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Five Lectures on The Present Age of Transformation

Lecture I. The Passing of 19th Century Civilization.

Introduction: The Institutional Approach.

The subject matter of these lectures is a vast and unique event: the passing of 19th century civilization in the short period that elapsed between the first and the second war of the 20th century.

At the beginning of this period, 19th century ideals were paramount, indeed their influence had never been greater; by its close hardly anything was left of that system under which our type of society had risen to world leadership. Within national frontiers representative democracy had been safe-guarding a regime of liberty, and the national well-being of all civilized nations had been immeasurably increased under the sway of liberal capitalism; the balance of power had secured a comparative freedom from long and devastating wars, while the gold standard had become the solid foundation of a vast system of economic cooperation on an almost planetary scale. Although the world was far from perfect, it seemed well on the way towards perfection. Suddenly this unique edifice collapsed: The very conditions under which our society existed passed forever. The tasks which face us in the present cannot, we believe, be understood except in the light of this tremendous event. It is both national and international, political and economic:-all our institutions are involved. The historian is at a loss where to start.

The Conservative 'Twenties and the Revolutionary 'Thirties.

The Great War of 1914-18 had been, on the whole, true to 19th century type: one alignment of great powers against another; belligerents and neutrals; soldiers and civilians; business and warfars;-all distinct and separate. Defeat resulted in a treaty which was intended to insure that life should continue very much as before. The War was about nothing in particular and had settled nothing essential; yet it had been more terrible than all its predecessors.

The trend of the 'Twenties was distinctly conservative. The spectacular revolutions and counter-revolutions of 1917-23, even when they were more than upheavals resulting from the shock of defeat, introduced no new element into Western history. Not only Hindenburg and Wilson, but also Lenin and Trotsky, were in the 19th century tradition. The tendency of the times was simply to establish, or eventually to re-establish, the system commonly associated with the ideals of the English, the American and the French revolutions of the 17th and 18th centuries. Radical policies served traditional aims. The Great War had been, in the main, an attempt to overcome by fruitless violence the difficulties which beset the system since the beginning of the century; in the peaceful 'Twenties this effort was intensified, but the effects of the War had merely enhanced those difficulties.

Suddenly in the early 'Thirties, with an awe-inspiring vehemence, change set in. Its landmarks were the abandonment of the gold standard by Great Britain and subsequently by all other countries; the Five-year Plans, especially the collectivization of the farms in Russia; the launching of the New Deal; the National Socialist revolution; the collapse of the balance of power in favor of autarch empires. By 1940 every vestige of the international system had disappeared, and,

except for a few enclaves, the peoples were living in an entirely new <sup>institutional</sup> ~~inter-~~  
~~national~~ setting.

### The Theory of External Causation.

This bird's-eye view of the quarter-century, 1914-39, shows clearly that change was sudden and world-wide, including in its range countries of the most various social and political complexion. Only a cause external to them all could have had such an effect. It was natural that contemporaries should have seen this event in the storm of blood and anguish of the Great War of 1914-18. But even at this short distance it appears, as we have seen, that the Great War, as well as the post-war revolutions, were themselves only an extension of the 19th century, and formed merely a phase in a process of much greater depth and amplitude. We are thus forced to the conclusion that some other international development had silently shaped the course of history, until, by the end of the 'Twenties, change surged forth in a vast transformation. We submit that this underlying comprehensive event was no other than the dissolution of the international system upon which our civilization had unconsciously depended for its life and growth.

The gradual changes leading up to this result were in progress long before the War 1914-18, but remained unnoticed at the time. Actually the system had been working under an increasing strain even since the turn of the century. In politics the formation of opposing alliances marked the end of the balance of power which presupposed the existence of a number of independent national policies and was therefore incompatible with a system of permanent power-groups. In the economic field, this was accompanied by trade rivalries which disclosed the inability of the gold standard to organize a world economy without putting an undue strain on the national systems. But the Great War 1914-18 which resulted merely impoverished and brutalized the world without alleviating its troubles; eventually the Western treaties even aggravated them. For it is easy to see that the permanent disarmament of the defeated countries removed the very basis of the balance of power and thus made the political problem insoluble. This again reduced the chance of a re-floating of world economy, and, quite apart from its other weaknesses, the gold standard could not be expected to function except in conjunction with an international political system assuring some measure of peace. Now that this safe-guard against devastating wars had disappeared, a fortiori, all attempts to restore the gold standard were bound to fail. In its endeavor to ease the tension under which the political and economic mechanism of the 19th century was laboring, the Great War had weakened that order fatally. The strenuous restorative efforts of the 'Twenties were doomed to failure and their climax proved the threshold of catastrophe. When the international system finally collapsed, no country could remain unaffected.

### The Facts.

The theory of the dissolution of the international system is strikingly borne out by the fact that everywhere the crisis was focused on foreign events, mostly on questions of currency and exchange. There was hardly an internal political crisis in Europe which had not a monetary origin. Exchanges were the all-embracing factor during the 'Twenties. From the melting away of the external values of the Central European currencies to the World Economic Conference more than a decade later, there was an almost universal endeavor to return to the pre-war monetary systems. An unbroken sequence of currency crises linked the ind-



gent Balkans to the affluent U.S.A. through the elastic band of an international credit system which transmitted the strain of the imperfectly restored currencies first, from Eastern to Western Europe, and then from Western Europe to the United States, until America herself was borne down by the weight of the accumulated deficits of the greater part of the countries of the world. The trade depression which broke over Wall Street in 1929 waxed to a hurricane owing to the tension which had been latent on the Danube and the Rhine since 1919. When, in the early 'Thirties, the two Anglo-Saxon countries went off gold, the watershed between two periods of history was passed. While the 'Twenties had still directed all their efforts to the preventing of the final breakdown of the gold standard, the 'Thirties reversed this trend and exerted their energies toward adapting themselves to the accomplished fact of such a breakdown. In some cases the foreign situation turned more on political than on economic questions. But we need not attempt at this stage to distinguish too finely between the economic and the political aspects of the international system. It suffices that no analysis of the crisis can be adequate which does not allow for the principle of external causation.

#### The International System.

As a matter of fact, the international system was both political and economic. The gold standard had become the basis of a world economy which embraced capital markets, currency markets and commodity markets on an international scale. This state of affairs was factual rather than legal; the people who benefited by it hardly realized its existence. In the political field there was nothing strictly comparable even to this informal organization. The balance of power which safe-guarded the nations from major wars and apart from which a world currency system such as the gold standard would not have been possible, had even less the character of a legal institution than the gold standard. But social organization does not depend for its functioning on formal sanctions. As a rule, a society does not become conscious of the true nature of the institutions under which it lived until those institutions have already passed.

However, the prevalence of the economic factor within the international system cannot be overlooked. The effective organization of the world was economic, not political. It was economic strain which caused the imperial rivalries, and smoothed the path to the Great War. It was the restoration of the economic system of pre-war days to which the statesmen of the 'Twenties bent all their energies; reparations, stabilization of the exchanges, international debts, foreign loans, trade embargoes and cost of living indices were the immediate concern of the politicians as well as of the masses. And economic autarchy was the one universally dominant trend in the 'Thirties.

But the breakdown of the international economic system stands itself in need of explanation. The attempt will take us far afield, for such an enterprise involves no less than the defining of the nature and origin of the present crisis. In other words, it involves a definition of our basic institutions, capitalism and democracy, in general human terms.

It is to this task that our next lecture will be primarily devoted.

1. The separation of politics and economics.

Nineteenth century society was based upon the two pillars of liberal capitalism and representative democracy. The economic and the political sphere were separate. This is the clue to its rapid downfall. For the expectation that such a state of affairs could be anything but transitory was an illusion. A society containing within its orbit a separate, self-regulating and autonomous economic sphere is a utopia.

On the face of it, this may seem a paradoxical statement. Nothing appears more obvious to us than that a society should contain these two institutional systems as distinct and different as the needs which they serve. For have not human beings economic wants such as for food and political wants such as for safety and protection? However much a person may prefer butter to guns, or, for that matter, guns to butter, as long as he is in his senses, he will never mistake the guns for the butter. It seems to be in the very nature of things that there should be separate economic and political institutions in society.

On closer investigation, however, this turns out to be a gratuitous assumption with no more to substantiate it than the conventions and habits of a few generations. Human beings must have food and safety, but they need not have a separate set of institutions to satisfy these wants, i.e., institutions based on a distinctive motive and directed by a separate set of people acting on such a motive. On the contrary, apart from the limited experience of some nineteenth century societies, all human societies of the past seem to have been based on the institutional unity of society, i.e., one set of institutions was designed to serve both the economic and the political needs of society.

2. A price- or market-economy.

Liberal capitalism is, essentially, a price- or market-economy. This means that the production and distribution of goods is controlled by prices resulting from the functioning of markets.

There are markets for all types of goods: commodity markets for all sorts of commodities; capital markets for the use of capital; estate markets for the use of land; labour markets for the use of labour-power. In this way every factor of production has its market.

Accordingly, there are prices for all types of goods; prices for commodities called commodity prices; prices for the use of capital called interest; prices for the use of land called rent; prices for the use of labour called wages. Thus every factor of production has its price.

The result of the action of the markets is twofold:

The production of goods, according to their varying quantities and qualities, is determined, and the resources of the country, whether land or labour, capital or commodities, are automatically disposed of.

The distribution of the goods thus produced is determined by the same mechanism. For some of these prices form the income of those who sell certain goods. Thus there is interest for the sellers of the use of capital; rent for the sellers of the use of land; wages for the sellers of the use of labour-~~power~~ power; and lastly there is profit for the sellers of all sorts of commodities, profit being the



surplus of selling prices over costs (the latter being of course simply the prices of the goods necessary for the production of the goods in question). The total of these incomes buys the total of the goods produced within a definite period of time. The pricing system thus automatically distributes the goods produced under it.

So much for the bare mechanism of a market-economy, presented in a schematic way. If one conceives for a moment that hundreds of thousands of elaborate goods are produced by many millions of people and then distributed amongst them by and through this mechanism which regulates every detail of the technological, financial and consumptive process, then you must agree that this is an achievement of the human mind compared to which the pyramids of Egypt appear as trivial. No wonder that when it first appeared on the horizon of our consciousness it dazzled and bewildered man as if his eye had met the naked Sun. The Industrial Revolution and the machine age with which our European society was pregnant thus became the sources of an inspiration sufficiently powerful to carry mankind through the Inferno of early industrialism until the tremendous material benefits of the system began actually to appear.

But there was also another reason for the dogmatism of the liberal economist. For the more developed a price- or market-economy is the more extreme it must be in the application of its principles. If the early Free traders like Adam Smith seemed dogmatic, their dogmatism was as nothing to that of the later Manchester school, and Manchester liberals themselves were wavering and compromising in comparison to the present day protagonists of liberal capitalism. A Cobden and a Bright appear as mere opportunists when contrasted with the unbending fanaticism of a Lionel Robbins or a Ludwig von Mises.

The reasons for this fact are fairly simple. A market-economy if it works at all, works only as long as you do not interfere with prices, whether commodity prices, rent, wages, or interest. For a self-regulating system of prices is dependent for its working on there being a surplus of selling prices over costs; nothing can be produced unless such a surplus exists. Therefore if selling prices fall, costs must be allowed to fall also. This is independent of human volition, of sentiments or ideals. Production at a permanent loss is automatically excluded by the rules of the game.

This is why there must be under this system a free market for all factors of production, not only for commodities but also for land, labour and capital. Unless the price system is flexible and prices are allowed to move freely according to the intercommunication of the various markets, the system ceases to be self-regulating even in principle and the vast mechanism must fail, leaving mankind in immediate danger of mass unemployment, cessation of production, loss of incomes and consequent social anarchy and chaos.

### 3. Society and the market.

But the apparently simple proposition that all factors of production must have free markets implies in practice that the whole of society must be subordinated to the needs of the market system. Amongst the factors of production there are land and labour, both of which can be treated as commodities only on a

more or less fictitious basis. For labour means the human beings of whom society consists, and land is only another word for the mother earth on whom they subsist. In the attempt to establish a separate market-economy within society, the whole of society is thus subordinated to the needs of a market-economy. Almost unwittingly an unheard of thing is brought into existence: - an economic society, i. e., a human community based on the assumption that society depends for its existence on material goods alone.

Such an assumption is demonstrably false. The safety of life and limb is at least as vital as the daily food; nor is there any definite preference for bread and butter, if the alternative is to be killed outright. But if a society should permanently exist there are a number of other requirements for which it must provide such as reasonably stable relationships to our environment, i. e., to nature, our neighbours, our craft; military qualities of the members of society including health and physique; a sufficiently stable outlook on the future such as would allow the laying of the foundations of human character and the raising of a new generation. Clearly these requisites cannot be substituted by an abundance of material goods alone. The 'Satanic mill' of the market would soon dispose of a society which would allow its land to be atomized or to be left unused; which would allow its labour power to be overstrained or to be left to rust; which would permit its credit system to run into an inflation or to throttle business according to the whims of a blind mechanism removed by its very nature from the needs of the living community embodied in every human society.

The real nature of the dangers thus become apparent which are inseparable from the market-utopia. For the sake of society the market mechanism must be restricted. But this cannot be done without grave peril to economic life and therefore to society as a whole. We are caught up on the horns of a dilemma: - either to continue on the paths of a utopia bound for destruction, or to halt on this path and risk the throwing out of gear of this marvellous but extremely artificial system.

#### 4. The original unity of society, and the present trend towards integration.

The separation of the political and the economic sphere is the unique peculiarity of our type of society. Neither the tribal, nor the city state, nor the feudal societies of the past knew this trait. In all these societies one set of institutions provided for the satisfaction of the various human needs such as for safety and protection, justice and order, material goods, sexual life and reproduction. The religious, the ceremonial, the family and other institutions of tribal or feudal society do not provide for such a separation. Mercantilism also, the immediate predecessor of our present society, was a politico-economic doctrine based on the institutional unity of society.

The utopian character of a market-economy explains why it never could be really put into practice. It was always more of an ideology than of an actual fact. Factory legislation and protectionism, Trade Unions and the Church were the outstanding factors in the violent reaction against the assumptions of an unrestricted market for land and labour. In other words, the separation of economics and politics was never carried completely into effect. The integration of society began even before the movement for a market-economy had reached its climax.



But this development merely increased the strain on the social system. For the mutual interference of industry and state, economics and politics, was not disciplined by any higher principle. The working class made use of the institutions of the democratic state in order to protect itself against the worst effects of the competitive system; the leaders of business on their part made use of industrial property and finance to weaken political democracy. This is the false integration of which late nineteenth century society showed so many examples. The adherents of a market-economy justly point out that tariff policies and monopolistic trade union practices were often directly responsible for the aggravation of slumps and the restriction of trade. What they do not see is that these protective measures of the State and of voluntary organizations were the only means to save society from destruction through the blind action of the market-mechanism.

In post-war Europe the separation of economics and politics developed into a catastrophic internal situation. The captains of industry undermined the authority of democratic institutions, while democratic parliaments continuously interfered with the working of the market mechanism. A state of affairs was reached when a sudden paralysis of both the economic and the political institutions of society was well within the possible. The need for re-integration of society was apparent. range of the

This was the critical state of affairs out of which the fascist revolutions sprang. The alternative was between an integration of society through political power on a democratic basis, or, if democracy proved too weak, integration on an authoritarian basis in a totalitarian society, at the price of the sacrifice of democracy.

The American social system is, in my conviction, not faced with this tragic dilemma. But if loss of freedom should be avoided, it will have to take two steps at the same time: - accept the need for integration and achieve it through democratic means.

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Correction in Lecture 1:

The top line of page 2 in Lecture 1 should read as follows:

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The fascist social system is, in my opinion, not faced with this dilemma. But if force of freedom should be avoided, it will have to take two years at the same time - except the need for integration and achieve it through democratic means.

Correction in lecture 14

The top line of page 3 in lecture 1 should read as follows: "except for a few examples, the people were living in an entirely new industrial setting," instead of "international" setting as it printed.

*A But it was, as we said the Dissolution of the international system which brought nations two head.*



ECONOMIC AND SOCIOLOGICAL SUBJECTS

1. The historical background of the psychology of the British working class.
2. The reasons of economic imperialism-fables and counter-fables.
3. The rise and fall of market-economy.
4. Division of labor - according to plan, according to the market.
5. The revolution in economic theory: Currency and credit, monopoly and competition, international trade and public finance.
6. What is wrong with free trade.
7. Currency, the cruz of world economy.
8. Between two stages of industrial civilization.
9. Evolutionism exploded.
10. Economic factors vs. economic interests: What was permanent and what merely transitory in the economic outlook of the nineteenth century?
11. Christianity, capitalism and democracy in American history.
12. 1815-1914. The Hundred Years' Peace, its causes and effects.
13. The origins of the liberal Utopia.
14. Two catastrophes in the course of England's social history: The enclosure period and the 'early' industrial revolution.
15. Primitive economics.
16. Political and economic preconditions of financial reconstruction on a world scale.

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