

## ECONOMIC HISTORY AND THE PROBLEM OF FREEDOM

Luncheon talk given at the Graduate Public Law and Government Club

February 25, 1949

The problem, which I have been asked to discuss, appears clear and simple. The problem of freedom consists in our ability to maintain the inheritance of freedom in a changing world. But say as much as 'changing world', and you are in for Alarums and Excursions from right and left - especially from the right and the left - the children of Light and the children of Darkness being equally unhelpful - and unclarifying, I am afraid - in effect, sometimes one would wish to be quite sure which was which.

I mean by freedom concrete institutions, civic liberties - freedoms (in the plural) - the capacity to follow one's personal conviction in the light of his conscience : the freedom to differ, to hold views of one's own, to be in a minority of one, and yet be an honored member of the community in which he plays the vital part of the deviant. It is freedom to follow what the Anabaptists and the Quakers after them called the 'inner light', or, in terms of political theory, to be in safe possession of the priceless achievement of John Stuart Mill's century.

I admit that there may arise a dilemma of national security versus civic liberties. To ignore it is to bury one's head in the sand. However, it need not prove fatal to liberty, if tackled in a spirit which is open both to the realities of the situation and to the transcendent principle of political freedom.

Also I readily admit that I do not mean by freedom the right to sweat one's fellows, or to make inordinate gains without commensurate service to the community, or to keep technological inventions from being used for the public benefit, or liberty to profit from public calamities engineered for private advantage. If such freedoms disappear, it is all to the good. John Stuart Mill, though at that time a convinced upholder of laissez-faire economy, rejected the

defence of private trading or private enterprise as a matter of individual freedom, as unrelated to the fundamental values of freedom of thought, mind and conscience.

Let me repeat my first statement. The problem of freedom consists in our ability to maintain our inheritance of freedom in a changing world. For it is held that change must destroy free institutions. This is argued in two very different keys: in Milton's language, that of Satan and that of the angelic host.

Satan argues: "Don't worry, go ahead! Free institutions are a bourgeois fraud, and change will inevitably do away with these ideologies of capitalism."

The other side echos the premise that change will do away with freedom, but draws the opposite conclusion: "Stop! Do not try to reform capitalism, for if you interfere with free enterprise you will inevitably lose your freedom."

Between the Marxist determinism of the powers of darkness and laissez-faire determinism of the seraphic host, we find ourselves the victims of two kinds of inevitabilities:

Marxist inevitability, which sometimes almost exultantly proclaims the inevitability of the loss of our freedoms, unless we resign ourselves to the status quo, changelessness and certain destruction.

Laissez-faire inevitability, which proclaims precisely that fatal changelessness in a changing world, compliance with laissez-faire preconceptions, under the threat of an otherwise allegedly inevitable serfdom.

In my conviction, these are merely two different forms of the same creed of economic determinism - a materialistic legacy of the 19th century - which economic history does not bear out.

Marxist determinism is based on some kind of railway time-table of social development: Upon slave society follows feudalism, upon feudalism - capitalism, upon capitalism - socialism. Ideologies move parallel - a kind of August Comtean time-table of theology, metaphysics, positive science. Everything is ultimately pre-determined: including ideologies, institutionalized or not. In the long-run the economic basis of society, i.e. technology, pulls into line the conditions of production, i.e. the property system, and both together pull into line the super-

structure of institutionalized ideas and valuations. Irrigational technique not only produces a slave-holders' society, but such a society must also ultimately produce fetish idolatry; the hand-mill not only produces a feudal society, but such a society must also ultimately produce a church religion; the steam-engine not only produces bourgeois society, but such a society must also eventually produce the ideologies of liberty, equality and fraternity; electricity, and a fortiori the atomic age, must produce socialism, under which liberty, equality and fraternity disappear again as ruling ideologies, and are replaced by dialectical materialism.

Now, there is an element of essential truth in all this. Technology and ecology decisively limit the basic structure of human society, and may deeply influence its ideology. But only under market-economy, do economic factors not only limit, but determine culture. Only here does the economy determine the shape and form of society. Economic determinism is here a massive fact. But only here. As a description of earlier periods, it is a mere anachronism, while as a forecast of the future it is no more than a prejudice.

'Marxism' as well as laissez-faire mirror 19th-century conditions. A market-economy is an economy organized through markets, i.e. through a supply-demand-price mechanism. No one can, in principle, exist under such conditions unless he buys goods on markets with the help of income derived from selling other goods on other markets. But what makes a market-economy is its self-regulating character. This springs from the inclusion of the factors of production, labor and land, in the system. No society before our own ever permitted the fate of labor and land to be decided by the supply-demand-price mechanism. Once this is the case, society is economically determined. Why? Because labor is only another name for man, and land for nature. Market-economy amounts to the handing over of man and his natural habitat to the working of a blind mechanism running in its own grooves and following its own laws. No wonder that the picture of economic determinism arose, i.e. of a society governed by the action of an economic mechanism. This was a picture of actuality.

But as the economic historian is bound to add: of a unique actuality. Normally, the economic factor is merely a limiting factor in human history. - Sure, no powerful

navies are ever developed in countries which have no coast, nor are polar bears hunted in tropical waters. But the pattern of culture, the major cultural emphasis in society, is not determined by either technological

or geographical factors. Whether a people develops a cooperative or a competitive attitude in everyday life, whether it prefers to work its technique of production collectively or individualistically, is in many cases strikingly independent of the utilitarian logic of the means of production, and even of the actual basic economic institutions of the community. One and the same occupations and techniques of production are worked in the spirit of antagonistic competition by one group of people, while another prefers to work them in a harmonious spirit of mutuality and non-competition. The work of modern cultural anthropologists like Margaret Mead, Forde or Thurnwald has made this abundantly clear. Yet it was such a mistaken belief in economic determinism as a general law, which made many Marxists - not, to my knowledge, Marx himself - prophesy that our personal freedoms must disappear together with the free enterprise system. Actually, there is no necessity for this whatever. Emphasis on liberty, on personality, on independence of mind, on tolerance and freedom of conscience is precisely in the same category as cooperative and harmonious attitudes on the one hand, antagonistic and competitive attitudes on the other - it is a pervasive pattern of the mind expressed in innumerable ways, protected by custom and law, institutionalized in varied forms, but essentially independent of technique and even economic organization. Under private enterprise public opinion may lose all sense of tolerance and freedom, while under strictest regulation of a war economy the power of a free public opinion was greater in Britain and the U.S.A. than ever.

But this self-same determinism reappears today with another emphasis. Ironically enough, it is often voiced by those who imagine themselves to be the protagonists of anti-Marxism. We are warned by men of good will that unless we uphold the market system in its 19th-century form, in which is in principle identical with a market-economy, we inevitably lose our freedoms.

German and Russian planned economies certainly were accompanied by almost total absence of civic liberties. But where's the proof that institutionalized freedoms were ever intended in Germany, or in Russia since the setting aside of the New Constitution? And whether intended or not : the laissez-faire argument hinges on the alleged effects of the absence of freedom of choice in employment. Yet reliable investigation has shown that in practice no individual direction of labor ever took place either in Germany or in Russia. Political intolerance and political regimentation were entirely a matter of ~~political~~ propaganda supplemented by political and administrative methods. Yet police methods would be applicable in any police state, laissez-faire economy or not! That crucial link was missing. Or take more recent developments : Is there any evidence that during the relative free economy period of 1946-1948 in the USA, civic liberty standards improved, as against 1932-1945? As everyone knows, the opposite was the case, but again for reasons independent of economic politics and directly related to more general factors. Or, finally, England : According to laissez-faire standards, England has long passed the line which separates freedom from serfdom. The government has formally absolute powers in regard to the direction of labor, and on very rare occasions has even used them. But has Britain ceased to be the country where the standards of civic liberties are a model to the world?

But this self-same determinism reappears today with another emphasis. Ironically enough, it is often voiced by those who imagine themselves to be the protagonists of anti-Marxism. We are warned that unless we uphold the market system in its 19th-century form, which is in principle identical with a market-economy, we inevitably lose our freedoms.

But is there more truth in the new than there was in the old adage? True, civic liberties grew up together with the market economy. True, appreciation of freedom of conscience, freedom of speech, of religion, of association, and so on, was institutionalized together with the spread of the market system. True, the rights of racial, religious, national minorities were increasingly safeguarded as the century became older. The basic argument is that these freedoms would necessarily and inevitably disappear again together with the economic institutions of the period. Such views are being strongly held by well-meaning persons of integrity, amongst them Professor Hayek.

The origins of these gloomy prophecies lie in the beginnings of market economy. They are no truer today than they were then. It was prophesied that under our economic system of private ownership we can have liberty only as long as we do not have democracy, for under democracy capitalism would either be destroyed by the mob or survive only at the cost of liberty, i.e., under a dictatorship. Nothing could be more deterministic, and at the same time more untrue. This view was strongly held by Lord Macaulay, the typical representative of Whig opinions, the views of the enlightened but uniquely class-conscious aristocracy of Britain.

I beg your leave to read to you parts of a letter which he wrote in 1857 to an American friend living in New York, the Honorable H. E. Randall. Judge for yourselves how much truth there was in the forebodings of economic prejudice.

You are surprised to learn that I have not a high opinion of Mr. Jefferson and I am surprised at your surprise. I am certain I never wrote a line and I never in Parliament, in convention, or even on the hustings, a place where it is the fashion to court the populace, uttered a word indicating the opinion that the supreme authority in a state ought to be entrusted to the majority of citizens told by the head; in other words, to the poorest and most ignorant part of society. I have long been convinced that institutions purely democratic must, sooner or later, destroy liberty or civilization, or both.

In Europe, where the population is dense, the effect of such institutions would be almost instantaneous. What happened lately in France is an example. In 1848 a pure democracy was established there. During a short time there was a strong reason to expect a general spoliation, a national bankruptcy, a new partition of the soil, a maximum of prices, a ruinous load of taxation laid on the rich for the purpose of supporting the poor in idleness. Such a system would, in 20 years, have made France as poor and as barbarous as the France of the Carlovingsians. Happily, the danger was averted and now there is a despotism, a silent tribune, an enslaved press; liberty is gone, but civilization has been saved. I have not the smallest doubt that if we had a purely democratic government here the effect would be the same. Either the poor would plunder the rich and civilization would perish or order and property would be saved by a strong military government, and liberty would perish.

You may think that your country enjoys an exemption from these evils. I will frankly own to you that I am of a very different opinion. Your fate I believe to be certain, though it is deferred by a physical cause. As long as you have a boundless extent of fertile and unoccupied land, your laboring population will be far more at ease than the laboring population of the Old World; and while it is the case, the Jeffersonian policy may continue to exist without causing any fatal calamity. But the time will come when New England will be as thickly peopled as Old England. Wages



will be as low and will fluctuate as much with you as with us. You will have your Manchesters and Birminghams. Hundreds of thousands of artisans will assuredly be sometimes out of work. Then your institutions will be fairly brought to the test. Distress everywhere makes the laborer mutinous and discontented and inclines him to listen with eagerness to agitators who tell him that it is a monstrous iniquity that one man should have a million while another cannot get a full meal. In bad years there is plenty of grumbling here and sometimes a little rioting. But it matters little, for here the sufferers are not the rulers. The supreme power is in the hands of a class, numerous indeed, but select of an educated class, of a class which is and knows itself to be deeply interested in the security of property and the maintenance of order. Accordingly, the malcontents are finally yet gently restrained. The bad time is got over without robbing the wealthy to relieve the indigent. The springs of national prosperity soon begin to flow again; work is plentiful, wages rise and all is tranquility and cheerfulness.

I have seen England three or four times pass through such critical seasons as I have described. Through such seasons the United States will have to pass in the course of the next century, if not of this. How will you pass through them? I heartily wish you a good delivrance, but my reason and my wishes are at war and I cannot help foreboding the worst. It is quite plain that your government will never be able to restrain a distressed and discontented majority. For with you the majority is the government and has the rich, who are always a minority, absolutely at its mercy. The day will come when, in the state of New York, a multitude of people, none of whom has had more than half a breakfast or expects to have more than half a dinner, will choose the legislature. Is it possible to doubt what sort of legislature will be chosen? On one side is a statesman preaching patience, respect for vested rights, a strict observance of public faith. On the other is a demagogue ranting about tyranny of capitalists and usurers and asking why anybody should be permitted to drink champagne and to ride in a carriage while thousands of honest people are in want of necessities. Which of the two candidates is likely to be preferred by a workman who hears his children cry for bread?

I seriously apprehend that you will, in some such season of adversity as I have described, do things which will prevent prosperity from returning; that you will act like people in a year of scarcity, devour all the seed corn and thus make the next year not of scarcity but of absolute distress. The distress will produce fresh spoliation. There is nothing to stay you. Your constitution is all sail and no anchor. As I said before, when society has entered on this downward progress, either civilization or liberty must perish. Either some Caesar or Napoleon will seize the reins of government with a strong hand or your republic will be as fearfully plundered and laid waste by barbarians in the twentieth century as the Roman Empire was in the fifth, with this difference. That the Huns and Vandals who ravaged the Roman empire came from without, and that your ~~Huns and Vandals~~ Huns and Vandals will have engendered within your country by your own institutions.

Thinking this, of course, I cannot reckon Jefferson among the benefactors of mankind.

[May I conclude by saying:] *there. She is still*  
~~Well~~, America is still a democracy and has lost ~~none~~ neither ~~its~~ *her* freedom nor ~~its~~ *her* prosperity. And it is my firm belief that an other century hence a reformed American economy, stable, just and prosperous will be the answer to ~~Lord~~ *the* Macaulay's ~~of~~ *ent* of to-day: the ~~stronger~~ *stronger* answer of a people ~~stronger~~ *stronger* in their liberties and freedom.