is the age of dynamic monopolies.⁵ Unless the indications are completely misleading, productivity is rising more rapidly today than ever before—and what about the course it will take when automation is applied more generally?

Now the above figures are averages—an always hazardous cate-

⁵ See Eduard Heimann, *Wirtschaftssysteme und Gesellschaftssysteme* (Tübingen 1954) p. 22.

gory. They do not say that welfare increases in point of fact, but only that there is room for it to increase. Within this room everything depends on distribution. But here a mere theoretical consideration may put us at ease, to a certain extent. It is hardly possible to imagine economic conditions in which, in a unified society as distinguished from the world market, the top of the pyramid of incomes rises alone without affecting the basis, thus making the pyramid higher and narrower. When profits accrue at the top they can be employed only for the purchase of more commodities and services, or for additional investment goods, in both cases causing the demand for labor to rise, that is, causing the new profits to flow down the sides of the pyramid. The result will be that the pyramid is restored to its former shape, but its place has moved upward. The relative positions of the different strata remain unchanged, but the absolute amounts of incomes are larger for each, because the increment is redistributed from the top down, more or less proportionately. Thereby, however, the situation is decisively changed. When total income is stationary, one group can gain only at the expense of others, and all attention concentrates on the battle for the shares, which jeopardizes the cohesion of society. Contrariwise, when the total is steadily rising, without sociologically fixed walls between compartments, all are gaining, and attention shifts from the comparison of one's own income with that of others to the progress from last year through this year to next year. And this, in point of fact, is the liberal promise, except that it materializes precisely under monopoly.

The proposition of unchanged relative income distribution within a growing total has been established by Pareto; he used doubtful statistical methods, but the proposition is independent of those methods and perfectly plausible in itself. Hence it is a kind of statistical sensation that, in opposition to the Marxist theory of "relatively increasing misery" and the Paretian theory of stable relative income distribution, Simon Kuznets, the greatest living authority in this field, recently demonstrated that income

differences have shrunk over the last years and decades.⁶ And this is true even of gross incomes, that is, before progressive taxes further reduce the distances. Kuznets found that in the United States the wealthiest 20 percent received 55 percent of total incomes in 1929, that is, before the crash, but that in the average of the years 1944, 1946, 1947, and 1950 their share had shrunk to 44 percent (to repeat: before income taxes); the share of the wealthiest 5 percent was reduced from 31 to 20 percent. Still more interesting are the figures for the United Kingdom, because they go much farther back. The wealthiest 5 percent received no less than 43 percent of the total in 1880, the wealthiest 5 percent of 1947 only 24 percent. The German figures are not well marked, and one may perhaps suspect that they tend rather the other way, even recently. But the figures for the United States and England are so striking that even a technical critique of details is not likely to make a substantial difference in the result. Incomes rise and differences of incomes diminish.⁷

The second main target of socialist criticism has been, for many years, the disorder and insecurity in capitalism, the constant menace of unemployment, which destroys any plan for the future of the person and the family. But here, too, a fundamental change has taken place. As early as 1910 the best of the Marxist economists, Rudolf Hilferding, refuted (in *Das Finanzkapital*, p. 295) the Marxist theory of the necessary collapse of capitalism in the economic crisis. According to Hilferding, to avoid the crisis nothing is required but that the business community recognize the competitive search for short-term profit as too dangerous, because it would plunge them all into the crisis. As they would

⁶ Simon Kuznets, "Economic Growth and Income Inequality," in *American Economic Review*, vol. 45 (March 1955) p. 4.

⁷ Moreover, Siegfried Landshut, "Die Gegenwart im Lichte der Marxschen Lehre," in *Hamburger Jahrbuch für Wirtschafts- und Gesellschaftspolitik*, vol. 1 (1956), is very right in maintaining that the per capita income of the gainfully employed is less important for the people's livelihood than the total income per household, to which surely more members contribute today than fifty or a hundred years ago, although figures are not available. This consideration reinforces the above argument on the unification of the pattern of life.

learn if they experienced the crisis, their long-range business interest in the stabilization of the system, that is, of their ruling position, requires that they establish the correct proportion between their total investments and the total purchasing power for consumption goods paid out by them in the form of wages; they would learn that this requirement rests not on moral but on purely business reasons. Marx had assumed that the "proletarians" alone can understand the necessity of long-range concerted action for industrial stabilization, because their class interest foists solidarity upon them and no private property interests separate them from one another; according to Hilferding's theory and the experience of all countries in the last decades, no such proletarian monopoly exists. In general theory one can say that if "maximization of profits" is the maxim of business policy, the brevity or length of the period for the figuring of the maximum remains undecided, and thus that long-range rationality fits in perfectly.⁵

Translated from theory into American practice, this means once more that the pragmatic mind of the country removes inhibitions if in the era of long-range investments "good business" requires considerations of long-range market tendencies. When the Roosevelt administration came to power in the crisis-shaken country, in 1933, it proclaimed that democratic cooperation was now called upon to deliver the goods in competition with Soviet coercion. A short time later the Republican industrialist, Paul Hoffman, founded the Committee for Economic Development, which was soon joined by several million businessmen, for the promotion of long-range business policy in a framework agreed upon by them, if possible without governmental interference; and here, too, the Russian alternative was explicitly referred to. Especially in the transition from the war economy to the peace economy the Committee rendered important services. The responsibility of democracy, and that is of the business community as well as the government, for stability and full employment has thus been

⁵ See Eduard Heimann, *Vernunftglaube und Religion in der modernen Gesellschaft* (Tübingen 1935) Chapter 5.

recognized, and was explicitly confirmed by the Eisenhower administration as it declared its readiness to stop any emerging danger with all available means of tax and budget policy.

In the context of business-cycle policy, wages assume decisive importance: insufficient purchasing power because of insufficient wages would cause a crisis, as profits would not be used for consumption. But even without any problems of business cycles, it is obvious that mass production, the great democratic contribution of American industry, demands mass consumption: low wages can be justified only in times of capital shortage. In the sociologically uncumbered American economy, with its wealth of capital, wages have long since shown a rising tendency, and nobody doubts this necessity in principle, in view of mass production, even though the wage and cost level of the individual industry always remains, of course, a bone of contention; the atmosphere of democracy, with its trust and joy in growth, is propitious to wage demands. Truck drivers occasionally make more money than professors (we can only wish that our work were always as reliable and useful as theirs), steel workers make \$5000 to \$6000, automobile workers a little less; and in addition, social insurance serves as a cushion of purchasing power in case of danger. Henry Ford has coined the slogan that all this is "good business," or, in academic jargon, rational in an economic society free of feudalistic notions.

The same phrase of approval is not applicable without hesitation to the very far-reaching change occurring in the atmosphere of the industrial plant and shop as it becomes clear that the degree of efficiency is not influenced by external conditions alone but also by emotions and experiences of private life, such as marriage, family, and religion. Light, ventilation, and noise are undoubtedly among the responsibilities of the plant, and the forms of wage payments, naturally, are principal elements in the employment contract. But how far the sponsorship of management should go in psychological advice, the cure of souls, is an altogether different question. One can say that in such attempts a

new tendency toward feudalization steals surreptitiously into American society, starting from the consideration that man is always a whole and that hence the plant's efficiency can be increased by entirely absorbing and disciplining him—until finally the illicit meddling produces the opposite. Anyway, this development has veered 180 degrees within the last fifty years, from the attempt of the system named for the engineer Taylor, which divided man into his individual limbs and ascertained for each of them separately the optimal motion in mechanical work, to the production of "peace of mind" as a kind of lubricant. Clearly, the limit of the legitimate science of labor is reached at some point on this road, where respect for the integrity of the person commands a stop.

One cannot be grateful enough, however, for the positive achievements of the science of labor, industrial psychology and sociology, and their application to industrial relations. They have moved what used to be abandoned to the arbitrary rule of managers and foremen into the light of reason, and have thereby decisively changed the technical and moral conditions of labor. Morally everything depends on whether the conditions are imposed from above, without appeal, or are obtained with the cooperation and approval of the highly qualified experts of the unions, who find them logical in the framework of the production program. Hence this moral change is at the same time a change of the constitutional set-up in the plant. Under the old dispensation of anonymous market relations, labor, like any other merchandise, belonged to the buyer to use it at will—a relation of dominance in disguise, as defined by Marx and elaborated by Karl Renner and Hugo Sinzheimer. Under the new regime the production process is organized by both sides in partnership, and is watched by the representatives of labor. This is a new principle: the exemption of labor from the market in the strict sense of the word.

Some of the innovations may be listed here. A formerly contentious point, job evaluation, the ascertaining of the correct place

of the individual job in the structure of responsibilities and corresponding wage claims, has been removed from dispute, the experts and engineers of the two sides taking care of it in mutual agreement. Piece wages, long praised by employers as a stimulus and suspected by workers as a means of wage pressure for any work not exceeding the average, have likewise been removed from the sphere of dominance and the atmosphere of battle. In addition, the opinion seems to be gaining ground that the concentration of attention on the hour-by-hour reward impairs the quality of performance in the longer run, and that it is more efficacious and more dignified to pay a decent time wage for a decent performance and leave stimulation to the natural instinct for such a decent performance. Wage rises and promotion to higher functions take place no longer on the basis of personal favor but on the basis of age, seniority, and the like, in accordance with rules carefully worked out by both sides. Some enterprises experiment to their great satisfaction with "utility men" and "relief men" who substitute for the worker in case of indisposition, or permit him to leave his job for a few minutes of rest, a snack, a coffee break, so the process of work goes on but the worker is not tied to the machine but can move about freely. Old-age pensions have long been demanded by the unions, to be accumulated from annual payments by industry during the man's active years, as a machine is written off in annual rates. A trained mind naturally understands that, since the payments are a charge to industry from the man's employment, they are nothing but a part of the wage in a special form; without them the proper wage could be correspondingly higher, precisely as in the case of the contributions to social insurance. But it is remarkable that the payments, coming as they do from the firms alone, go to a fund administered by the unions alone. Finally, the machinery for conciliation and arbitration is highly developed in the framework of collective labor contracts. A well known example is the structure of lower and higher boards of conciliation in the River Rouge plant of the Ford works, which employs 80,000 workers and had earlier

been a seat of constant unrest; should all attempts at conciliation fail, the Dean of the Law School of Yale University pronounces a binding award.

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After all this, the conclusion seems to suggest itself that American capitalism has stolen the show from socialism, because disorder and injustice are being cured and nothing will remain to protest against. As ingenious a thinker as Professor Adolf Berle seems to imply this when he speaks of the "twentieth-century capitalist revolution" in the title of his recent book—as if a ruling system ever would or could make a revolution against itself. How is one to understand this? In point of fact, the possibilities of a bourgeois order free of feudalistic inhibitions have been realized only by democracy, under the pressure of labor. Lujo Brentano in 1872 undertook to prove that the pressure of the "guilds of labor of the present" would integrate the workers into bourgeois society. It is more correct to say that the conflict between capitalism and socialism has been overarched and settled by democracy—a true synthesis in the Hegelian mode of thought. Just as Soviet Russia cannot be thought of, either in the positive or in the negative, and either in theory or in reality, without the model of Western capitalism—the antithesis of the thesis—so American democracy cannot be thought of without the Soviet menace; this was explicitly attested by Franklin Roosevelt and Paul Hoffman in the decisive moment. In other words, capitalism and labor could not be reconciled without both of them changing.

The technical form in which labor was integrated into the new structure has been described by Galbraith as "countervailing

^a The present state and tendencies of labor-union policy and industrial relations are reviewed in a comprehensive survey in the first part of the monumental work by André Philip, *Démocratie industrielle* (Paris 1955). The systematic idea of my presentation is worked out in my book, *Soziale Theorie des Kapitalismus, Theorie der Sozialpolitik* (Tübingen 1929), which is antiquated in historical details. See also Selig Perlman, *A Theory of the Labor Movement* (New York 1928).

power." This is by no means limited to labor but is applicable anywhere between seller and buyer, between raw material and processing, between farming and wholesale trade, between successive stages of production, and the like. It all depends on opposing to the power on one side of the market an equally strong power on the other side: one monopoly or monopoly-like bargainer to the other. What then results is a peculiar equilibrium between them, not unlike the directly opposite equilibrium in free competition—in so far as we focus attention on the proportion of power between the partners. The decisive difference between monopoly and competition lies in the fact that competition lowers price to cost; but equilibrium between the powerful may very well raise wage cost on the one hand and prices on the other hand, at the expense of final consumers—leaving open indeed the question whether it is precisely the large-scale production characteristic of monopoly which reduces cost and even price in favor of consumers below the competitive level, in case the particular industry permits of organization in small competing units at all. At any rate, the power of the sellers in the labor market is formidable in many industries: the steel workers' union counts 1.2 million members and disposes of many millions of dollars; the still more numerous automobile workers amassed within a short time, and more or less secretly, a special strike fund of 25 million dollars for the battle for the "guaranteed wage."

Thus the principle of the political-social structure of American democracy—the separation of complementary powers depending on and checking one another—has been enriched by a new and significant application: besides legislative and executive power, federal, state, and municipal government, free enterprise and government intervention, there is now the pair big business and big labor (big agriculture is a third link). It is important to keep in mind that the initiative for this enrichment and completion in rapidly changing circumstances lay with democracy, not with labor. To repeat, before the 1930s the power of labor was indeed existent, but only as a menace; it was not organized in

the heavy industries (apart from a few scattered and weak craft unions among the huge numbers of semiskilled workers). Not until the Roosevelt administration was it given a legal form and function (Section 7 of the National Industrial Recovery Act) and invited to organize in order to take possession of the new form, thereby creating its countervailing power—a unique event, without parallel anywhere else in the Western world.

There had long been powerful labor unions in the old industries—printing, textile, garment, and building trades—but they did not properly represent countervailing power, because their opponents most often were medium-size and small shops rather than a concentrated economic power. It was precisely for this reason that the organizations of labor gained a foothold in these fields relatively early, while they remained forcibly suppressed in the powerful enterprises of modern big industry right into the 1930s. It is the old unions of the old splintered-up industries in which American labor had its first experience and developed its ideas. Relatively early, too, it found its Brentano in Professor Selig Perlman, who in 1928 with astonishing sagacity summarized those experiences and aspirations in a "theory of the labor movement"; this program has been faithfully followed ever since by the old unions as well as the new, at that time not yet born.

In the center of the program stands the unions' "control of the jobs," which is approximately synonymous with ownership in the jobs: an exclusive control of labor conditions, hiring and firing, and the like by the unions' representatives in the shops. There can of course be no union control of the job unless capital equipment and management are organized differently; in other words, management and capital risk are left to the entrepreneurs. Labor property and capital property are inextricably interlocked, like legislative and executive power; neither can exist without the other.

The system thus presents itself as a partnership, as a kind of sharing of ownership rights, as industrial solidarity, where the responsibility on the labor side consists in guaranteeing the

dependability of the work done and, to this end, exerting a rigorous supervision over the members assigned to the jobs. The corresponding rights and practical gains of labor were presented above. And it has already been pointed out too that the community of interests not only means quality and volume of output but easily degenerates into an alliance for the exploitation of consumers. It has correctly been said that the development of the currency value is determined not so much by Federal Reserve policy as by the wage deals in the leading industries—a formidable power of which its holders are hardly aware, and thus their responsibility for the monetary effects of their decisions does not always enter their consciousness. The well intended warning that inflation would deprive the workers of their gains in wages is untenable in such generality. The members of a strong industry may raise their wages before other prices rise proportionately, and thus enjoy an intermediate gain; the devil takes only the hindmost, the members of weak industries and the unorganized and unorganizable. This is the gloomy reverse side of the system of countervailing power, that is, of industrial solidarity.

Even so, industrial solidarity need not of necessity be a breach of class solidarity. That it is is the usual assumption because it is plausible to say that, since profits obviously continue to exist, wages can rise only at the expense of other workers and consumers—the above case. But this is true without qualification only within an unchanged total. In the reality of the general upward movement one can imagine that the wage rise in one industry draws other industries into the movement, with the result that the total increment of goods is absorbed by wage movements, not evenly and simultaneously, it is true, but still relatively rapidly, in one "round" of wage movements everywhere. The fact that the big unions occasionally aver this in order to prove the high morality of their policy does not settle the issue, of course; but they may be right, to a certain extent. In the dynamic economy all propositions familiar from the static economy need reexamining.

Nevertheless it is true that the concept of solidarity that prevails in European labor is tied to the class structure of European society and loses this prop as that structure turns out to belong not to capitalism as such but only within a feudalistic tradition and atmosphere. Class means something fixed, unchangeable, hereditary, and class solidarity is the solidarity of the disinherited. In this country the cultivation of "brotherhood" in the unions is highly developed. But all experience teaches the worker that he need not feel disinherited, that his style of life, though perhaps narrower, is not essentially different from that of other persons and groups, and that he will soon be able to afford what he still lacks. The roofs of the apartment houses in the poorer sections of the cities are being covered with television masts, and the parking spaces around the big factories are immense. This does not mean at all that the battle of warring interests has been softened. The air of the country—precisely because of the absence of an original, however hierarchically structured, unity—is of an astonishing recklessness and full of noise, exaggerations, and avarice in public propaganda and advertising. But since the opinion prevails that by robust aggressiveness one can get somewhere, there is no possible basis for class sentiment and solidarity. (An only apparent exception is that of populous groups of immigrants in the major cities; their members are too old and too unversatile to overcome the inhibitions of language and imported mentality, but the second generation is commonly assimilated, first of all by the public school, and estranged from the tradition of its parents.)

It is only in this context that the position of the union leaders in the unions themselves can be correctly appraised. A European reader is shocked when he learns that a number of them have salaries of \$20,000 or \$30,000, that two receive \$50,000, one \$60,000, several with employment contracts for life; that all receive in addition liberal payments for expenses incurred for the transportation due their rank and for accommodation in the best hotels on business trips. Obviously business mentality has here

completely superseded any class mentality. Not only do the labor leaders take what they can get—and they take it from the workers' union dues—but the workers themselves find this perfectly all right if, on the other hand, their union leader brings them enough wage and other improvements. His successes do not at all depend on his class mentality but altogether on his skill as a negotiator. His chances, however, are strengthened if he can meet the entrepreneurs on a socially equal footing, power to power, so they cannot have the feeling of impressing him personally. These facts are well known, and have effectively been described by Mills. They are completed by general observations concerning the lack of democratic control over the leadership in most unions, not to speak of class solidarity: the business atmosphere of the country has engulfed the unions. There are exceptions, most conspicuous among whom is the best known of the labor leaders, Walter Reuther; he continues to cherish principle and has, as a symbol of it, consistently refused to accept the increase of his salary beyond \$15,000 which his union, the automobile workers, deems desirable for its prestige among the other unions. In the second and third ranks there are many persons of real modesty and readiness to sacrifice.

The wage policy of the unions differs from that customary in Europe particularly in establishing a direct connection between the wage and the increase of productivity. This is problematic in itself, because the firm's ability to pay depends on its profitability, which need not coincide with its productivity: either of the two can exist without the other. In the great depression production shrank but productivity increased, with the result that costs and prices in terms of the new higher value of money could also decrease. But in general, without crisis, prices remain stable when productivity rises; this seems to be the premise underlying the demand that wages must rise in order that the workers can share in the fruits of rising productivity.

Such a rising wage scale was first offered the workers in a contract with General Motors, in the form of a 2.5 percent increase

each year of the duration of the contract, regardless of the indices of productivity or production (though a connection between wages and the living-cost index exists, of course). Since productivity obviously does not rise by the same rate every year, but irregularly, the contractual rate of annual wage rise must correspond to the hypothetical average of the rise of productivity through a number of years. What is implied is that it is the firm's duty to increase productivity and thereby make a wage rise possible; should the firm fail this duty it deserves to get squeezed. Discussion in the unions seems merciless in drawing this conclusion; a less progressive enterprise should not be permitted to survive. Hence the demand for one wage rate in one industry throughout the country. This is a far cry from the original Marxist doctrine that the workers in the age of monopoly capitalism must "take over" industry in order to save it from the paralysis of progress.¹⁹

In the same context we also have the demand for the "guaranteed annual wage," which was asserted by the automobile workers in 1955. To be sure, what was attained is neither a guaranteed nor a strictly annual wage, for the industry engaged itself to pay dismissed workers only up to 65 percent of their wage for the remainder of the year, and in several states there are legal obstacles, as the unemployment compensation that is supposed to contribute the last third is not in force so long as the employer pays an indemnity. Evidently the expectation is that such obstacles will be removed by legislative action. But then the real economic problem arises: how far can industry undergo any partial commitment of this kind unless it reserves to itself the right to employ the worker in a different job and possibly in a different place, depending on such factors as changing directions of demand or technical innovations or changing advantages of industrial location? Stabilization of wages requires

¹⁹ For the problem of a productivity-oriented wage policy see Frieda Wunderlich, "Bemerkungen zur amerikanischen Produktivität," in *IFO Studien*, vol. 2, no. 1 (1956), and Elisabeth Liefmann-Keil, "Produktivitätsorientierte Lohnpolitik," in *Weltwirtschaftliches Archiv*, vol. 76, no. 2 (1956).

stabilization of employment, and this, in a time of extreme economic dynamics, seems to be possible only through the highest degree of mobility in the utilization of labor. After all this is said, however, the sensation that the innovation produced internationally seems only the more justified. For all its grave unresolved problems, the new measure recognizes the principle of industry's responsibility for the economic existence of its employees, while at the same time the unions are to see to it that the guarantee of economic existence does not lead to social dependence. Nowhere can one see more clearly than at this point how far the new solutions are removed from classical socialism on the one hand and from classical capitalism on the other hand.

It must not be inferred, however, that the unions always content themselves with demanding and trusting the resourcefulness of management. Without a staff of competent and highly paid engineers and experts in organization and accounting, the unions would never be able either to claim their "control rights" in the jobs or to discharge the inherent responsibilities discussed above. Through the words of the late Philip Murray, the beloved leader of the steel workers, the unions boasted of knowing everything necessary about techniques, because of their engineers, and exactly as much as the entrepreneurs. Their knowledge allows them to step in where a firm is unable to manage its contractual obligations. This happened in a steel works in Alabama which could not pay the nationally agreed upon wage rate: the union's experts produced a plan for the rationalization of the mill, and the execution of the plan was financed by a loan from the union—with striking success. It was a loan, not an investment. Capitalism? Socialism?

On the largest scale the case is duplicated in the clothing industries of the big cities. To be sure, conditions there are unique. Speaking in economic terms, the trade as a whole, with the exception of a few prosperous and well known firms, has been suffering for decades from poor markets, only slightly improved recently, and is splintered into thousands of small shops. Speaking socio-

logically, the clothing industry is a reservation for many hundreds of thousands of still unassimilated immigrants, primarily East European Jews, and also Italians, who continue to practice here the skills acquired in their native countries and to cultivate in the hardly changed environment the old ideas and aspirations, disciplined by religious orthodoxy. Hence there are many cases where no social distance exists between employer and employee; they may perhaps live in the same building in the Jewish or Italian quarter, and may be closely related to one another. The Polish Jews have brought with them a developed tradition of labor-union socialism, and in so far as the Italians, from southern Italy, do not bring it with them nothing prevents them from acquiring it; the Roman Catholic clergy who minister to them come almost exclusively from the poorest groups of Irish immigrants, and are most likely to be found on the side of labor in labor disputes.

In this combination of economic and social factors the textile and clothing industry has taken a peculiar development. A weak and chronically sick industry is opposed by a formidable union power; the union leaders have been highly respected for decades—the late Sidney Hillman was President Roosevelt's trusted adviser on labor questions, which were of decisive importance at that time—but the members depend for their livelihood on a weak industry. Nothing, therefore, suggests itself more logically than the use of the union's power for the strengthening of the industry. Not only was technical rationalization planned, elaborated, and financed by the union in many shops, but above all the union and its experts focused their attention on the demoralized market itself, undertaking to organize it and, as much as possible, to anchor its organization in the collective agreement, for the sake of steady employment.

When it is the workers who do such a thing, it is called planned economy; when it is the entrepreneurs, it is called, with a name taboo in America and not popular elsewhere, a cartel. Anyway, the result is that the old social democrats of the textile and cloth-

ing unions control not only the jobs but often management too; they prescribe its ways and, in this sense, "take over" their industries, but without directly investing in them or seizing the properties wholly or partly. The capital risk for labor's proposals remains with the entrepreneurs, the wage and employment risk, naturally, always with the workers. The resultant structure, whose three elements are acute distress, imported tradition, and the unique climate of the new country, can perhaps be called a denatured socialism.¹¹

The socialism emancipated from its class basis and therefore estranged from the idea of class property amounts, apart from extreme cases, to collective self-help. Its economic form, again apart from extreme cases, is countervailing monopoly. Collective self-help and countervailing monopoly are logical, but even so they did not materialize, in the case of the workers, without political pressure and legal foundation. But then, there is no reason why these ideas should not be applicable outside labor too, for defense against one-sided economic power.

The fundamental change that is under way in the American economic constitution, without a clearly discernible goal and entirely without theoretical guidance, can best be observed in certain events within the business community itself. A conspicuous example is the relations between the automobile industry and the dealers in new cars, who are not only the direct customers of the industry but thereby also its scouts and reporters at the front of consumption in all big and small places. Each of them has to give evidence of a business capital of at least \$100,000, and there are 42,000 of them. The business contracts between them and the big manufacturers are subject, of course, to the general

¹¹ This policy is supported even by such entrepreneurs as are, themselves, far from needing help. When one of the unions had victoriously asserted the new strategy in New York and Chicago and tried it out successfully, it ran into opposition to its draft for a collective agreement with the entrepreneurs in Philadelphia. Thereupon the union telephoned to a big entrepreneur in Chicago, its good friend, and asked him to go to Philadelphia and enlist his colleagues there. The assignment was accepted with pleasure and discharged with success.

stipulations of commercial law, but to no other restrictions; the factory is no longer free to dismiss a worker at will, but it can give notice to a dealer as his contract expires. So much the more remarkable is it that General Motors has found it advisable—obviously in line with its business interest—to establish a board of review where a dealer threatened with the loss of his business can undertake to furnish evidence that the notice is objectively unjustified.

The motive behind this institution must be that, if the man concerned happens to be a respected member of the local community, the destruction of his existence by one stroke of the pen would breed ill blood. It is hard to say how much in the innovation is attributable to a pure business interest and how much to the pressure of democratic public opinion, which no longer tolerates the idea that the existence of a man should depend on the private discretion of another man—is not the publicity of all economic relations a possible definition of socialism? Indeed, one state has drawn the conclusion that the plaintiff's right to sue must not depend on the defendant's generosity, and has created a court of appeal; similar measures are under consideration in other states.¹² The direction and goal of this development are not clearly discernible at present; what is clear is only that the right to private arbitrariness is negated, nay, is no longer defended even by its beneficiary.

The same business group, however, passed through a grave moral crisis in 1955, which reminds us that gentlemanly behavior, while easy in prosperity, is far from assured when business deteriorates. An abrupt sharp reduction of sales, coupled with continuing production, embarrassed the big companies, and they resorted to pressure on their dealers to get rid of the unsalable cars by opaque and shabby combinations of rebates, respites, instalments, and interest rates. They went to such lengths that the dealers in several parts of the country revolted and finally brought the

¹² The state referred to is Rhode Island; the facts are from Berle (cited above, note 2).

quarrel to the newspapers and to the United States Senate. The Senate called hearings under oath, and in them the biggest men of the industry came off so pitifully that they had to give up the attempt to demonstrate their disdain for the entire procedure, take on themselves the responsibility for the recent happenings, and promise immediate redress. The recovery of the market came to their aid. But the publicity of relations, their subjection under the moral judgment of political democracy, is no less significant for it. Is this still capitalism?

III¹³

In the preliminary way and with the reserve becoming to an observer of a development in full swing, the dual question from which we started and which gave orientation to this brief survey can be answered thus: both capitalism and socialism are tamed by democracy. As for capitalism, the blind naturalism of anonymous, quasi-automatic market processes is subjected to human criteria and made responsible before them. Socialism is denatured in the sense that it accepts the entrepreneurial function of capitalism, even where socialism itself is immensely superior in organizational and financial power and must lend it out occasionally lest its control of the jobs, its own reservation, be drawn into ruin along with business. Back of this, however, is the dominant experience of the productivity of capitalism, which pulls the sociological basis from under socialism by dissolving the sheathing of proletarian existence and ideology.

Nevertheless, it would be wrong to say that capitalism has refuted socialism and absorbed it into itself. The human motive of socialism uses the special sociological conditions of proletarian

¹³ See Edgar Salin, *Oekonomik der Atomkraft* (Cologne 1955); Georges Friedmann's most important study, *Où va le travail humain?* (Paris 1960); Robert Jungk's striking reports, *Tomorrow is Already Here* (New York 1954); Eduard Hofmann, "The Economy of Abundance," with comments by Chester Barnard, J. M. Clark, Reinhold Niebuhr, and Neil Sargent, in *Social Action* (January 1957); Paul Tillich, "The Person in a Technical Society," in John A. Hutchison, ed., *Christian Faith and Social Action* (New York 1953).

existence to create special institutions of common property and economic planning, but it is oriented toward the humanization of man's work, which under the rule of efficiency was abandoned to "reification" (made into a thing). Without this reification the breakthrough of productivity would not have been possible; it would have been prevented by tradition-rooted human inhibitions. But as the new principle reinforced itself it became clear that reification is no viable state of society, and that human experiences and aspirations must be revalidated even in economic life, lest the peace of society collapse under the weight of the requirements of economic productivity and bury economic life under itself. It is the great accomplishment of democracy to have solved the proletarian problem by convincing socialism of the indispensability of capitalist productivity, and convincing capitalism of the equally indispensable human dignity of labor as the condition of its own success. In this limited sense, in respect of the form, not the content of the process, we could say that the reconciliation of the opposites is the way from Marx to Hegel.

But the reification has not been overcome. As the proletarian problem is solved by productivity, the claim to supremacy of productivity is borne out. Now productivity is a means for ends exterior to itself; it must be measured against these and limited by them. No such objective, however, is visible; productivity and efficiency become their own ends and justification in a blind dynamic and with everybody's approval. Democracy, too, immensely strengthened by productivity, accepts the claim of productivity to supremacy. If there ever was an illusion about this, it vanishes in view of atomic technology and automation. The terrible logic of atomic science forces the big powers ahead from weapon to weapon, and requires for its application, according to all reports from the experimental stations, a "making over" of man. Automation delivers man from mechanical drudgery, but for a similar price: it empties man's work of mastership, workmanship, doing, and at best restricts it to a mere intellectual exercise but at worst, in view of the perfection and unimaginably

complex performance of the machines, subjects man, the imperfect machine, to the necessary improvements and adaptations. The more we do this, the more commodities and leisure time we can have. But leisure time, too, is then mechanized to bring us, in rapid succession and variation, all emotions of sex, crime, war, and religion for our entertainment and thus kill the sense of the tragic greatness of human life. Nobody knows at the present time how the new techniques will affect man and democracy, and how man can and should react. Only one thing is clear: that instead of gaining control of ourselves through science, we are abandoned to the creatures of our mind.

Reification for the purpose of productivity is a part, or a consequence, of what Karl Marx called "alienation." This was Marx's central philosophical notion, which he took over from Hegel, alienation of man from man and of man from himself: the unity of communal life and the unity of personal life are lost and should be recovered on a higher plane. Hegel's failure, as he saw the promised harmony emerge "behind the backs of people" through "the cunning of the idea," kindled Marx's protest: no harmony was possible without seizing and transmuting the real life of man primarily in his work. Marx's failure, as comprehensive collectivization, instead of bringing the promised universal personalization, becomes more than ever stuck in alienation, nay, brings it to a head, kindles the democratic undertaking to wrest from alienation some humanity in man's work. But it would be presumptuous to maintain that democracy has overcome alienation, or is superior to it. Democracy drifts into the new technology without a will of its own: it surrenders spiritual life to the machinery of entertainment, and personal life to family corrosion and split consciousness. Alienation prevails, and the spiritual locus of socialism remains vacant.

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*With compliments
from Edward Heineken*

TENDENCIES AND FORCES
AT WORK IN A CHANGING WORLD

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I

This is an attempt to account, in a very brief survey, for some of the tendencies and forces which are working in and on our rapidly changing world.

The natural starting-point is a word about technology. Technology is applied science and it arises from the reflection that man, by exploring the structure and laws of nature and life, learns to understand the conditions of his own welfare, in relation to material, as well as intellectual and spiritual life. Hence, science and technics have grown to their present stature as servants of humanism. They have now, however, emancipated themselves from humanism and have become irrational in this paradoxical sense of the word. For they are now following their own logic, which has long ceased to care about human welfare and, rather, forces us to adapt ourselves to its own requirements. Essentially this is nothing new. We may say that the word "welfare" is ambivalent, meaning either, in the conventional sense, the good life of the person in the community or, because of this later qualification, political and military aggrandisement of the State, with its power over life and death. A good case can be made for attributing primary significance to this military aspect of technology in the earlier stage of modern history. But, more recently, even the military establishments seem, rather, to be swept along by the breath-taking pace of destructive inventions, which they feel they must appropriate on the largest possible scale in the shortest possible time on pain of death. As long as mankind does not know how to break this blind rule of technology, the hymns of thanksgiving for the coming blessings of the atomic age sound rather ironical.

Even in the conventional sense of individual consumption of goods, the increase of welfare by modern technology is subject to the ambiguity of everything human. In terms of mastery over his material and satisfaction in his work, man the producer has lost what

* Revised version of a lecture (in German) broadcast from the RIAS Station in Berlin, 10 July 1956.

man the consumer has gained in terms of a growing flood of goods for his comfort. And here again the most recent phase, automation, is admittedly invading our world in forms whose economic, political and spiritual effects nobody can appraise; we are at their mercy so long as we do not develop the insight and organized power to tame and direct them. And menacingly there looms on the horizon a problem which we have escaped so far: since the machine-building industries in the widest sense of the word (steel, etc.), had to assume the gigantic size which enabled them to build, within a hundred brief years, all industries of all countries, from which ever-increasing masses of goods are now flowing—how are machine-building industries of this size to be fully employed in future unless they get more and more orders for still more productive machines, from which ever-growing masses of goods will flow? In the recent past, the pressure of advertising has succeeded in foisting the increasing flow of goods upon people; but each further increment is less and less needed—where is this growing orgy of goods to land us? And what will happen if and when the tricks of the advertisers fail?¹ What will become of the sorcerer's apprentice if he does not learn to control the unfettered forces of science and technique? "Herr, die Not ist gross" (Goethe).

II

The question, then, is whether the western world will still have spiritual strength enough for the self-renewal which would enable man to become the master rather than the slave of his knowledge. One cannot help being highly skeptical if the question is put in this way; and, of course, there cannot be an answer in principle. Yet some of the astonishing transformations come to mind of which we western people have been capable during these last decades: unpredicted productive solutions of gravest problems. It may be relevant briefly to survey them in this context.

The most spectacular aspect of these problems was known as the social question, which the 20th century inherited from 19th-century capitalism. And we may now say that capitalism, in a certain highly important respect, has attained and surpassed its original promise. The key-question of distribution ceases to be the decisive economic

1. Cf. my article on "The Economy of Abundance", *Social Action*, January 1957.

problem when the production of goods increases so rapidly and constantly as to provide all, rich and poor alike, with more and more of them. A truck driver in the United States may occasionally earn more than a professor; a steelworker receives up to \$ 500 a month, an automobile worker a little less. The expansion of production through private initiative and free enterprise has solved the social question, in this sense of the word. It has taken the wind out of the sails of old-style socialism. Is the poverty of the masses increasing? Or are the wage-rises traceable to intenser exploitation of colonial peoples? All that is out of date. Socialist theory had taught that only competitive capitalism is progressive, because every entrepreneur must anticipate innovations by his rivals; monopoly capitalism on the other hand, has no need of progress because it thrives on control of the market and the exploitation of consumers—thus the working class must take over the monopolized system in order to save progress. But it is precisely the strongest, most monopolistic enterprises and industries that push progress ahead, by systematically exploring all technical possibilities in their huge laboratories. In other words, progress has become independent of the formerly strategic question of competition or monopoly, and it is precisely in the age of giant enterprise that productivity is growing more and more rapidly.

Now it would be a mistake to believe that capitalism has remained unchanged in this development. As Marx predicted, large-scale technology has led to the concentration of production in large-scale firms and to the conglomeration of economic power. But it has by no means fulfilled the other prediction that the "haves" would conglomerate at one pole of society and the proletarian "have-nots" at the other pole. In the first place, at least two American corporations already count more than a million small stockholders. The financial structure of stocks and bonds has separated economic power from ownership, although the holders of power may also have stocks, of course; a million stockholders may own a huge firm, but they cannot exert any influence whatever upon its affairs; management is autonomous and in the main perpetuates itself by co-optation. In the second place, 160,000,000 Americans (babies and aged included) own 175,000,000,000 dollars in savings accounts and government securities and 250 billions in life insurance; some 40 million passenger cars— not all of them of most recent vintage—people the highroads

of a country of about 50 million households (although it must be taken into account that there are now suburban families with two cars each). One hundred years ago, Benjamin Disraeli, who was to become the leading statesman of Victorian England, lamented that the nation was split into two nations, which spoke different languages and no longer understood each other. Today the unification of the pattern of life is making rapid headway in all western countries², as had been anticipated by Tocqueville more than one hundred years ago despite the continuance of differences of income—differences which, also, are conspicuously narrowing³. In the third place, a most important special factor in the new situation is the breaking-down of the power of monopoly by counter-monopoly, by countervailing power. This applies pretty generally between successive stages of production, with the result that there is no longer an anonymous market in fully monopolized branches of production, but, rather, diplomatic negotiation between two or at any rate a very small number of powers, each of which attempts to get the best possible bargain for its own sphere but is acutely aware of its dependence on the purchaser or the supplier. Most important for our purpose is the application of this rule to the relationship between big industry and big labor, whose representatives deal with each other as one power with another, where labor's case, too, relies on considerable financial strength, strike funds running into many millions, etc. There are, of course, weak industries in which even strong labor unions have only a limited negotiating strength and must content themselves with modest wages; and there are, above all, the unorganizable, unmonopolizable masses of consumers, who have to foot the bill of rising prices and wages—a very gloomy aspect. But on the whole, one is struck by the rapid though uneven spread of increasing material comfort.

Strictly speaking, all this is only logical. Where would there be outlets for the swelling flood of goods if prices remained unchanged, as they more or less do, and wages did not rise? And yet, what a long time it took and what grave conflicts and sacrifices had to be endured

2. Cf. S. LANDSBERG, "Die Gegenwart im Lichte der Marxschen Lehre", in *Hamburger Jahrbuch für Wirtschafts- und Gesellschaftspolitik*, 1956.

3. Cf. SIMON KUZNETS, "Economic Growth and Income Inequality", *American Economic Review*, March 1955, p. 4.

before labor protection, effective labor organization and social security could be brought into being. In the U.S. the catastrophe of 1933 found the heavy industries practically without labor unions, and an extraordinary pressure on the part of public opinion and the government was required to make good this omission and create the countervailing power. It was only by this means that the market was widened for the absorption of the growing output, while a cushion of purchasing power against depressions was prepared by social security. Still more important, the development of labor law and collective contracts has reversed the capitalistic dissolution of social relations into anonymous market processes; social relations are now negotiated by authorized delegates in the full light of publicity. In that connection, of course, long-range considerations prevail over short-run considerations, and the overall picture over the specific condition of the special market. Management finds itself, as Eugen Rosenstock-Hüssy has recently expressed it⁴, in the position of mediator between the conflicting claims of engineers (technical progress), consumers (the market), stockholders and workers⁵, and with the workers one has to live every day while the stockholders appear only once a year. If capitalism is characterized by anonymous market relations, which Hayek and Mises make the sole guarantee of freedom, then it can hardly be said that we still have capitalism, since all relations have become public. Of course, this is not socialism either, at least not in the conventional sense of proletarian-class property and unified planning; the name social democracy, taken in a non-technical sense, is perhaps the most appropriate.

It is here that the strategic function in history of what is called in German "Sozialpolitik"—reconstruction of the social constitution—becomes discernible. Orthodox liberal theory used to hold that, if unorganized workers contented themselves with a scanty wage dictated by the market, the fund for accumulation which is profit would be larger, more capital could be formed, more jobs and equipment

4. *Der unbezahlbare Mensch*, Berlin 1955. The book is a sociology of the industrial plant within the framework of the whole of society and life.

5. That is the reason why this writer doubts the applicability to modern conditions of even the theory of games, significant though its progress beyond the older theory of imperfect competition has been; there are too many variables, most of them unquantifiable, in the picture.

produced, and wages would, in the end, rise so much the more rapidly. This is genuine collectivist reasoning, demanding as it does of the present generation that it should sacrifice its own aspirations (like cannon fodder in a war) for the sake of a better future. Nearer to the mark than the liberal proposition that we shall all be rich in the long run is the Keynesian proposition that we shall all be dead in the long run. Society, that is to say cohesion among people, threatened to break down under the burden of that economic logic, and something had to be done for people at once, even though this might be at the expense of capital formation, that is, of the pace of further economic development. Hence, social legislation saved capitalism from itself: it secured the social conditions for its final success by raising the incomes of labor through labor protection and the right of association, and by restoring the rights of man through labor law. A rather more remote but no less important concession to labor—and not only to labor—is the response to pressure for steadiness of employment, for elimination of cyclical fluctuations; this once more saved capitalism from itself. It may be added that the growing power of labor organizations is exerted in the pursuit of different objectives in countries of different spiritual and social tradition: purely economic objectives of higher and steadier wages in America, more controversial socio-political objectives of liberty and responsibility in Germany, e. g. by co-determination.

III

This picture of western socio-economic life remains incomplete as long as we fail to integrate it into the larger context of the world. After all, the Soviet system itself is of western origin; it is the protest against western capitalism on the same intellectual and spiritual ground. This protest is now a hundred years old and is directed against the pure capitalism of that time. It caught fire from the two main effects of economic control by an unregulated market: in the first place, the exploitation of the isolated weak by the strong, and, in the second place, the periodic shrinkage of production and income, which constantly menaces bare existence. On both counts Marxism was right, and on both of them Marxist criticism was fully accepted by the western world—but without acceptance of the Marxist remedy: the

West developed its own remedies, and in so doing preserved and widened personal liberty, while Marxism stamped out personal liberty in order to stamp out the abuse of it in ways which made for injustice and disorder. In any case, Marxism as criticism has become an integral part of western life. Its menace, coming at first from within and later from Russia, gave the impulsion for the renewal of western life, which would never have come about without such menace—for as long as everything seems to be running smoothly there is no occasion for renewal. On the other hand, the Marxist occasion for renewal must not be confused with the grounds of the renewal, which lie rather in the West's unique ability to criticize, and rise above, its own failures in fundamental reform, thanks to its thousand years of religious education; the "rebirth of liberty under God", as Abraham Lincoln has put it. Nowhere else in the world are there such fundamental reforms—witness the petrification and final decay of Asian and African societies. It is this faculty of self-renewal which gives us comfort and hope, even in the presence of the grave new problems confronting us now.

We may say that the western world was vaccinated with Marxism and thereby immunized against it. For so thoroughly did this power of renewal do its job that Marxism rebounded impotent from the countries where it had originated and for which it was designed, and was deflected to countries where a budding capitalism of the inordinate type, very like that of the West 150 years ago, seemed to be coming into power. The symbiosis of capitalism with racialist imperialism, however questionable their equation may be on both historical and theoretical grounds⁶, helped to disseminate the new program. At any rate, the deflection of Marxism to industrially undeveloped countries has not made things easier for the West; as usually happens in history, the solution of one problem contains the germ of the next one. For Marxism, with brilliant adaptability, transformed pre-industrial Russia, where the industrial sector had not comprised 5% of the population, into a formidable industrial-military machine; it actualized the dormant power of the Russian country and people and gave it direction; and the same thing is now

6. Cf. my book *Wirtschaftssysteme und Gesellschaftssysteme*, Tübingen 1954, chapter vii; and an earlier version of this chapter, "Schumpeter and the Problems of Imperialism", *Social Research*, June 1952.

happening in China. The organizational principle is quite simple: to draw the ultimate consequences from the impersonal collectivism of a mechanized world, to measure the value of a man's contributions in economic terms, and to compute maximum efficiency not for the single unit of production but for the system as a whole. The fact that this is a workable organization, logical in itself, and effective psychologically through its appeal to professional ambitions and, beyond that, either to nationalism or to Marxist pseudo-religion, should no longer be denied. Nay, the system may be too logical in its economic rationalism, rather like earlier capitalism but without the fundamental corrective which the West has at its disposal in the spiritual dimension of its life. Hence the explosion of Titoism, whose appeal seems to be spreading from Poland to China, and whose historical significance lies in the attempt to grope for a way back to democracy from communism and within communist institutions.

The degree of efficiency attained in Soviet industry is still far inferior to that of America. But, of course, the Russian people could not be expected to acquire in one generation the familiarity with industrial processes which had taken America three to four generations to perfect. In other words, this is not simply a comparison between capitalist and communist principles but between two industrial societies of quite different ages, one older and highly developed, the other much younger and less developed. That same difference in industrial age, on the other hand, gives the new arrival the invaluable advantage of being able to skip the whole painful step-by-step development of the pioneering country and imitate, with hardly any inventiveness of its own, the most recent technical achievements of the West. Moreover, comprehensive economic planning is incomparably easier and simpler in the younger country than it would be in a highly developed country, where a mistake might mean the complete loss of the investment: the young country, still having too little of everything, may, at the worst, do things in the wrong order but is sure to find a use for everything sooner or later. Seen in this light the tremendous industrial progress of Russia is no longer so astonishing. And, after all, the progress of production in Germany and other western countries which, like Russia, have to make up for the ravages of war, is fully comparable with Russian progress. Nevertheless, it remains true that the Soviet development

is of immeasurable significance, as a constant goad to the West and as a model for many industrially undeveloped countries.

Both aspects together dominate the contest of the two giant states for the political and economic sympathies of the colored nations. These nations derive an extraordinary gain in self-reliance and prestige from the very fact of that contest, and any way India and China are rapidly assuming the role of genuine world powers. But none of these countries has so far displayed creative forces of its own, rooted in its own tradition. Neither the more or less stoic philosophy of China nor Indian mysticism lends itself to political creativity, because both seek the reality of life not in life itself but in a higher or deeper layer of existence. It is in biblical tradition alone that the spirit is incarnate, thus ennobling the flesh, on the one hand, and conditioning spiritual life by the experiences of the flesh, on the other hand, so that history is not just a series of accidents but acquires religious significance and is taken incomparably more seriously in the countries of biblical tradition than elsewhere⁷—surely too seriously today. At any rate, this is the reason why it was from their contact with the far younger countries of the West that the ancient peoples of Asia received the impulsion to enter world history; nay, the reason why they have to imitate those younger countries in order to make themselves independent of them in political and economic respects. We western people cannot, of course, venture to conjecture what ideas and forces may one day emerge from the ancient store of oriental wisdom, to give history a new direction. But for the time being, at any rate, the dynamics of the oriental nations is borrowed from the West, even where it is directed against the West. For the nationalist motive, which still remains the strongest in the world, is of western origin, too—and that surely is no reason for special satisfaction.

IV

Thus it can be seen that we western people today, after all that we passed through, are not lacking in grave new problems. We have enumerated some of them and will revert to them. Automation seems to be invading the world like a violent flood. From the ravages

7. Cf. my article "Academic Education Today and Tomorrow", in *Religion and Culture - In Honor of Paul Tillich*, New York 1957.

caused by an untamed river it cannot be inferred that its tamed power would not be a blessing. But we can tame, that is, regulate automation only by a great spiritual and moral effort, which must be a historically efficacious, organized effort; it will not suffice to appeal, like the atomic scientists, to mankind's abstract sense of responsibility or to hope for wisdom in the education of people for leisure-time activities. The probable shortening of work hours is no solution, because the increased leisure-time is typically at the mercy of the depersonalizing forces of the cinema, television and digests, in which war, crime, sex and religion are presented as pastimes and everything depends on concealing the tragic greatness of human life. We have also discussed the blind expansionist compulsion which has been built into the technological structure of industry, more specifically into the size of the steel industry, and is calling forth an ever more aggressive advertising apparatus. What are we to do, in practical terms, to effect the necessary change in industrial structure? Here again we need to know what our life is to look like; i.e. not abstract ideals but concrete standards of value are what we need.

Perhaps our excess of productive capacity can be directed into the economic development of Asia and Africa; there are among us serious-minded people who are earnestly weighing such possibilities. But nothing can be done without authoritative standards of value; for it is neither morally nor politically tolerable that we white people should be forced to become richer and richer while the others are left farther and farther behind. A certain measure of industrialization is indispensable but the process takes too long. For the pressing problem here and now is how to correct the maldistribution of purchasing power in the world. The world market is not a sociologically unified structure but an accidental conglomeration of heterogeneous structures, in which we rich nations can literally snatch away from the poor nations what they need and quite possibly refuse to buy from them what they have to sell. How do we conceive, not simply a world of ideal brotherliness—that is easy—but, concretely, a viable and stable non-communist world?

This is not a comfortable catalogue of problems, and it is neither complete nor profound enough. The question is not whether we have solutions—of course we have none—but whether we have the strength to will practicable solutions. Within the last hundred years

we have had the strength to turn the Marxist threat into a blessing—a really great achievement. Within the last few years we have proved our strength in the cause of international reconstruction by concrete instances for which history knows hardly any parallel: the Marshall Plan, the establishment of a free India and Pakistan, the Colombo and Point-Four Plans, the Schuman Plan, etc. We cannot prove it irrefutably, but it is quite legitimate to think that the great revival and readaptation of religious thought, which, kindled by the catastrophes of our age and unmatched for two hundred years, is proceeding everywhere in the West in the midst of noise, confusion and a religious "boom", is causing the sources of creative power to flow once more. We cannot pretend to optimism but we have no grounds for despair either. There are frightening problems ahead of us but there are also frightening problems behind us. Perhaps we may somehow succeed.

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Literature in addition to the references in the text:

For the transformation of capitalism cf. ADOLF A. BERLE, JR., *The Twentieth Century Capitalist Revolution*, New York and London 1955; JOHN MAURICE CLARK, *The Ethical Basis of Economic Freedom*, Westport, Connecticut, The Kuzanjian Economics Foundation, 1955 (two lectures); PETER F. DRUCKER, *The Concept of the Corporation*, New York 1946 (an analysis of General Motors); J. KENNETH GALBRATH, *American Capitalism: The Concept of Countervailing Power*, Boston 1952; GEORGE W. STOCKING and MYRON W. WATKINS, *Monopoly and Free Enterprise*, Twentieth Century Fund, New York 1951.

The American system is described in my article, "The Interplay of Capitalism and Socialism in the American Economy", *Social Research*, Spring 1957 (German version in *Hamburger Jahrbuch für Wirtschafts- und Gesellschaftspolitik*, 1957), against the background of my book *Soziale Theorie des Kapitalismus*, Tübingen 1929. A comprehensive and systematic survey of labor legislation and labor policy is provided in the first part of the monumental work by ANDRÉ PHILIP, *Démocratie industrielle*, Paris 1955.

For problems of the most recent technology cf. the booklet by EDGAR SALIN, *Ökonomik der Atomkraft*, Cologne 1955, and his article "Industrielle Revolution", *Kyklus*, 1956, Fasc. 3. The standard work is GEORGES FRIEDMANN, *Où va le travail humain?* Paris 1950 (in many languages); the most striking report, ROBERT JUNGK, *Tomorrow Is Already Here*, New York 1953 (many languages).

The general point of view of the above paper is put forward in my book *Vernunftglaube und Religion in der modernen Gesellschaft (Liberalismus, Marxismus und Demokratie)*, Tübingen 1955, in which many of the points are worked out in detail.

SUMMARY

Constantly and rapidly rising productivity has enabled capitalism, in accordance with its original promise, to solve the social problem by virtually abolishing poverty, at least in America. But the strain which the concentration of all energies on the one goal of technical efficiency imposed on the cohesion of society might have been ruinous if democracy had not restored man, the producer, to some dignity by labor law and the higher wages provided for in the collective contracts, while at the same time these wage rises and social security widened and bolstered up the market.

One hundred years ago and again in the great crash of the 1930's, Marxism had offered its alternative to the social and economic disorder for which the unregulated liberty of early capitalism was responsible: to stamp out liberty altogether in order to stamp out its abuses. The West's answer was full acceptance of the criticism without accepting the remedy; the West developed its own remedies within the framework of liberty, in that type of fundamental "reform", of creative self-renewal, which in the great crises of history flows from the Christian doctrine of "rebirth of the spirit" and is as inaccessible to Marxist economic rationalism as to Chinese stoicism and Indian mysticism.

So thorough was the West's self-correction that Marxism rebounded from the industrial countries, in which it had originated and for which it was designed, and, having missed its effect there, was pushed off to the industrially undeveloped countries, Russia and China, building them up into formidable industrial-military machines, with efficiency computed for the system as a whole rather than for the single unit of production. As incentives it is using nationalism, the appeal of its own pseudo-religion, and the furious protest against the Western imperialism which had lived in symbiosis with capitalism and has left its legacy in the form of an intolerable maldistribution of purchasing power in the world market.

The West, which has begun to demonstrate its own creative imagination in dealing with a number of international problems of a more limited nature, is thus confronted with new problems on a formidable scale, in addition to the unsolved human and social problems following in the wake of its own most recent scientific and technological developments.

ZUSAMMENFASSUNG

Tendenzen und wirkende Kräfte in einer sich verändernden Welt. Die ständige und rasche Erhöhung der Produktivität hat den Kapitalismus in Übereinstimmung mit seiner ursprünglichen Verheissung in den Stand gesetzt, die Armut praktisch zu über-

winden und damit das soziale Problem zu lösen, zumindest in den Vereinigten Staaten. Aber die Spannungen im Zusammenhalt der Gesellschaft, welche aus der Konzentration aller Energien auf das eine Ziel der technischen Leistungsfähigkeit resultierten, hätten ruhmlos sein können, wenn nicht die Demokratie die Würde des Menschen als Produzent wieder hergestellt hätte durch Arbeitsrecht und in Kollektivverträgen geregelte höhere Löhne, während zugleich diese Lohnsteigerungen und die «soziale Sicherheit» den Markt ausgeweitet und gesättigt haben.

Vor hundert Jahren und dann wieder in der grossen Depression der dreissiger Jahre hielt der Marxismus gegenüber jenen durch die uneingeschränkte Freiheit des Kapitalismus verschuldeten mangelhaften sozialen und wirtschaftlichen Verhältnissen seine Alternative bereit: der Freiheit ein Rade zu setzen, um deren Misbräuche zu verhindern. Die Antwort des Westens war die völlige Annahme der Kritik, ohne indessen das Heilmittel zu akzeptieren; der Westen entwickelte vielmehr seine eigenen Hilfsmittel im Rahmen der Freiheit: jene Art grundsätzlicher «Reform», schöpferischer Selbsterneuerung, welche in den grossen Krisen der Geschichte aus der christlichen Lehre von der «Wiedergeburt des Geistes» fliesst und die dem marxistischen ökonomischen Rationalismus ebensowenig zugänglich ist wie dem chinesischen Stoizismus und dem indischen Mystizismus.

Die Selbstberichtigung des Westens war so gründlich, dass der Marxismus von den industriellen Ländern, wo er seinen Ausgang nahm und für die er bestimmt war, unwirksam zurückprallte und nach den industriell unentwickelten Ländern Russland und China abgestossen wurde, aus denen er eine formidable industriell-militärische Maschine machte, wobei die Leistungsfähigkeit mehr auf das System als Ganzes ausgerichtet wurde als auf die einzelne Produktionseinheit. Als Anreiz verwendet der Marxismus den Nationalismus und die Anziehungskraft seiner eigenen Pseudo-Religion sowie den heftigen Protest gegen den westlichen Imperialismus, der mit dem Kapitalismus zusammengelebt hat und dessen Vermächtnis eine unhaltbare Falschverteilung der Kaufkraft auf dem Weltmarkt ist.

Der Westen, der begonnen hat, seine eigenen schöpferischen Fähigkeiten bei einer Anzahl von internationalen Problemen von beschränkter Natur unter Beweis zu stellen, sieht sich so neuen Aufgaben von beträchtlichen Ausmassen gegenüber, zusätzlich zu den ungelösten menschlichen und sozialen Problemen, die sich aus seinen eigenen wissenschaftlichen und technologischen Entwicklungen der jüngsten Zeit ergeben.

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