The Great Transformation

Karl Polanyi

Foreword by Robert M. MacIver

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This book was written in America during the Second World War. But it was begun and finished in England, where the author was Lecturer for the Extramural Delegacy of the University of Oxford and the corresponding institutions of the University of London. Its main thesis was developed during the academic year 1939-40 in conjunction with his work in Tutorial Classes, organized by the Workers' Educational Association, at Morley College, London, at Canterbury and at Bexhill.

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K. P.

Shoreham, Sevenoaks, Kent.

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### FOREWORD

Here is a book that makes most books in its field seem obsolete or outdated. So rare an event is a portent of the times. Here, at a crucial hour, is a fresh comprehension of the form and the meaning of human affairs. Mr. Polanyi does not profess to be writing history—he is rewriting it. He is not bringing a candle light into one of its dark corners, nor is he plausibly making it the public scripture of his private faith; instead, with insight as well as with knowledge, he is shedding a new illumination on the processes and revolutions of a whole age of unexampled change.

Mr. Polanyi’s immediate objective is to bring out, as he does with remarkable discernment, the social implications of a particular economic system, the market economy that grew to its full stature in the nineteenth century. The time has come when retrospective wisdom may assess it all, for, as Aristotle said, we can learn the nature of anything only when it has reached—and passed—and it’s maturation. Events and processes, theories and actions, appear in a new perspective. Much that to the pedestrian writer of history seems merely episodic becomes invested with a deeper significance; much that seems merely bizarre is given a juster estimate. The reduction of man to labor and of nature to land under the impulse of the market economy turns modern history into a high drama in which society, the chained protagonist, at last bursts its bonds.

This new orientation, suggested in other works but not developed before, confers new proportions on men and ideas. Take, for example, the Chartist Movement and the prophetic spirit of Robert Owen. Or take the famous recommendation of Speenhamland—how much deeper Mr. Polanyi cuts into its historic meaning! How intelligible becomes the picture of the judicial squires prescribing armchair principles to a force that neither they nor the most enlightened of their age could yet comprehend. With new understanding we witness the battle of ideologies around the inexorably growing economy, some blindly opposing, some seeking to retard its more ruthless thrusts into the social fabric, some single-mindedly—or simple-mindedly—hailing its every advance. We witness the rearguard action of the champions of the old order, the
impotent discomfiture of the upholders of a tradition-bound Christianity, the easy triumph of the orthodox economists who neatly explain it all. But the advancing front leaves ruin in its train, and the hastily built defences crumble before it. We see how with a new liberation went a new servitude, and we measure the challenge that now faces our own age.

Mr. Polanyi leaves far behind the dogmatism of Karl Marx and the apologetics of the reaction. He is concerned with the economic process in modern civilization but he offers no doctrine of economic determinism. He gives instead a penetrating analysis of a particular historical transformation in which the supersession of one economic system by another played the decisive role. This happened not because the economic relation is always primary but because in this instance, and in this instance alone, the “ideal system” of the new economics demanded a ruthless abnegation of the social status of the human being. Skillfully he adduces the colonial situation and the industrially invaded societies of primitive people in order to show, not what this “ideal system” meant for them but what it also imported for us. The “satanic mills” were heedless of all human needs but one; relentlessly they began to grind society itself into its atoms. Therefore men had to discover society. For Mr. Polanyi the last word is society. The major tragedy attendant on the Industrial Revolution was brought about not by the callousness and greed of profit-seeking capitalists—though there was inhumanity enough in the record—but by the social devastation of an uncontrolled system, the market economy. Men failed to realize what the cohesion of society meant. The inner temple of human life was despoiled and violated. The tremendous problem of the social control of a revolutionary change was unappreciated; optimistic philosophies obscured it, shortsighted philanthropies conspired with power interests to conceal it, and the wisdom of time was still unborn.

But in presenting this argument Mr. Polanyi is not casting wistful eyes on some happier past; he is not pleading the cause of reaction. There is no way back and no solution can come through the search for one. What our age needs is the reaffirmation, for its own conditions and for its own needs, of the essential values of human life. Tradition fails us and will betray us if we trust to it. We must not abandon the principle of individual freedom but we must re-create it. We cannot restore a past society, even if the haze of history hides its evils from us; we must rebuild society for ourselves, learning from the past what lessons and what warnings we are capable of learning. Perhaps in doing so we might also bear in mind that the causation of human affairs is too deeply tangled to be wholly unraveled by the wisest minds. There is always a point where we must trust our values in action, so that the urgent forces of the present world may release themselves in new directions towards new goals.

A book so stimulating and so deep-probing is bound to excite controversy and to be questioned at various points. Some may doubt whether the role of the market economy was so absolute, whether the logic of the system was in itself so rigorous and compelling. They may not be willing to go as far as the author when at one point he says that “nations and peoples were mere puppets in a show utterly beyond their control.” Some may wish that the different forms of “protection” against the self-regulating market were given different valuations and they may be a little uneasy that the tariff promoter and social legislator seem to appear as brothers-in-arms. And so forth. But they must all surely recognize the clear cogency of the total argument. We stand at a new vantage point, looking down, after the earthquake, on the ruined temples of our cherished gods. We see the weakness of the exposed foundations—perhaps we can learn how, and where, to rebuild the institutional fabric so that it may better withstand the shocks of change.

Of primary importance today is the lesson it carries for the makers of the coming international organization. For one thing it shows that such liberal formulas as “world peace through world trade” will not suffice. If we are content with such formulas we are the victims of a dangerous and deceptive simplification. Neither a national nor an international system can depend on the automatic regulants. Balanced budgets and free enterprise and world commerce and international clearingshouses and currencies maintained at par will not guarantee an international order. Society alone can guarantee it; international society must also be discovered. Here too the institutional fabric must maintain and control the economic scheme of things.

So the message of this book is not only for the economist, though it has a powerful message for him; not only for the historian, though it opens for him new paths; not only for the sociologist, though it conveys to him a deepened sense of what society means; not only for the political scientist, though it will help him to restate old issues and to evaluate old doctrines—it is for every intelligent man who cares to advance beyond his present stage of social education, for every man who cares to know the society in which he lives, the crisis it has passed through, and the crises that are now upon us. Here he may gain new glimpses of a
deeper faith. Here he can learn to look beyond the inadequate alternatives that are usually offered to him, the thus far and no farther of liberalism, the all or nothing of collectivism, the sheer negation of individualism, for these all tend to make some economic system the primary desideratum, and it is only as we discover the primacy of society, the inclusive coherent unity of human interdependence, that we can hope to transcend the perplexities and the contradictions of our times.

R. M. MacIver

PART ONE

The International System
1

THE HUNDRED YEARS' PEACE

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

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

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

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

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

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

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

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

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

First we shall deal with the collapse of the international system. We shall try to show that the balance-of-power system could not ensure peace once the world economy on which it rested had failed. This accounts for the abruptness with which the break occurred, the inconceivable rapidity of the dissolution.

But if the breakdown of our civilization was timed by the failure of world economy, it was certainly not caused by it. Its origins lay more than a hundred years back in that social and technological upheaval from which the idea of a self-regulating market sprang in Western Europe. The end of this venture has come in our time; it closes a distinct stage in the history of industrial civilization.

In the final part of the book we shall deal with the mechanism which governed social and national change in our time. Broadly, we believe that the present condition of man is to be defined in terms of the institutional origins of the crisis.

The nineteenth century produced a phenomenon unheard of in the annals of Western civilization, namely, a hundred years’ peace—1815–1914. Apart from the Crimean War—a more or less colonial event—England, France, Prussia, Austria, Italy, and Russia were engaged in war among each other for altogether only eighteen months. A computation of comparable figures for the two preceding centuries gives an average of sixty to seventy years of major wars in each. But even the fiercest of nineteenth century conflagrations, the Franco-Prussian War of 1870–71, ended after less than a year’s duration with the defeated nation being able to pay over an unprecedented sum as an indemnity without any disturbance of the currencies concerned.

This triumph of a pragmatic pacifism was certainly not the result of an absence of grave causes for conflict. Almost continuous shifts in the internal and external conditions of powerful nations and great empires accompanied this ironic pageant. During the first part of the century civil wars, revolutionary and anti-revolutionary interventions were the order of the day. In Spain a hundred thousand troops under the Duc d’Angoulême stormed Cadiz; in Hungary the Magyar revolution threatened to defeat the Emperor himself in pitched battle and was ultimately suppressed only by a Russian army fighting on Hungarian soil. Armed interventions in the Germanies, in Belgium, Poland, Switzerland, Denmark, and Venice marked the omnipresence of the Holy Alliance. During the second half of the century the dynamics of progress was released; the Ottoman, Egyptian, and the Sherifian empires broke up or were dismembered; China was forced by invading armies to open her door to the foreigner and in one gigantic haul the continent of Africa was partitioned. Simultaneously, two powers rose to world importance: the United States and Russia. National unity was achieved by Germany and Italy; Belgium, Greece, Roumania,
Bulgaria, Serbia, and Hungary assumed, or reassumed, their places as sovereign states on the map of Europe. An almost incessant series of open wars accompanied the march of industrial civilization into the domains of outworn cultures or primitive peoples. Russia’s military conquests in Central Asia, England’s numberless Indian and African wars, France’s exploits in Egypt, Algiers, Tunis, Syria, Madagascar, Indo-China, and Siam raised issues between the Powers which, as a rule, only force can arbitrate. Yet every single one of these conflicts was localized, and numberless other occasions for violent change were either met by joint action or smothered into compromise by the Great Powers. Regardless of how the methods changed, the result was the same. While in the first part of the century constitutionalism was banned and the Holy Alliance suppressed freedom in the name of peace, during the other half—and again in the name of peace—constitutions were foisted upon turbulent despoties by business-minded bankers. Thus under varying forms and ever-shifting ideologies—sometimes in the name of progress and liberty, sometimes by the authority of the throne and the altar, sometimes by grace of the stock exchange and the checkbook, sometimes by corruption and bribery, sometimes by moral argument and enlightened appeal, sometimes by the broadside and the bayonet—one and the same result was attained: peace was preserved.

This almost miraculous performance was due to the working of the balance of power, which here produced a result which is normally foreign to it. By its nature that balance effects an entirely different result, namely, the survival of the power units involved; in fact, it merely postulates that three or more units capable of exerting power will always behave in such a way as to combine the power of the weaker units against any increase in power of the strongest. In the realm of universal history balance of power was concerned with states whose independence it served to maintain. But it attained this end only by continuous war between changing partners. The practice of the ancient Greek or the Northern Italian city-states was such an instance; wars between shifting groups of combatants maintained the independence of those states over long stretches of time. The action of the same principle safeguarded for over two hundred years the sovereignty of the states forming Europe at the time of the Treaty of Münster and Westphalia (1648). When, seventy-five years later, in the Treaty of Utrecht, the signatories declared their formal adherence to this principle, they thereby embodied it in a system, and thus established mutual guarantees of survival for the strong and the weak alike through the medium of war. The fact that in the nineteenth century the same mechanism resulted in peace rather than war is a problem to challenge the historian.

The entirely new factor, we submit, was the emergence of an acute peace interest. Traditionally, such an interest was regarded as outside the scope of the state system. Peace with its corollaries of crafts and arts ranked among the mere adornments of life. The Church might pray for peace as for a bountiful harvest, but in the realm of state action it would nevertheless advocate armed intervention; governments subordinated peace to security and sovereignty, that is, to intents that could not be achieved otherwise than by recourse to the ultimate means. Few things were regarded as more detrimental to a community than the existence of an organized peace interest in its midst. As late as the second half of the eighteenth century, J. J. Rousseau arraigned trades people for their lack of patriotism because they were suspected of preferring peace to liberty.

After 1815 the change is sudden and complete. The backwash of the French Revolution reinforced the rising tide of the Industrial Revolution in establishing peaceful business as a universal interest. Metternich proclaimed that what the people of Europe wanted was not liberty but peace. Gentz called patriots the new barbarians. Church and throne started out on the denationalization of Europe. Their arguments found support both in the ferocity of the recent popular forms of warfare and in the tremendously enhanced value of peace under the nascent economies.

The bearers of the new “peace interest” were, as usual, those who chiefly benefited by it, namely, that cartel of dynasts and feudalists whose patrimonial positions were threatened by the revolutionary wave of patriotism that was sweeping the Continent. Thus, for approximately a third of a century the Holy Alliance provided the coercive force and the ideological impetus for an active peace policy; its armies were roaming up and down Europe putting down minorities and repressing majorities. From 1846 to about 1871—“one of the most confused and crowded quarter centuries of European history”¹—peace was less safely established, the ebbing strength of reaction meeting the growing strength of industrialism. In the quarter century following the Franco-Prussian War we find the revived peace interest represented by that new powerful entity, the Concert of Europe.

¹ Sontag, R. J., European Diplomatic History, 1871–1932, 1935.
THE INTERNATIONAL SYSTEM

Interests, however, like intents, necessarily remain platonic unless they are translated into politics by the means of some social instrumentality. Superficially, such a vehicle of realization was lacking; both the Holy Alliance and the Concert of Europe were, ultimately, mere groupings of independent sovereign states, and thus subject to the balance of power and its mechanism of war. How then was peace maintained?

True, any balance-of-power system will tend to prevent such wars as spring from one nation's failure to foresee the realignment of powers which will result from its attempt to alter the status quo. Famous instances were Bismarck's calling off of the press campaign against France, in 1875, on Russian and British intervention (Austria's aid to France was taken for granted). This time the Concert of Europe worked against Germany who found herself isolated. In 1877-78 Germany was unable to prevent a Russo-Turkish War, but succeeded in localizing it by backing up England's jealousy of a Russian move towards the Dardanelles; Germany and England supported Turkey against Russia—thus saving the peace. At the Congress of Berlin a long-term plan for the liquidation of the European possessions of the Ottoman Empire was launched; this resulted in averting wars between the Great Powers in spite of all subsequent changes in the status quo, as the parties concerned could be practically certain in advance of the forces they would have to meet in battle. Peace in these instances was a welcome by-product of the balance-of-power system.

Also, wars were sometimes avoided by deliberately removing their causes, if the fate of small powers only was involved. Small nations were checked and prevented from disturbing the status quo in any way which might precipitate war. The Dutch invasion of Belgium in 1831 eventually led to the neutralization of that country. In 1855 Norway was neutralized. In 1867 Luxembourg was sold by Holland to France; Germany protested and Luxembourg was neutralized. In 1856 the integrity of the Ottoman Empire was declared essential to the equilibrium of Europe, and the Concert of Europe endeavored to maintain that empire; after 1878, when its disintegration was deemed essential to that equilibrium, its dismemberment was provided for in a similarly orderly manner, though in both cases the decision meant life and death to several small peoples. Between 1852 and 1863 Denmark, between 1851 and 1856 the Germanies threatened to disturb the balance; each time the small states were forced by the Great Powers to conform. In these instances, the liberty of action offered to them by the system was used by the Powers to achieve a joint interest—which happened to be peace.

But it is a far cry from the occasional averting of wars either by a timely clarification of the power situation or by the coercing of small states to the massive fact of the Hundred Years' Peace. International disequilibrium may occur for innumerable reasons—from a dynastic love affair to the silting of an estuary, from a theological controversy to a technological invention. The mere growth of wealth and population, or, eventually, their decrease, is bound to set political forces in motion; and the external balance will invariably reflect the internal. Even an organized balance-of-power system can ensure peace without the permanent threat of war only if it is able to act upon these internal factors directly and prevent imbalance in status nascenti. Once the imbalance has gathered momentum only force can set it right. It is a commonplace that to insure peace one must eliminate the causes of war; but it is not generally realized that to do so the flow of life must be controlled at its source.

The Holy Alliance contrived to achieve this with the help of instruments peculiar to it. The kings and aristocracies of Europe formed an international of kinship; and the Roman Church provided them with a voluntary civil service ranging from the highest to the lowest rung of the social ladder in Southern and Central Europe. The hierarchies of blood and grace were fused into an instrument of locally effective rule which needed only to be supplemented by force to ensure continental peace.

But the Concert of Europe, which succeeded it, lacked the feudal as well as the clerical tentacles; it amounted at the best to a loose federation not comparable in coherence to Metternich's masterpiece. Only on rare occasions could a meeting of the Powers be called, and their jealousies allowed a wide latitude to intrigue, cross-currents, and diplomatic sabotage; joint military action became rare. And yet what the Holy Alliance, with its complete unity of thought and purpose, could achieve in Europe only with the help of frequent armed interventions was here accomplished on a world scale by the shadowy entity called the Concert of Europe with the help of a very much less frequent and oppressive use of force. For an explanation of this amazing feat, we must seek for some undisclosed powerful social instrumentality at work in the new setting, which could play the role of dynasties and episcopacies under the old and make the peace interest effective. This anonymous factor was haute finance.

No all-around inquiry into the nature of international banking in the nineteenth century has yet been undertaken; this mysterious institu-
tion has hardly emerged from the chiaroscuro of politico-economic mythology. Some contended that it was merely the tool of governments; others, that the governments were the instruments of its unquenchable thirst for gain; some, that it was the sower of international discord; others, that it was the vehicle of an effeminate cosmopolitanism sapping the strength of virile nations. None was quite mistaken. Haute finance, an institution sui generis, peculiar to the last third of the nineteenth and the first third of the twentieth century, functioned as the main link between the political and the economic organization of the world in this period. It supplied the instruments for an international peace system, which was worked with the help of the Powers, but which the Powers themselves could neither have established nor maintained. While the Concert of Europe acted only at intervals, haute finance functioned as a permanent agency of the most elastic kind. Independent of single governments, even of the most powerful, it was in touch with all; independent of the central banks, even of the Bank of England, it was closely connected with them. There was intimate contact between finance and diplomacy; neither would consider any long-range plan, whether peaceful or warlike, without making sure of the other’s good will. Yet the secret of the successful maintenance of general peace lay undoubtedly in the position, organization, and techniques of international finance.

Both the personnel and the motives of this singular body invested it with a status the roots of which were securely grounded in the private sphere of strictly business interest. The Rothschilds were subject to no one government; as a family they embodied the abstract principle of internationalism; their loyalty was to a firm, the credit of which had become the only supranational link between political government and industrial effort in a swiftly growing world economy. In the last resort, their independence sprang from the needs of the time which demanded a sovereign agent commanding the confidence of national statesmen and of the international investor alike; it was to this vital need that the metaphysical extraterritoriality of a Jewish bankers’ dynasty domiciled in the capitals of Europe provided an almost perfect solution. They were anything but pacifists; they had made their fortune in the financing of wars; they were impervious to moral consideration; they had no objection to any number of minor, short, or localized wars. But their business would be impaired if a general war between the Great Powers

3 Feis, H., Europe, the World’s Banker, 1870–1914, 1930, a work we have often textually followed.
investment groups, foreign loans, financial controls, or other transactions of an ambitious scope, was bound to seek the co-operation of national banking, national capital, national finance. Though national finance, as a rule, was less subservient to government than national industry, it was still sufficiently so to make international finance eager to keep in touch with the governments themselves. Yet to the degree to which—in virtue of its position and personnel, its private fortune and affiliations—it was actually independent of any single government, it was able to serve a new interest, which had no specific organ of its own, for the service of which no other institution happened to be available, and which was nevertheless of vital importance to the community: namely, peace. Not peace at all cost, not even peace at the price of any ingredient of independence, sovereignty, vested glory, or future aspirations of the powers concerned, but nevertheless peace, if it was possible to attain it without such sacrifice.

Not otherwise. Power had precedence over profit. However closely their realms interpenetrated, ultimately it was war that laid down the law to business. Since 1870 France and Germany, for example, were enemies. This did not exclude noncommittal transactions between them. Occasional banking syndicates were formed for transferary purposes; there was private participation by German investment banks in enterprises over the border, which did not appear in the balance sheets; in the short-term loan market there was a discounting of bills of exchange and a granting of short-term loans on collateral and commercial papers on the part of French banks; there was direct investment as in the case of the marriage of iron and coke, or of Thyssen’s plant in Normandy, but such investments were restricted to definite areas in France and were under a permanent fire of criticism from both the nationalists and the socialists; direct investment was more frequent in the colonies, as exemplified by Germany’s tenacious efforts to secure high-grade ore in Algeria, or by the involved story of participations in Morocco. Yet it remains a stern fact that at no time after 1870 was the official though tacit ban on German securities at the Bourse of Paris lifted. France simply “chose not to risk having the force of loaned capital” a turned upon herself. Austria also was suspect; in the Moroccan crisis of 1905-06 the ban was extended to Hungary. Financial circles in Paris pleaded for the admission of Hungarian securities, but industrial circles supported the government in its staunch opposition to any concession to a possible military antagonist. Politico-diplomatic rivalry continued unabated. Any move that might increase the presumptive enemy’s potential was vetoed by the governments. Superficially, it more than once appeared as if the conflict had been quashed, but the inside circles were aware that it had been merely shifted to points even more deeply hidden under the amicable surface.

Or take Germany’s Eastern ambitions. Here also politics and finance intermingled, yet politics was supreme. After a quarter of a century of perilous bickering, Germany and England signed a comprehensive agreement on the Baghdad railway, in June, 1914—too late to prevent the Great War, it was often said. Others argued that, on the contrary, the signing of the agreement proved conclusively that the war between England and Germany was not caused by a clash of economic expansionism. Neither view is borne out by the facts. The agreement actually left the main issue undecided. The German railway line was still not to be carried on beyond Basra without the consent of the British government, and the economic zones of the treaty were bound to lead to a head-on collision at a future time. Meanwhile, the Powers would continue to prepare for The Day, which was even nearer than they reckoned. 4

International finance had to cope with the conflicting ambitions and intrigues of the great and small powers; its plans were thwarted by diplomatic maneuvers, its long-term investments jeopardized, its constructive efforts hampered by political sabotage and backstairs obstruction. The national banking organizations without which it was helpless often acted as the accomplices of their respective governments, and no plan was safe which did not carve out in advance the booty of each participant. However, power finance just as often was not the victim, but the beneficiary of Dollar diplomacy which provided the steel ribs to the velvet glove of finance. For business success involved the ruthless use of force against weaker countries, wholesale bribing of backward administrations, and the use of all the underhand means of gaining ends familiar to the colonial and semicolonial jungle. And yet by functional determination it fell to haute finance to avert general wars. The vast majority of the holders of government securities, as well as other investors and traders, were bound to be the first losers in such wars, especially if the currencies were affected. The influence that haute finance exerted on the Powers was consistently favorable to European peace. And this influence was effective to the degree to which the governments themselves depended upon its co-operation in more than one

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* Feis, H., op. cit., p. 201.

* Cf. Notes on Sources, page 264.
direction. Consequently, there was never a time when the peace interest was unrepresented in the councils of the Concert of Europe. If we add to this the growing peace interest inside every nation where the investment habit had taken root, we shall begin to see why the awful innovation of an armed peace of dozens of practically mobilized states could hover over Europe from 1871 to 1914 without bursting forth in a shattering conflagration.

Finance—this was one of its channels of influence—acted as a powerful moderator in the councils and policies of a number of smaller sovereign states. Loans, and the renewal of loans, hinged upon credit, and credit upon good behavior. Since, under constitutional government (unconstitutional ones were severely frowned upon), behavior is reflected in the budget and the external value of the currency cannot be detached from the appreciation of the budget, debtor governments were well advised to watch their exchanges carefully and to avoid policies which might reflect upon the soundness of the budgetary position. This useful maxim became a cogent rule of conduct once a country had adopted the gold standard, which limited permissible fluctuations to a minimum. Gold standard and constitutionalism were the instruments which made the voice of the City of London heard in many smaller countries which had adopted these symbols of adherence to the new international order. The Pax Britannica held its sway sometimes by the ominous poise of heavy ship's cannon, but more frequently it prevailed by the timely pull of a thread in the international monetary network.

The influence of haute finance was ensured also through its unofficial administration of the finances of vast semicolonial regions of the world, including the decaying empires of Islam in the highly inflammable zone of the Near East and North Africa. It was here that the day's work of financiers touched upon the subtle factors underlying internal order, and provided a de facto administration for those troubled regions where peace was most vulnerable. That is how the numerous prerequisites of long-term capital investments in these areas could often be secured in the face of almost insuperable obstacles. The epic of the building of railways in the Balkans, in Anatolia, Syria, Persia, Egypt, Morocco, and China is a story of endurance and of breath-taking turns reminiscent of a similar feat on the North American Continent. The chief danger, however, which stalked the capitalists of Europe was not technological or financial failure, but war—not a war between small countries (which could be easily isolated) nor war upon a small country by a Great Power (a frequent and often convenient occurrence), but a general war between the Great Powers themselves. Europe was not an empty continent, but the home of teeming millions of ancient and new peoples; every new railroad had to thread its way across boundaries of varying solidity, some of which might be fatally weakened, others vitally reinforced, by the contact. Only the iron grip of finance on the prostrate governments of backward regions could avert catastrophe. When Turkey defaulted on its financial obligations in 1875, military conflagrations immediately broke out, lasting from 1876 to 1878 when the Treaty of Berlin was signed. For thirty-six years thereafter peace was maintained. That astounding peace was implemented by the Decree of Muharrem of 1881, which set up the Dette Ottomane in Constantinople. The representatives of haute finance were charged with the administration of the bulk of Turkish finance. In numerous cases they engineered compromises between the Powers; in others, they prevented Turkey from creating difficulties on her own; in others again, they acted simply as the political agents of the Powers; in all, they served the money interests of the creditors, and, if at all possible, of the capitalists who tried to make profits in that country. This task was greatly complicated by the fact that the Debt Commission was not a body representative of the private creditors, but an organ of Europe's public law on which haute finance was only unofficially represented. But it was precisely in this amphibious capacity that it was able to bridge the gap between the political and the economic organization of the age.

Trade had become linked with peace. In the past the organization of trade had been military and warlike; it was an adjunct of the pirate, the rover, the armed caravan, the hunter and trapper, the sword-bearing merchant, the armed burgesses of the towns, the adventurers and explorers, the planters and conquistadores, the manhunters and slave traders, the colonial armies of the chartered companies. Now all this was forgotten. Trade was now dependent upon an international monetary system which could not function in a general war. It demanded peace, and the Great Powers were striving to maintain it. But the balance-of-power system, as we have seen, could not by itself ensure peace. This was done by international finance, the very existence of which embodied the principle of the new dependence of trade upon peace.

We have become too much accustomed to think of the spread of capitalism as a process which is anything but peaceful, and of finance
capital as the chief instigator of innumerable colonial crimes and expansionist aggressions. Its intimate affiliation with heavy industries made Lenin assert that finance capital was responsible for imperialism, notably for the struggle for spheres of influence, concessions, extraterritorial rights, and the innumerable forms in which the Western Powers got a stranglehold on backward regions, in order to invest in railways, public utilities, ports, and other permanent establishments on which their heavy industries made profits. Actually, business and finance were responsible for many colonial wars, but also for the fact that a general conflagration was avoided. Their affiliations with heavy industry, though really close only in Germany, accounted for both. Finance capital as the roof organization of heavy industry was affiliated with the various branches of industry in too many ways to allow one group to determine its policy. For every one interest that was furthered by war, there were a dozen that would be adversely affected. International capital, of course, was bound to be the loser in case of war; but even national finance could gain only exceptionally, though frequently enough to account for dozens of colonial wars, as long as they remained isolated. Every war, almost, was organized by financiers; but peace also was organized by them.

The precise nature of this strictly pragmatic system, which guarded with extreme rigor against a general war while providing for peaceful business amidst an endless sequence of minor ones, is best demonstrated by the changes it brought about in international law. While nationalism and industry distinctly tended to make wars more ferocious and total, effective safeguards were erected for the continuance of peaceful business in wartime. Frederick the Great is on record for having "by reprisal" refused, in 1752, to honor the Silesian loan due to British subjects.6 "No attempt of this sort has been made since," says Hershey. "The wars of the French Revolution furnish us with the last important examples of the confiscation of the private property of enemy subjects found in belligerent territory upon the outbreak of hostilities." After the outbreak of the Crimean War enemy merchantmen were allowed to leave port, a practice which was adhered to by Prussia, France, Russia, Turkey, Spain, Japan, and the United States during the fifty following years. Since the beginning of that war a very large indulgence in commerce between belligerents was allowed. Thus, in the Spanish-American War, neutral vessels, laden with American-owned cargoes other than contraband of war, cleared for Spanish ports. The view that eighteenth century wars were in all respects less destructive than nineteenth century ones is a prejudice. In respect to the status of enemy aliens, the service of loans held by enemy citizens, enemy property, or the right of enemy merchantmen to leave port, the nineteenth century showed a decisive turn in favor of measures to safeguard the economic system in wartime. Only the twentieth century reversed this trend.

Thus the new organization of economic life provided the background of the Hundred Years' Peace. In the first period, the nascent middle classes were mainly a revolutionary force endangering peace as witnessed in the Napoleonic upheaval; it was against this new factor of national disturbance that the Holy Alliance organized its reactionary peace. In the second period, the new economy was victorious. The middle classes were now themselves the bearers of a peace interest, much more powerful than that of their reactionary predecessors had been, and nurtured by the national-international character of the new economy. But in both instances the peace interest became effective only because it was able to make the balance-of-power system serve its cause by providing that system with social organs capable of dealing directly with the internal forces active in the area of peace. Under the Holy Alliance these organs were feudalism and the thrones, supported by the spiritual and material power of the Church; under the Concert of Europe they were international finance and the national banking systems allied to it. There is no need to overdo the distinction. During the Thirty Years' Peace, 1616–48, Great Britain was already pressing for peace and business, nor did the Holy Alliance disdain the help of the Rothschilds. Under the Concert of Europe, again, international finance had often to rely on its dynastic and aristocratic affiliations. But such facts merely tend to strengthen our argument that in every case peace was maintained not simply through the chancelleries of the Great Powers but with the help of concrete organized agencies acting in the service of general interests. In other words, only on the background of the new economy could the balance-of-power system make general conflagrations avoidable. But the achievement of the Concert of Europe was incomparably greater than that of the Holy Alliance; for the latter maintained peace in a limited region in an unchanging Continent, while the former succeeded in the same task on a world scale while social and economic progress was revolutionizing the map of the globe. This great political feat was the result of the emergence of a specific

entity, *haute finance*, which was the given link between the political and the economic organization of international life.

It must be clear by this time that the peace organization rested upon economic organization. Yet the two were of very different consistency. Only in the widest sense of the term was it possible to speak of a political peace organization of the world, for the Concert of Europe was essentially not a system of peace but merely of independent sovereignties protected by the mechanism of war. The contrary is true of the economic organization of the world. Unless we defer to the uncritical practice of restricting the term "organization" to centrally directed bodies acting through functionaries of their own, we must concede that nothing could be more definite than the universally accepted principles upon which this organization rested and nothing more concrete than its factual elements. Budgets and armaments, foreign trade and raw material supplies, national independence and sovereignty were now the functions of currency and credit. By the fourth quarter of the nineteenth century, world commodity prices were the central reality in the lives of millions of Continental peasants; the repercussions of the London money market were daily noted by businessmen all over the world; and governments discussed plans for the future in light of the situation on the world capital markets. Only a madman would have doubted that the international economic system was the axis of the material existence of the race. Because this system needed peace in order to function, the balance of power was made to serve it. Take this economic system away and the peace interest would disappear from politics. Apart from it, there was neither sufficient cause for such an interest, nor a possibility of safeguarding it, in so far as it existed. The success of the Concert of Europe sprang from the needs of the new international organization of economy, and would inevitably end with its dissolution.

The era of Bismarck (1861–90) saw the Concert of Europe at its best. In two decades immediately following Germany's rise to the status of a Great Power, she was the chief beneficiary of the peace interest. She had forced her way into the front ranks at the cost of Austria and France; it was to her advantage to maintain the *status quo* and to prevent a war which could be only a war of revenge against herself. Bismarck deliberately fostered the notion of peace as a common venture of the Powers, and avoided commitments which might force Germany out of the position of a peace power. He opposed expansionist ambitions in the Balkans or overseas; he used the free trade weapon consistently against Austria, and even against France; he thwarted Russia's and Austria’s Balkan ambitions with the help of the balance-of-power game, thus keeping in with potential allies and averting situations which might involve Germany in war. The scheming aggressor of 1863–70 turned into the honest broker of 1878, and the deprecator of colonial adventures. He consciously took the lead in what he felt to be the peaceful trend of the time in order to serve Germany's national interests.

However, by the end of the seventies the free trade episode (1846–79) was at an end; the actual use of the gold standard by Germany marked the beginnings of an era of protectionism and colonial expansion. Germany was now reinforcing her position by making a hard and fast alliance with Austria-Hungary and Italy; not much later Bismarck lost control of Reich policy. From then onward Great Britain was the leader of the peace interest in a Europe which still remained a group of independent sovereign states and thus subject to the balance of power. In the nineties *haute finance* was at its peak and peace seemed more secure than ever. British and French interests differed in Africa; the British and the Russians were competing with one another in Asia; the Concert, though limpingly, continued to function; in spite of the Triple Alliance, there were still more than two independent powers to watch one another jealously. Not for long. In 1904, Britain made a sweeping deal with France over Morocco and Egypt; a couple of years later she compromised with Russia over Persia, and the counter-alliance was formed. The Concert of Europe, that loose federation of independent powers, was finally replaced by two hostile power groupings; the balance of power as a system had now come to an end. With only two competing power groups left its mechanism ceased to function. There was no longer a third group which would unite with one of the other two to thwart whichever one sought to increase its power. About the same time the symptoms of the dissolution of the existing forms of world economy—colonial rivalry and competition for exotic markets—became acute. The ability of *haute finance* to avert the spread of wars was diminishing rapidly. For another seven years peace dragged on but it was only a question of time before the dissolution of nineteenth century economic organization would bring the Hundred Years' Peace to a close.

In the light of this recognition the true nature of the highly artificial economic organization on which peace rested becomes of utmost significance to the historian.

CONSERVATIVE TWENTIES, REVOLUTIONARY THIRTIES

The breakdown of the international gold standard was the invisible link between the disintegration of the world economy since the turn of the century and the transformation of a whole civilization in the thirties. Unless the vital importance of this factor is realized, it is not possible to see rightly either the mechanism which railroaded Europe to its doom, or the circumstances which accounted for the astounding fact that the forms and contents of a civilization should rest on so precarious foundations.

The true nature of the international system under which we were living was not realized until it failed. Hardly anyone understood the political function of the international monetary system; the awful suddenness of the transformation thus took the world completely by surprise. And yet the gold standard was the only remaining pillar of the traditional world economy; when it broke, the effect was bound to be instantaneous. To liberal economists the gold standard was a purely economic institution; they refused even to consider it as a part of a social mechanism. Thus it happened that the democratic countries were the last to realize the true nature of the catastrophe and the slowest to counter its effects. Not even when the cataclysm was already upon them did their leaders see that behind the collapse of the international system there stood a long development within the most advanced countries which made that system anachronistic; in other words, the failure of market economy itself still escaped them.

The transformation came on even more abruptly than is usually realized. World War I and the postwar revolutions still formed part of the nineteenth century. The conflict of 1914–18 merely precipitated and immeasurably aggravated a crisis that it did not create. But the roots of the dilemma could not be discerned at the time; and the horrors and devastations of the Great War seemed to the survivors the obvious source of the obstacles to international organization that had so unexpectedly emerged. For suddenly neither the economic nor the political system of the world would function, and the terrible injuries inflicted on the substance of the race by World War I appeared to offer an explanation. In reality, the postwar obstacles to peace and stability derived from the same sources from which the Great War itself had sprung. The dissolution of the system of world economy which had been in progress since 1900 was responsible for the political tension that exploded in 1914; the outcome of the War and the Treaties had eased that tension superficially by eliminating German competition while aggravating the causes of tension and thereby vastly increasing the political and economic impediments to peace.

Politically, the Treaties harbored a fatal contradiction. Through the unilateral disarmament of the defeated nations they forestalled any reconstruction of the balance-of-power system, since power is an indispensable requisite of such a system. In vain did Geneva look towards the restoration of such a system in an enlarged and improved Concert of Europe called the League of Nations; in vain were facilities for consultation and joint action provided in the Covenant of the League, for the essential precondition of independent power units was now lacking. The League could never be really established; neither Article 16 on the enforcement of Treaties, nor Article 19 on their peaceful revision was ever implemented. The only viable solution of the burning problem of peace—the restoration of the balance-of-power system—was thus completely out of reach; so much so that the true aim of the most constructive statesmen of the twenties was not even understood by the public, which continued to exist in an almost indescribable state of confusion. Faced by the appalling fact of the disarmament of one group of nations, while the other group remained armed—a situation which precluded any constructive step towards the organization of peace—the emotional attitude prevailed that the League was in some mysterious way the harbinger of an era of peace which needed only frequent verbal encouragement to become permanent. In America there was a widespread idea that if only America had joined the League, matters would have turned out quite differently. No better proof than this could be adduced for the lack of understanding of the organic weaknesses of the so-called postwar system—so-called, because, if words have a meaning, Europe was now without any political system whatever. A bare status quo such as this can last only as long as the physical exhaustion of the parties lasts; no wonder that a return to the nineteenth century system appeared as the only way out. In the
meantime the League Council might have at least functioned as a kind of European directorium, very much as the Concert of Europe did at its zenith, but for the fatal unanimity rule which set up the obstreperous small state as the arbiter of world peace. The absurd device of the permanent disarmament of the defeated countries ruled out any constructive solution. The only alternative to this disastrous condition of affairs was the establishment of an international order endowed with an organized power which would transcend national sovereignty. Such a course, however, was entirely beyond the horizon of the time. No country in Europe, not to mention the United States, would have submitted to such a system.

Economically, the policy of Geneva was much more consistent in pressing for the restoration of world economy as a second line of defense for peace. For even a successfully re-established balance-of-power system would have worked for peace only if the international monetary system was restored. In the absence of stable exchanges and freedom of trade the governments of the various nations, as in the past, would regard peace as a minor interest, for which they would strive only as long as it did not interfere with any of their major interests. First among the statesmen of the time, Woodrow Wilson appears to have realized the interdependence of peace and trade, not only as a guarantee of trade, but also of peace. No wonder that the League persistently strove to reconstruct the international currency and credit organization as the only possible safeguard of peace among sovereign states, and that the world relied as never before on haute finance. J. P. Morgan had replaced N. M. Rothschild as the demiurge of a rejuvenated nineteenth century.

According to the standards of that century the first postwar decade appeared as a revolutionary era; in the light of our own recent experience it was precisely the contrary. The intent of that decade was deeply conservative and expressed the almost universal conviction that only the re-establishment of the pre-1914 system, "this time on solid foundations," could restore peace and prosperity. Indeed, it was out of the failure of this effort to return to the past that the transformation of the thirties sprang. Spectacular though the revolutions and counter-revolutions of the post-war decade were, they represented either mere mechanical reactions to military defeat or, at most, a re-enacting of the familiar liberal and constitutionalist drama of Western civilization on the Central and Eastern European scene; it was only in the thirties that entirely new elements entered the pattern of Western history.

The Central and Eastern European upheavals and counter-upheavals of 1917–20 in spite of their scenario were merely roundabout ways of recasting the regimes that had succumbed on the battlefields. When the counterrevolutionary smoke dissolved, the political systems in Budapest, Vienna, and Berlin were found to be not very far different from what they had been before the War. This was true, roughly, of Finland, the Baltic states, Poland, Austria, Hungary, Bulgaria, and even Italy and Germany, up to the middle of the twenties. In some countries a great advance was made in national freedom and land reform—achievements which had been common to Western Europe since 1789. Russia, in this respect, formed no exception. The tendency of the times was simply to establish (or re-establish) the system commonly associated with the ideals of the English, the American, and the French revolutions. Not only Hindenburg and Wilson, but also Lenin and Trotzky were, in this broad sense, in the line of Western tradition.

In the early thirties, change set in with abruptness. Its landmarks were the abandonment of the gold standard by Great Britain; the Five-Year Plans in Russia; the launching of the New Deal; the National Socialist Revolution in Germany; the collapse of the League in favor of autarchist empires. While at the end of the Great War nineteenth century ideas were paramount, and their influence dominated the following decade, by 1940 every vestige of the international system had disappeared and, apart from a few enclaves, the nations were living in an entirely new international setting.

The root cause of the crisis, we submit, was the threatening collapse of the international economic system. It had only haltingly functioned since the turn of the century, and the Great War and the Treaties had wrecked it finally. This became apparent in the twenties when there was hardly an internal crisis in Europe that did not reach its climax on an issue of external economy. Students of politics now grouped the various countries, not according to continents, but according to the degree of their adherence to a sound currency. Russia had astonished the world by the destruction of the rouble, the value of which was reduced to nothing by the simple means of inflation. Germany repeated this desperate feat in order to give the lie to the Treaty; the expropriation of the rentier class, which followed in its wake, laid the foundation for the Nazi revolution. The prestige of Geneva rested on its success in helping Austria and Hungary to restore their currencies, and Vienna became the Mecca of liberal economists on account of a brilliantly successful operation on Austria's krone which the patient,
unfortunately, did not survive. In Bulgaria, Greece, Finland, Latvia, Lithuania, Estonia, Poland, and Roumania the restoration of the currency provided counterrevolution with a claim to power. In Belgium, France, and England the Left was thrown out of office in the name of sound monetary standards. An almost unbroken sequence of currency crises linked the indigent Balkans with the affluent United States through the elastic band of an international credit system, which transmitted the strain of the imperfectly restored currencies, first, from Eastern Europe to Western Europe, then from Western Europe to the United States. Ultimately, the United States itself was engulfed by the effects of the premature stabilization of European currencies. The final breakdown had begun.

The first shock occurred within the national spheres. Some currencies, such as the Russian, the German, the Austrian, the Hungarian, were wiped out within a year. Apart from the unprecedented rate of change in the value of currencies there was the circumstance that this change happened in a completely monetarized economy. A cellular process was introduced into human society, the effects of which were outside the range of experience. Internally and externally alike, dwindling currencies spelled disruption. Nations found themselves separated from their neighbors, as by a chasm, while at the same time the various strata of the population were affected in entirely different and often opposite ways. The intellectual middle class was literally pauperized; financial sharks heaped up revolting fortunes. A factor of incalculable integrating and disintegrating force had entered the scene.

“Flight of capital” was a novum. Neither in 1848, nor in 1866, nor even in 1871 was such an event recorded. And yet, its vital role in the overthrow of the liberal governments of France in 1925, and again in 1938, as well as in the development of a fascist movement in Germany in 1930, was patent.

Currency had become the pivot of national politics. Under a modern economy nobody could fail to experience daily the shrinking or expanding of the financial yardstick; populations became currency-conscious; the effect of inflation on real income was discounted in advance by the masses; men and women everywhere appeared to regard stable money as the supreme need of human society. But such awareness was inseparable from the recognition that the foundations of the currency might depend upon political factors outside the national boundaries. Thus the social bouleversement which shook confidence in the inherent stability of the monetary medium shattered also the naïve concept of financial sovereignty in an interdependent economy. Henceforth, internal crises associated with the currency would tend to raise grave external issues.

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

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

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

This trend was abruptly reversed with the final fall of the gold standard. The sacrifices that were made to restore it had now to be made once more in order that we might live without it. The same institutions which were designed to constrict life and trade in order to maintain a system of stable currencies were now used to adjust industrial life to the permanent absence of such a system. Perhaps that is why the mechanical and technological structure of modern industry survived the impact of the collapse of the gold standard. For in the struggle to retain it, the world had been unconsciously preparing for the kind of efforts and the type of organizations necessary to adapt itself to its loss. Yet the intent was now the opposite; in the countries that had suffered most during the long-drawn fight for the unattainable, titanic forces were released on the rebound. Neither the League of Nations nor international haute finance outlasted the gold standard; with its disappearance both the organized peace interest of the League and its chief instruments of enforcement—the Rothschilds and Morgans—vanished from politics. The snapping of the golden thread was the signal for a world revolution.

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

It was not by accident that the transformation was accompanied by wars on an unprecedented scale. History was geared to social change; the fate of nations was linked to their role in an institutional transformation. Such a symbiosis is no exception in history; though national groups and social institutions have origins of their own, they tend to hitch on to one another in their struggle for survival. A famous instance of such a symbiosis linked capitalism and the seaborad nations of the Atlantic. The Commercial Revolution, so closely connected with the rise of capitalism, became the vehicle to power for Portugal, Spain, Holland, France, England and the United States, each of them benefiting from the chances offered by that broad and deep-seated movement, while, on the other hand, capitalism itself was spreading over the planet through the instrumentality of these rising Powers.

The law applied also in the reverse. A nation may be handicapped in its struggle for survival by the fact that its institutions, or some of them, belong to a type that happens to be on the down grade—the gold standard in World War II was an instance of such an antiquated outfit. Countries, on the other hand, which, for reasons of their own, are opposed to the status quo, would be quick to discover the weaknesses of the existing institutional order and to anticipate the creation of institutions better adapted to their interests. Such groups are pushing that which is falling and holding on to that which, under its own steam, is moving their way. It may then seem as if they had originated the process of social change, while actually they were merely its beneficiaries, and may be even perverting the trend to make it serve their own aims.

Thus Germany, once defeated, was in the position to recognize the hidden shortcomings of the nineteenth century order, and to employ this knowledge to speed the destruction of that order. A kind of sinister intellectual superiority accrued to those of her statesmen in the thirties who turned their minds to this task of disruption, which often extended to the development of new methods of finance, trade, war, and social organization, in the course of their attempt to force matters into the trend of their policies. However, these problems themselves were emphatically not created by the governments which turned them to their advantage; they were real—objectively given—and will remain with us whatever be the fate of the individual countries. Again, the distinction between World Wars I and II is apparent: the former was still true to nineteenth century type—a simple conflict of powers, released by the lapse of the balance-of-power system; the latter already is part of the world upheaval.

This should allow us to detach the poignant national histories of the period from the social transformation that was in progress. It will then be easy to see in what manner Germany and Russia, Great Britain and the United States, as power units, were helped or hampered by their relation to the underlying social process. But the same is true of the social process itself: fascism and socialism found a vehicle in the rise of individual Powers which helped to spread their creed. Germany and Russia respectively became the representatives of fascism and socialism in the world at large. The true scope of these social movements can be gauged only if, for good or evil, their transcendent character is recognized and viewed as detached from the national interests enlisted in their service.

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

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

The assertion appears extreme, if not shocking in its crass materialism. But the peculiarity of the civilization the collapse of which we have witnessed was precisely that it rested on economic foundations. Other societies and other civilizations, too, were limited by the material conditions of their existence—this is a common trait of all human life, indeed, of all life, whether religious or nonreligious, materialist or spiritualist. All types of societies are limited by economic factors. Nineteenth century civilization alone was economic in a different and distinctive sense, for it chose to base itself on a motive only rarely acknowledged as valid in the history of human societies, and certainly never before raised to the level of a justification of action and behavior in everyday life, namely, gain. The self-regulating market system was uniquely derived from this principle.

The mechanism which the motive of gain set in motion was comparable in effectiveness only to the most violent outburst of religious fervor in history. Within a generation the whole human world was subjected to its undiluted influence. As everybody knows, it grew to maturity in England, in the wake of the Industrial Revolution, during the first half of the nineteenth century. It reached the Continent and America about fifty years later. Eventually in England, on the Continent, and even in America, similar alternatives shaped daily issues into a pattern the main traits of which were identical in all countries of Western civilization. For the origins of the cataclysm we must turn to the rise and fall of market economy.

Market society was born in England—yet it was on the Continent that its weaknesses engendered the most tragic complications. In order to comprehend German fascism, we must revert to Ricardian England. The nineteenth century, as cannot be overemphasized, was England's century. The Industrial Revolution was an English event. Market economy, free trade, and the gold standard were English inventions. These institutions broke down in the twenties everywhere—in Germany, Italy, or Austria the event was merely more political and more dramatic. But whatever the scenery and the temperature of the final episodes, the long-run factors which wrecked that civilization should be studied in the birthplace of the Industrial Revolution, England.

PART TWO

Rise and Fall of Market Economy
I. SATANIC MILL

3

"HABITATION VERSUS IMPROVEMENT"

At the heart of the Industrial Revolution of the eighteenth century there was an almost miraculous improvement in the tools of production, which was accompanied by a catastrophic dislocation of the lives of the common people.

We will attempt to disentangle the factors that determined the forms of this dislocation, as it appeared at its worst in England about a century ago. What "satanic mill" ground men into masses? How much was caused by the new physical conditions? How much by the economic dependencies, operating under the new conditions? And what was the mechanism through which the old social tissue was destroyed and a new integration of man and nature so unsuccessfully attempted?

Nowhere has liberal philosophy failed so conspicuously as in its understanding of the problem of change. Fired by an emotional faith in spontaneity, the common-sense attitude toward change was discarded in favor of a mystical readiness to accept the social consequences of economic improvement, whatever they might be. The elementary truths of political science and statecraft were first discredited, then forgotten. It should need no elaboration that a process of undirected change, the pace of which is deemed too fast, should be slowed down, if possible, so as to safeguard the welfare of the community. Such household truths of traditional statesmanship, often merely reflecting the teachings of a social philosophy inherited from the ancients, were in the nineteenth century erased from the thoughts of the educated by the corrosive of a crude utilitarianism combined with an uncritical reliance on the alleged self-healing virtues of unconscious growth.

Economic liberalism misread the history of the Industrial Revolution because it insisted on judging social events from the economic
viewpoint. For an illustration of this we shall turn to what may at first seem a remote subject: to enclosures of open fields and conversions of arable land to pasture during the earlier Tudor period in England, when fields and commons were hedged by the lords, and whole counties were threatened by depopulation. Our purpose in thus evoking the plight of the people brought about by enclosures and conversions will be on the one hand to demonstrate the parallel between the devastations caused by the ultimately beneficial enclosures and those resulting from the Industrial Revolution, and on the other hand—and more broadly—to clarify the alternatives facing a community which is in the throes of unregulated economic improvement.

Enclosures were an obvious improvement if no conversion to pasture took place. Enclosed land was worth double and treble the unenclosed. Where tillage was maintained, employment did not fall off, and the food supply markedly increased. The yield of the land manifestly increased, especially where the land was let.

But even conversion of arable land to sheep runs was not altogether detrimental to the neighborhood in spite of the destruction of habitations and the restriction of employment it involved. Cottage industry was spreading by the second half of the fifteenth century, and a century later it began to be a feature of the countryside. The wool produced on the sheep farm gave employment to the small tenants and landless cottagers forced out of tillage, and the new centers of the woolen industry secured an income to a number of craftsmen.

But—this is the point—only in a market economy can such compensating effects be taken for granted. In the absence of such an economy the highly profitable occupation of raising sheep and selling their wool might ruin the country. The sheep which "turned sand into gold" could well have turned the gold into sand as happened ultimately to the wealth of seventeenth century Spain whose eroded soil never recovered from the overexpansion of sheep farming.

An official document of 1607, prepared for the use of the Lords of the Realm, set out the problem of change in one powerful phrase: "The poor man shall be satisfied in his end: Habitation; and the gentleman not hindered in his desire: Improvement." This formula appears to take for granted the essence of purely economic progress, which is to achieve improvement at the price of social dislocation. But it also hints at the tragic necessity by which the poor man clings to his hovel, doomed by the rich man's desire for a public improvement which profits him privately.

Ch. 3] "HABITATION VERSUS IMPROVEMENT"

Enclosures have appropriately been called a revolution of the rich against the poor. The lords and nobles were upsetting the social order, breaking down ancient law and custom, sometimes by means of violence, often by pressure and intimidation. They were literally robbing the poor of their share in the common, tearing down the houses which, by the hitherto unbreakable force of custom, the poor had long regarded as theirs and their heirs. The fabric of society was being disrupted; desolate villages and the ruins of human dwellings testified to the fierceness with which the revolution raged, endangering the defenses of the country, wasting its towns, decimating its population, turning its overburdened soil into dust, harassing its people and turning them from decent husbandmen into a mob of beggars and thieves. Though this happened only in patches, the black spots threatened to melt into a uniform catastrophe. The King and his Council, the Chancellors, and the Bishops were defending the welfare of the community and, indeed, the human and natural substance of society against this scourge. With hardly any intermittence, for a century and a half—from the 1490's, at the latest, to the 1640's—they struggled against depopulation. Lord Protector Somerset lost his life at the hands of the counterrevolution which wiped the enclosure laws from the statute book and established the dictatorship of the grazer lords, after Kett's Rebellion was defeated with several thousand peasants slaughtered in the process. Somerset was accused, and not without truth, of having given encouragement to the rebellious peasants by his staunch denunciation of enclosures.

It was almost a hundred years later when a second trial of strength came between the same opponents, but by that time the enclosers were much more frequently wealthy country gentlemen and merchants rather than lords and nobles. High politics, lay and ecclesiastical, were now involved in the Crown's deliberate use of its prerogative to prevent enclosures and in its no less deliberate use of the enclosure issue to strengthen its position against the gentry in a constitutional struggle, which brought death to Strafford and Laud at the hands of Parliament. But their policy was not only industrially but politically reactionary; furthermore, enclosures were now much more often than before intended for tillage, and not for pasture. Presently the tide of the Civil War engulfed Tudor and early Stuart public policy forever.

Nineteenth century historians were unanimous in condemning Tudor and early Stuart policy as demagogic, if not as outright reactionary. Their sympathies lay, naturally, with Parliament and that body.

1 Tawney, R. H., The Agrarian Problem in the 16th Century, 1912.
had been on the side of the enclosers. H. de B. Gibbins, though an ardent friend of the common people, wrote: "Such protective enactments were, however, as protective enactments generally be, utterly vain." 2 Innes was even more definite: "The usual remedies of punishing vagabondage and attempting to force industry into unsuited fields and to drive capital into less lucrative investments in order to provide employment failed—as usual." 8 Gairdner had no hesitation in appealing to free trade notions as "economic law": "Economic laws were, of course, not understood," he wrote, "and attempts were made by legislation to prevent husbandmen's dwellings from being thrown down by landlords, who found it profitable to devote arable land to pasture to increase the growth of wool. The frequent repetition of these Acts only show how ineffective they were in practice." 4 Recently an economist like Heckscher emphasizes his conviction that mercantilism should, in the main, be explained by an insufficient understanding of the complexities of economic phenomena, a subject which the human mind obviously needed another few centuries to master. 5 In effect, anti-enclosure legislation never seemed to have stopped the course of the enclosures movement, nor even to have obstructed it seriously. John Hales, second to none in his fervor for the principles of the Common-wealth men, admitted that it proved impossible to collect evidence against the enclosers, who often had their servants sworn upon the juries, and such was the number "of their retainers and hangers-on that no jury could be made without them." Sometimes the simple expedient of driving a single furrow across the field would save the offending lord from a penalty.

Such an easy prevailing of private interests over justice is often regarded as a certain sign of the ineffectiveness of legislation, and the victory of the vainly obstructed trend is subsequently adduced as conclusive evidence of the alleged futility of "a reactionary interventionism." Yet such a view seems to miss the point altogether. Why should the ultimate victory of a trend be taken as a proof of the ineffectiveness of the efforts to slow down its progress? And why should the purpose of these measures not be seen precisely in that which they achieved, i.e., in the slowing down of the rate of change? That which is ineffectual in stopping a line of development altogether is not, on that account, altogether ineffectual. The rate of change is often of no less importance

8 Innes, A. D., England under the Tudors, 1932.

than the direction of the change itself; but while the latter frequently does not depend upon our volition, it is the rate at which we allow change to take place which well may depend upon us.

A belief in spontaneous progress must make us blind to the role of government in economic life. This role consists often in altering the rate of change, speeding it up or slowing it down as the case may be; if we believe that rate to be unalterable—or even worse, if we deem it a sacrilege to interfere with it—then, of course, no room is left for intervention. Enclosures offer an example. In retrospect nothing could be clearer than the Western European trend of economic progress which aimed at eliminating an artificially maintained uniformity of agricultural technique, intermixed strips, and the primitive institution of the common. As to England, it is certain that the development of the woolen industry was an asset to the country, leading, as it did, to the establishment of the cotton industry—that vehicle of the Industrial Revolution. Furthermore, it is clear that the increase of domestic weaving depended upon the increase of a home supply of wool. These facts suffice to identify the change from arable land to pasture and the accompanying enclosure movement as the trend of economic progress. Yet, but for the consistently maintained policy of the Tudor and early Stuart statesmen, the rate of that progress might have been ruinous, and have turned the process itself into a degenerative instead of a constructive event. For upon this rate, mainly, depended whether the dispossessed could adjust themselves to changed conditions without fatally damaging their substance, human and economic, physical and moral; whether they would find new employment in the fields of opportunity indirectly connected with the change; and whether the effects of increased imports induced by increased exports would enable those who lost their employment through the change to find new sources of sustenance.

The answer depended in every case on the relative rates of change and adjustment. The usual "long-run" considerations of economic theory are inadmissible; they would prejudice the issue by assuming that the event took place in a market economy. However natural it may appear to us to make that assumption, it is unjustified: market economy is an institutional structure which, as we all too easily forget, has been present at no time except our own, and even then it was only partially present. Yet apart from this assumption "long-run" considerations are meaningless. If the immediate effect of a change is deleterious, then, until proof to the contrary, the final effect is dele-
terious. If conversion of arable land to pasture involves the destruction of a definite number of houses, the scrapping of a definite amount of employment, and the diminution of the supplies of locally available food provisions, then these effects must be regarded as final, until evidence to the contrary is produced. This does not exclude the consideration of the possible effects of increased exports on the income of the landowners; of the possible chances of employment created by an eventual increase in the local wool supply; or of the uses to which the landowners might put their increased incomes, whether in the way of further investments or of luxury expenditure. The time-rate of change compared with the time-rate of adjustment will decide what is to be regarded as the net effect of the change. But in no case can we assume the functioning of market laws unless a self-regulating market is shown to exist. Only in the institutional setting of market economy are market laws relevant; it was not the statesmen of Tudor England who strayed from the facts, but the modern economists, whose strictures upon them implied the prior existence of a market system.

England withstood without grave damage the calamity of the enclosures only because the Tudors and the early Stuarts used the power of the Crown to slow down the process of economic improvement until it became socially bearable—employing the power of the central government to relieve the victims of the transformation, and attempting to canalize the process of change so as to make its course less devastating. Their chancelleries and courts of prerogative were anything but conservative in outlook; they represented the scientific spirit of the new statecraft, favoring the immigration of foreign craftsmen, eagerly implanting new techniques, adopting statistical methods and precise habits of reporting, flattering custom and tradition, opposing prescriptive rights, curtailing ecclesiastical prerogatives, ignoring Common Law. If innovation makes the revolutionary, they were the revolutionaries of the age. Their commitment was to the welfare of the commonalty, glorified in the power and grandeur of the sovereign; yet the future belonged to constitutionalism and Parliament. The government of the Crown gave place to government by a class—the class which led in industrial and commercial progress. The great principle of constitutionalism became wedded to the political revolution that dispossessed the Crown, which by that time had shed almost all its creative faculties, while its protective function was no longer vital to a country that had weathered the storm of transition. The financial policy of the Crown now restricted the power of the country unduly, and began to con-

strain its trade; in order to maintain its prerogatives the Crown abused them more and more, and thereby harmed the resources of the nation. Its brilliant administration of labor and industry, its circumspect control of the enclosure movement, remained its last achievement. But it was the more easily forgotten as the capitalists and employers of the rising middle class were the chief victims of its protective activities. Not till another two centuries had passed did England enjoy again a social administration as effective and well ordered as that which the Commonwealth destroyed. Admittedly, an administration of this paternalistic kind was now less needed. But in one respect the break wrought infinite harm, for it helped to obliterate from the memory of the nation the horrors of the enclosure period and the achievements of government in overcoming the peril of depopulation. Perhaps this helps to explain why the real nature of the crisis was not realized when, some 150 years later, a similar catastrophe in the shape of the Industrial Revolution threatened the life and well-being of the country.

This time also the event was peculiar to England; this time also sea-borne trade was the source of a movement which affected the country as a whole; and this time again it was improvement on the grandest scale which wrought unprecedented havoc with the habitation of the common people. Before the process had advanced very far, the laboring people had been crowded together in new places of desolation, the so-called industrial towns of England; the country folk had been dehumanized into slum dwellers; the family was on the road to perdition; and large parts of the country were rapidly disappearing under the slack and scrap heaps vomited forth from the “satanic mills.” Writers of all views and parties, conservatives and liberals, capitalists and socialists invariably referred to social conditions under the Industrial Revolution as a veritable abyss of human degradation.

No quite satisfactory explanation of the event has yet been put forward. Contemporaries imagined they had discovered the key to damnation in the iron regularities governing wealth and poverty, which they called the law of wages and the law of population; they have been disproved. Exploitation was put forth as another explanation both of wealth and of poverty; but this was unable to account for the fact that wages in the industrial slums were higher than those in any other areas and on the whole continued to rise for another century. More often a convolute of causes was adduced, which again was hardly satisfactory.

Our own solution is anything but simple; it actually fills the better
part of this book. We submit that an avalanche of social dislocation, surpassing by far that of the enclosure period, came down upon England; that this catastrophe was the accompaniment of a vast movement of economic improvement; that an entirely new institutional mechanism was starting to act on Western society; that its dangers, which cut to the quick when they first appeared, were never really overcome; and that the history of nineteenth century civilization consisted largely in attempts to protect society against the ravages of such a mechanism. The Industrial Revolution was merely the beginning of a revolution as extreme and radical as ever inflamed the minds of sectarians, but the new creed was utterly materialistic and believed that all human problems could be resolved given an unlimited amount of material commodities.

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

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

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

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

Now, in an agricultural society such conditions would not naturally be given; they would have to be created. That they would be created gradually in no way affects the startling nature of the changes involved. The transformation implies a change in the motive of action on the part of the members of society: for the motive of subsistence that of gain must be substituted. All transactions are turned into money transactions, and these in turn require that a medium of exchange be introduced into every articulation of industrial life. All incomes must derive from the sale of something or other, and whatever the actual source of a person's income, it must be regarded as resulting from sale. No less is implied in the simple term "market system," by which we designate the institutional pattern described. But the most startling peculiarity of the system lies in the fact that, once it is established, it must be allowed to function without outside interference. Profits are not any more guaranteed, and the merchant must make his profits on the market. Prices must be allowed to regulate themselves. Such a self-

regulating system of markets is what we mean by a market economy.

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

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

SOCIETIES AND ECONOMIC SYSTEMS

Before we can proceed to the discussion of the laws governing a market economy, such as the nineteenth century was trying to establish, we must first have a firm grip on the extraordinary assumptions underlying such a system.

Market economy implies a self-regulating system of markets; in slightly more technical terms, it is an economy directed by market prices and nothing but market prices. Such a system capable of organizing the whole of economic life without outside help or interference would certainly deserve to be called self-regulating. These rough indications should suffice to show the entirely unprecedented nature of such a venture in the history of the race.

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

We have good reason to insist on this point with all the emphasis at our command. No less a thinker than Adam Smith suggested that the division of labor in society was dependent upon the existence of markets, or, as he put it, upon man’s “propensity to barter, truck and exchange one thing for another.” This phrase was later to yield the concept of the Economic Man. In retrospect it can be said that no misreading of the past ever proved more prophetic of the future. For while up to Adam Smith’s time that propensity had hardly shown up on a considerable scale in the life of any observed community, and had remained, at best, a subordinate feature of economic life, a hundred years later an industrial system was in full swing over the major part of
the planet which, practically and theoretically, implied that the human race was swayed in all its economic activities, if not also in its political, intellectual, and spiritual pursuits, by that one particular propensity. Herbert Spencer, in the second half of the nineteenth century, could, without more than a cursory acquaintance with economics, equate the principle of the division of labor with barter and exchange, and another fifty years later, Ludwig von Mises and Walter Lippmann could repeat this same fallacy. By that time there was no need for argument. A host of writers on political economy, social history, political philosophy, and general sociology had followed in Smith's wake and established his paradigm of the bartering savage as an axiom of their respective sciences. In point of fact, Adam Smith's suggestions about the economic psychology of early man were as false as Rousseau's were on the political psychology of the savage. Division of labor, a phenomenon as old as society, springs from differences inherent in the facts of sex, geography, and individual endowment; and the alleged propensity of man to barter, truck, and exchange is almost entirely apocryphal.

While history and ethnography know of various kinds of economies, most of them comprising the institution of markets, they know of no economy prior to our own, even approximately controlled and regulated by markets. This will become abundantly clear from a bird's-eye view of the history of economic systems and of markets, presented separately. The role played by markets in the internal economy of the various countries, it will appear, was insignificant up to recent times, and the change-over to an economy dominated by the market pattern will stand out all the more clearly.

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

We cannot continue today on these lines. The habit of looking at the last ten thousand years as well as at the array of early societies as a mere prelude to the true history of our civilization which started approximately with the publication of the Wealth of Nations in 1776, is, to say the least, out of date. It is this episode which has come to a close in our days, and in trying to gauge the alternatives of the future, we should subdue our natural proneness to follow the propensities of our fathers. But the same bias which made Adam Smith's generation view primeval man as bent on barter and truck induced their successors to disavow all interest in early man, as he was now known not to have indulged in those laudable passions. The tradition of the classical economists, who attempted to base the law of the market on the alleged propensities of man in the state of nature, was replaced by an abandonment of all interest in the cultures of "uncivilized" man as irrelevant to an understanding of the problems of our age.

Such an attitude of subjectivism in regard to earlier civilizations should make no appeal to the scientific mind. The differences existing between civilized and "uncivilized" peoples have been vastly exaggerated, especially in the economic sphere. According to the historians, the forms of industrial life in agricultural Europe were, until recently, not much different from what they had been several thousand years earlier. Ever since the introduction of the plow—essentially a large hoe drawn by animals—the methods of agriculture remained substantially unaltered over the major part of Western and Central Europe until the beginning of the modern age. Indeed, the progress of civilization was, in these regions, mainly political, intellectual, and spiritual; in respect to material conditions, the Western Europe of 1100 A.D. had hardly caught up with the Roman world of a thousand years before. Even later, change flowed more easily in the channels of statecraft, literature, and the arts, but particularly in those of religion and learning, than in those of industry. In its economics, medieval Europe was largely on a level with ancient Persia, India, or China, and certainly could not rival in riches and culture the New Kingdom of Egypt, two thousand years before. Max Weber was the first among modern economic historians to protest against the brushing aside of primitive
as social or asocial, jealous or generous, in respect to one set of values as in respect to another. Not to allow anybody reason for jealousy is, indeed, an accepted principle of ceremonial distribution, just as publicly bestowed praise is the due of the industrious, skillful, or otherwise successful gardener (unless he be too successful, in which case he may deservedly be allowed to wither away under the delusion of being the victim of black magic). The human passions, good or bad, are merely directed towards noneconomic ends. Ceremonial display serves to spur emulation to the utmost and the custom of communal labor tends to screw up both quantitative and qualitative standards to the highest pitch. The performance of all acts of exchange as free gifts that are expected to be reciprocated though not necessarily by the same individuals—a procedure minutely articulated and perfectly safeguarded by elaborate methods of publicity, by magic rites, and by the establishment of “dualities” in which groups are linked in mutual obligations—should in itself explain the absence of the notion of gain or even of wealth other than that consisting of objects traditionally enhancing social prestige.

In this sketch of the general traits characteristic of a Western Melanesian community we took no account of its sexual and territorial organization, in reference to which custom, law, magic, and religion exert their influence, as we only intended to show the manner in which so-called economic motives spring from the context of social life. For it is on this one negative point that modern ethnographers agree: the absence of the motive of gain; the absence of the principle of laboring for remuneration; the absence of the principle of least effort; and, especially, the absence of any separate and distinct institution based on economic motives. But how, then, is order in production and distribution ensured?

The answer is provided in the main by two principles of behavior not primarily associated with economics: reciprocity and redistribution.

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

The sustenance of the family—the female and the children—is the

1 Cf. Notes on Sources, page 269. The works of Malinowski and Thurnwald have been extensively used in this chapter.
obligation of their matrilineal relatives. The male, who provides for his sister and her family by delivering the finest specimens of his crop, will mainly earn the credit due to his good behavior, but will reap little immediate material benefit in exchange; if he is slack, it is first and foremost his reputation that will suffer. It is for the benefit of his wife and her children that the principle of reciprocity will work, and thus compensate him economically for his acts of civic virtue. Ceremonial display of food both in his own garden and before the recipient’s storehouse will ensure that the high quality of his gardening be known to all. It is apparent that the economy of garden and household here forms part of the social relations connected with good husbandry and fine citizenship. The broad principle of reciprocity helps to safeguard both production and family sustenance.

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

However, principles of behavior such as these cannot become effective unless existing institutional patterns lend themselves to their application. Reciprocity and redistribution are able to ensure the working of an economic system without the help of written records and elaborate administration only because the organization of the societies in question meets the requirements of such a solution with the help of patterns such as symmetry and centricity.

Reciprocity is enormously facilitated by the institutional pattern of symmetry, a frequent feature of social organization among nonliterate peoples. The striking “duality” which we find in tribal subdivisions lends itself to the pairing out of individual relations and thereby assists the give-and-take of goods and services in the absence of permanent records. The moieties of savage society which tend to create a “pendant” to each subdivision, turned out to result from, as well as help to perform, the acts of reciprocity on which the system rests. Little is known of the origin of “duality”; but each coastal village on the Trobriand Islands appears to have its counterpart in an inland village, so that the important exchange of breadfruits and fish, though disguised as a reciprocal distribution of gifts, and actually disjoint in time, can be organized smoothly. In the Kula trade, too, each individual has his partner on another isle, thus personalizing to a remarkable extent the relationship of reciprocity. But for the frequency of the symmetrical pattern in the subdivisions of the tribe, in the location of settlements, as well as in intertribal relations, a broad reciprocity relying on the long-run working of separated acts of give-and-take would be impracticable.

The institutional pattern of centricity, again, which is present to some extent in all human groups, provides a track for the collection, storage, and redistribution of goods and services. The members of a hunting tribe usually deliver the game to the headman for redistribution. It is in the nature of hunting that the output of game is irregular, besides being the result of a collective input. Under conditions such as these no other method of sharing is practicable if the group is not to break up after every hunt. Yet in all economies of kind a similar need exists, be the group ever so numerous. And the larger the territory and the more varied the produce, the more will redistribution result in an effective division of labor, since it must help to link up geographically differentiated groups of producers.

Symmetry and centricity will meet halfway the needs of reciprocity and redistribution; institutional patterns and principles of behavior are mutually adjusted. As long as social organization runs in its rutts, no individual economic motives need come into play; no shirking of personal effort need be feared; division of labor will automatically be ensured; economic obligations will be duly discharged; and, above all, the material means for an exuberant display of abundance at all public festivals will be provided. In such a community the idea of profit is barred; haggling and haggling is decried; giving freely is acclaimed as a virtue; the supposed propensity to barter, truck, and exchange does not appear. The economic system is, in effect, a mere function of social organization.

It should by no means be inferred that socioeconomic principles of this type are restricted to primitive procedures or small communities; that a gainless and marketless economy must necessarily be simple.
The Kula ring, in western Melanesia, based on the principle of reciprocity, is one of the most elaborate trading transactions known to man; and redistribution was present on a gigantic scale in the civilization of the pyramids.

The Trobriand Islands belong to an archipelago forming roughly a circle, and an important part of the population of this archipelago spends a considerable proportion of its time in activities of the Kula trade. We describe it as trade though no profit is involved, either in money or in kind; no goods are hoarded or even possessed permanently; the goods received are enjoyed by giving them away; no haggling and haggling, no truck barter, or exchange enters; and the whole proceedings are entirely regulated by etiquette and magic. Still, it is trade, and large expeditions are undertaken periodically by natives of this approximately ring-shaped archipelago in order to carry one kind of valuable object to peoples living on distant islands situated clockwise, while other expeditions are arranged carrying another kind of valuable object to the islands of the archipelago lying counterclockwise. In the long run, both sets of objects—white-shell arm bands and red-shell necklaces of traditional make—will move round the archipelago, a trage which may take them up to ten years to complete. Moreover, there are, as a rule, individual partners in Kula who reciprocate one another’s Kula gift with equally valuable arm bands and necklaces, preferably such that have previously belonged to distinguished persons. Now, a systematic and organized give-and-take of valuable objects transported over long distances is justly described as trade. Yet this complex whole is exclusively run on the lines of reciprocity. An intricate time-space-person system covering hundreds of miles and several decades, linking many hundreds of people in respect to thousands of strictly individual objects, is being handled here without any records or administration, but also without any motive of gain or truck. Not the propensity to barter, but reciprocity in social behavior dominates. Nevertheless, the result is a stupendous organizational achievement in the economic field. Indeed, it would be interesting to consider whether even the most advanced modern market organization, based on exact accountancy, would be able to cope with such a task, should it care to undertake it. It is to be feared that the unfortunate dealers, faced with innumerable monopolists buying and selling individual objects with extravagant restrictions attached to each transaction, would fail to make a standard profit and might prefer to go out of business.

Redistribution also has its long and variegated history which leads up almost to modern times. The Bergdama returning from his hunting excursion, the woman coming back from her search for roots, fruit, or leaves are expected to offer the greater part of their spoil for the benefit of the community. In practice, this means that the produce of their activity is shared with the other persons who happen to be living with them. Up to this point the idea of reciprocity prevails: today’s giving will be recompensed by tomorrow’s taking. Among some tribes, however, there is an intermediary in the person of the headman or other prominent member of the group; it is he who receives and distributes the supplies, especially if they need to be stored. This is redistribution proper. Obviously, the social consequences of such a method of distribution may be far reaching, since not all societies are as democratic as the primitive hunters. Whether the redistributing is performed by an influential family or an outstanding individual, a ruling aristocracy or a group of bureaucrats, they will often attempt to increase their political power by the manner in which they redistribute the goods. In the polllatch of the Kwakiutl it is a point of honor with the chief to display his wealth of hides and to distribute them; but he does this also in order to place the recipients under an obligation, to make them his debtors, and ultimately, his retainers.

All large-scale economies in kind were run with the help of the principle of redistribution. The kingdom of Hammurabi in Babylonia and, in particular, the New Kingdom of Egypt were centralized despotisms of a bureaucratic type founded on such an economy. The household of the patriarchal family was reproduced here on an enormously enlarged scale, while its “communistic” distribution was graded, involving sharply differentiated rations. A vast number of storehouses was ready to receive the produce of the peasant’s activity, whether he was cattle breeder, hunter, baker, brewer, potter, weaver, or whatever else. The produce was minutely registered and, in so far as it was not consumed locally, transferred from smaller to larger storehouses until it reached the central administration situated at the court of the Pharaoh. There were separate treasure houses for cloth, works of art, ornamental objects, cosmetics, silverware, the royal wardrobe; there were huge grain stores, arsenals, and wine cellars.

But redistribution on the scale practiced by the pyramid builders was not restricted to economies which knew not money. Indeed, all archaic kingdoms made use of metal currencies for the payment of taxes and salaries, but relied for the rest on payments in kind from granaries and warehouses of every description, from which they dis-
tributed the most varied goods for use and consumption mainly to the nonproducing part of the population, that is, to the officials, the military, and the leisure class. This was the system practiced in ancient China, in the empire of the Incas, in the kingdoms of India, and also in Babylonia. In these, and many other civilizations of vast economic achievement, an elaborate division of labor was worked by the mechanism of redistribution.

Under feudal conditions also this principle held. In the ethnically stratified societies of Africa it sometimes happens that the superior strata consist of herdsmen settled among agriculturalists who are still using the digging stick or the hoe. The gifts collected by the herdsmen are mainly agricultural—such as cereals and beer—while the gifts distributed by them may be animals, especially sheep or goats. In these cases there is division of labor, though usually an unequal one, between the various strata of society: distribution may often cover up a measure of exploitation, while at the same time the symbiosis benefits the standards of both strata owing to the advantages of an improved division of labor. Politically, such societies live under a regime of feudalism, whether cattle or land be the privileged value. There are "regular cattle fiefs in East Africa." Thurnwald, whom we follow closely on the subject of redistribution, could therefore say that feudalism implied everywhere a system of redistribution. Only under very advanced conditions and exceptional circumstances does this system become predominantly political as happened in Western Europe, where the change arose out of the vassal's need for protection, and gifts were converted into feudal tributes.

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

We deliberately disregarded in this presentation the vital distinction between homogeneous and stratified societies, i.e., societies which are on the whole socially unified, and such as are split into rulers and ruled. Though the relative status of slaves and masters may be worlds apart from that of the free and equal members of some hunting tribes, and, consequently, motives in the two societies will differ widely, the organization of the economic system may still be based on the same principles, though accompanied by very different culture traits, according to the very different human relations with which the economic system is intertwined.

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

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

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

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

From the sixteenth century onwards markets were both numerous and important. Under the mercantile system they became, in effect, a main concern of government; yet there was still no sign of the coming control of markets over human society. On the contrary. Regulation and regimentation were stricter than ever; the very idea of a self-regulating market was absent. To comprehend the sudden changeover to an utterly new type of economy in the nineteenth century, we must now turn to the history of the market, an institution we were able practically to neglect in our review of the economic systems of the past.
EVOLUTION OF THE MARKET PATTERN

The dominating part played by markets in capitalist economy together with the basic significance of the principle of barter or exchange in this economy calls for a careful inquiry into the nature and origin of markets, if the economic superstitions of the nineteenth century are to be discarded.¹

Barter, truck, and exchange is a principle of economic behavior dependent for its effectiveness upon the market pattern. A market is a meeting place for the purpose of barter or buying and selling. Unless such a pattern is present, at least in patches, the propensity to barter will find but insufficient scope: it cannot produce prices.² For just as reciprocity is aided by a symmetrical pattern of organization, as redistribution is made easier by some measure of centralization, and householding must be based on autarchy, so also the principle of barter depends for its effectiveness upon the market pattern. But in the same manner in which either reciprocity, redistribution, or householding may occur in a society without being prevalent in it, the principle of barter also may take a subordinate place in a society in which other principles are in the ascendant.

However, in some other respects the principle of barter is not on a strict parity with the three other principles. The market pattern, with which it is associated, is more specific than either symmetry, centricity, or autarchy—which, in contrast to the market pattern, are mere "traits," and do not create institutions designed for one function only. Symmetry is no more than a sociological arrangement, which gives rise to no separate institutions, but merely patterns out existing ones (whether a tribe or a village is symmetrically patterned or not involves no distinctive institution). Centricity, though frequently creating dis-

¹ Cf. Notes on Sources, page 274.
² Hawtrey, G. R., The Economic Problem, 1925, p. 13. "The practical application of the principle of individualism is entirely dependent on the practice of exchange." Hawtrey, however, was mistaken in assuming that the existence of markets simply followed from the practice of exchange.
differentiated it very little economically from other tribes on the same
cultural level, who did not." We need hardly do more than point to
some of the more startling implications of these statements.

The presence or absence of markets or money does not necessarily
affect the economic system of a primitive society—this refutes the
nineteenth century myth that money was an invention the appearance
of which inevitably transformed a society by creating markets, forcing
the pace of the division of labor, and releasing man's natural propensi-
sity to barter, truck, and exchange. Orthodox economic history, in
effect, was based on an immensely exaggerated view of the significance
of markets as such. A "certain isolation," or, perhaps, a "tendency
to exclusion" is the only economic trait that can be correctly inferred
from their absence; in respect to the internal organization of an economy,
their presence or absence need make no difference.

The reasons are simple. Markets are not institutions functioning
mainly within an economy, but without. They are meeting places of
long-distance trade. Local markets proper are of little consequence.
Moreover, neither long-distance nor local markets are essentially com-
petitive, and consequently there is, in either case, but little pressure to
create territorial trade, a so-called internal or national market. Every
one of these assertions strikes at some axiomatically held assumption of
the classical economists, yet they follow closely from the facts as they
appear in the light of modern research.

The logic of the case is, indeed, almost the opposite of that under-
lying the classical doctrine. The orthodox teaching started from the
individual's propensity to barter; deduced from it the necessity of local
markets, as well as of division of labor; and inferred, finally, the neces-
sity of trade, eventually of foreign trade, including even long-distance
trade. In the light of our present knowledge, we should almost reverse
the sequence of the argument: the true starting point is long-distance
trade, a result of the geographical location of goods, and of the "divi-
sion of labor" given by location. Long-distance trade often engenders
markets, an institution which involves acts of barter, and, if money is
used, of buying and selling, thus, eventually, but by no means neces-
sarily, offering to some individuals an occasion to indulge in their
alleged propensity for bargaining and haggling.

The dominating feature of this doctrine is the origin of trade in an
external sphere unrelated to the internal organization of economy:
"The application of the principles observed in hunting to the obtain-
ing of goods found outside the limits of the district, led to certain forms
of exchange which appear to us later as trade." In looking for the
origins of trade, our starting point should be the obtaining of goods
from a distance, as in a hunt. "The Central Australian Dieri every
year, in July or August, make an expedition to the south to obtain the
red ochre used by them for painting their bodies. . . . Their neigh-
bors, the Yantruwunta, organize similar enterprises for fetching red
ochre and sandstone slabs, for crushing grass seed, from the Flinders
Hills, 800 kilometers distant. In both cases it might be necessary to fight
for the articles wanted, if the local people offer resistance to their
removal." This kind of requisitioning or treasure hunting is clearly as
much akin to robbery and piracy as to what we are used to regard as
trade; basically, it is a one-sided affair. It becomes two-sided, i.e., "a
certain form of exchange" often only through blackmail practiced by the
powers on the site; or through reciprocity arrangements, as in the
Kula ring, as with visiting parties of the Pengwe of West Africa, or
with the Kpelle, where the chief monopolizes foreign trade by insisting
on entertaining all the guests. True, such visits are not accidental, but
—in our terms, not theirs—genuine trading journeys; the exchange of
goods, however, is always conducted under the guise of reciprocal
presents and usually by way of return visits.

We reach the conclusion that while human communities never seem
to have foregone external trade entirely, such trade did not necessarily
involve markets. External trade is, originally, more in the nature of
adventure, exploration, hunting, piracy and war than of barter. It may
as little imply peace as two-sidedness, and even when it implies both it
is usually organized on the principle of reciprocity, not on that of
barter.

The transition to peaceful barter can be traced in two directions,
viz., in that of barter and in that of peace. A tribal expedition may have
to comply, as indicated above, with the conditions set by the powers
on the spot, who may exact some kind of counterpart from the stran-
gers; this type of relationship, though not entirely peaceful, may give
rise to barter—one-sided carrying will be transformed into two-sided
carrying. The other line of development is that of "silent trading" as in
the African bush, where the risk of combat is avoided through an
organized truce, and the element of peace, trust, and confidence is,
with due circumspection, introduced into trade.

At a later stage, as we all know, markets become predominant in
the organization of external trade. But from the economic point of

*Thurnwald, R. C., Economics in Primitive Communities, 1932, p. 147.
view external markets are an entirely different matter from either local markets or internal markets. They differ not only in size; they are institutions of different function and origin. External trade is carrying; the point is the absence of some types of goods in that region; the exchange of English woolens against Portuguese wine was an instance. Local trade is limited to the goods of that region, which do not bear carrying because they are too heavy, bulky, or perishable. Thus both external trade and local trade are relative to geographical distance, the one being confined to the goods which cannot overcome it, the other to such only as can. Trade of this type is rightly described as complementary. Local exchange between town and countryside, foreign trade between different climatic zones are based on this principle. Such trade need not imply competition, and if competition would tend to disorganize trade, there is no contradiction in eliminating it. In contrast to both external and local trade, internal trade, on the other hand, is essentially competitive; apart from complementary exchanges it includes a very much larger number of exchanges in which similar goods from different sources are offered in competition with one another. Accordingly, only with the emergence of internal or national trade does competition tend to be accepted as a general principle of trading.

These three types of trade which differ sharply in their economic function are also distinct in their origin. We have dealt with the beginnings of external trade. Markets developed naturally out of it where the carriers had to halt as at fords, seaports, riverheads, or where the routes of two land expeditions met. “Ports” developed at the places of transhipment. The short flowering of the famous fairs of Europe was another instance where long-distance trade produced a definite type of market; England’s staples were another example. But while fairs and staples disappeared again with an abruptness disconcerting to the dogmatic evolutionist, the portus was destined to play an enormous role in the settling of Western Europe with towns. Yet even where the towns were founded on the sites of external markets, the local markets often remained separate in respect not only to function but also to organization. Neither the port, nor the fair, nor the staple was the parent of internal or national markets. Where, then, should we seek for their origin?

It might seem natural to assume that, given individual acts of barter, these would in the course of time lead to the development of local markets, and that such markets, once in existence, would just as naturally lead to the establishment of internal or national markets. However, neither the one nor the other is the case. Individual acts of barter or exchange—this is the bare fact—do not, as a rule, lead to the establishment of markets in societies where other principles of economic behavior prevail. Such acts are common in almost all types of primitive society, but they are considered as incidental since they do not provide for the necessities of life. In the vast ancient systems of redistribution, acts of barter as well as local markets were a usual, but no more than a subordinate trait. The same is true where reciprocity rules: acts of barter are here usually embedded in long-range relations implying trust and confidence, a situation which tends to obliterate the bilateral character of the transaction. The limiting factors arise from all points of the sociological compass: custom and law, religion and magic equally contribute to the result, which is to restrict acts of exchange in respect to persons and objects, time and occasion. As a rule, he who bargains merely enters into a ready-made type of transaction in which both the objects and their equivalent amounts are given. Utu in the language of the Tikopia denotes such a traditional equivalent as part of reciprocal exchange. That which appeared as the essential feature of exchange to eighteenth century thought, the voluntaristic element of bargain, and the haggling so expressive of the assumed motive of truck, finds but little scope in the actual transaction; in so far as this motive underlies the procedure, it is seldom allowed to rise to the surface.

The customary way to behave is, rather, to give vent to the opposite motivation. The giver may simply drop the object on the ground and the receiver will pretend to pick it up accidentally, or even leave it to one of his hangers-on to do so for him. Nothing could be more contrary to accepted behavior than to have a good look at the counterpart received. As we have every reason to believe that this sophisticated attitude is not the outcome of a genuine lack of interest in the material side of the transaction, we might describe the etiquette of barter as a counteracting development designed to limit the scope of the trait.

Indeed, on the evidence available it would be rash to assert that local markets ever developed from individual acts of barter. Obscure as the beginnings of local markets are, this much can be asserted: that from the start this institution was surrounded by a number of safeguards designed to protect the prevailing economic organization of

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society from interference on the part of market practices. The peace of the market was secured at the price of rituals and ceremonies which restricted its scope while ensuring its ability to function within the given narrow limits. The most significant result of markets—the birth of towns and urban civilization—was, in effect, the outcome of a paradoxical development. Because the towns, the offspring of the markets, were not only their protectors, but also the means of preventing them from expanding into the countryside and thus encroaching on the prevailing economic organization of society. The two meanings of the word "contain" express perhaps best this double function of the towns, in respect to the markets which they both enveloped and prevented from developing.

If barter was surrounded by taboos devised to keep this type of human relationship from abusing the functions of the economic organization proper, the discipline of the market was even stricter. Here is an example from the Chaga country: "The market must be regularly visited on market days. If any occurrence should prevent the holding of the market on one or more days, business cannot be resumed until the market-place has been purified. . . . Every injury occurring on the market-place and involving the shedding of blood necessitated immediate expiation. From that moment no woman was allowed to leave the market-place and no goods might be touched; they had to be cleansed before they could be carried away and used for food. At the very least a goat had to be sacrificed at once. A more expensive and more serious expiation was necessary if a woman bore a child or had a miscarriage on the market-place. In that case a milk animal was necessary. In addition to this, the homestead of the chief had to be purified by means of sacrificial blood of a milk-cow. All the women in the country were thus sprinkled, district by district." * Rules such as these would not make the spreading of markets easier.

The typical local market at which housewives procure some of their daily needs, and growers of grain or vegetables as well as local craftsmen offer their wares for sale, shows an amazing indifference to time and place. Gatherings of this kind are not only fairly general in primitive societies, but remain almost unchanged right up to the middle of the eighteenth century in the most advanced countries of Western Europe. They are an adjunct of local existence and differ but little whether they form part of Central African tribal life, or a cité of Merovingian France, or a Scottish village of Adam Smith's time. But

*Thurnwald, R. C., op. cit., p. 162–164.

what is true of the village is also true of the town. Local markets are, essentially, neighborhood markets, and, though important to the life of the community, they nowhere showed any sign of reducing the prevailing economic system to their pattern. They were not starting points of internal or national trade.

Internal trade in Western Europe was actually created by the intervention of the state. Right up to the time of the Commercial Revolution what may appear to us as national trade was not national, but municipal. The Hanse were not German merchants; they were a corporation of trading oligarchs, hailing from a number of North Sea and Baltic towns. Far from "nationalizing" German economic life, the Hanse deliberately cut off the hinterland from trade. The trade of Antwerp or Hamburg, Venice or Lyons, was in no way Dutch or German, Italian or French. London was no exception: it was as little "English" as Lübeck was "German." The trade map of Europe in this period should rightly show only towns, and leave blank the countryside—it might as well have not existed as far as organized trade was concerned. So-called nations were merely political units, and very loose ones at that, consisting economically of innumerable smaller and bigger self-sufficing households and insignificant local markets in the villages. Trade was limited to organized townships which carried it on either locally as neighborhood trade or as long-distance trade—the two were strictly separated, and neither was allowed to infiltrate the countryside indiscriminately.

Such a permanent severance of local trade and long-distance trade within the organization of the town must come as another shock to the evolutionist, with whom things always seem so easily to grow into one another. And yet this peculiar fact forms the key to the social history of urban life in Western Europe. It strongly tends to support our assertion in respect to the origin of markets which we inferred from conditions in primitive economies. The sharp distinction drawn between local and long-distance trade might have seemed too rigid, especially as it led us to the somewhat surprising conclusion that neither long-distance trade nor local trade was the parent of the internal trade of modern times—thus apparently leaving no alternative but to turn for an explanation to the deus ex machina of state intervention. We will see presently that in this respect also recent investigations bear out our conclusions. But let us first give a bare outline of the history of urban civilization as it was shaped by the peculiar severance of local and long-distance trade within the confines of the medieval town.
try to avoid the danger by bridging the gap between the controllable local market and the vagaries of an uncontrollable long-distance trade, but, on the contrary, met the peril squarely by enforcing with the utmost rigor that policy of exclusion and protection which was the rationale of its existence.

In practice this meant that the towns raised every possible obstacle to the formation of that national or internal market for which the capitalist wholesaler was pressing. By maintaining the principle of a non-competitive local trade and an equally non-competitive long-distance trade carried on from town to town, the burgesses hampered by all means at their disposal the inclusion of the countryside into the compass of trade and the opening up of indiscriminate trade between the towns of the country. It was this development which forced the territorial state to the fore as the instrument of the “nationalization” of the market and the creator of internal commerce.

Deliberate action of the state in the fifteenth and sixteenth centuries foisted the mercantile system on the fiercely protectionist towns and principalities. Mercantilism destroyed the outworn particularism of local and intermunicipal trading by breaking down the barriers separating these two types of noncompetitive commerce and thus clearing the way for a national market which increasingly ignored the distinction between town and countryside as well as that between the various towns and provinces.

The mercantile system was, in effect, a response to many challenges. Politically, the centralized state was a new creation called forth by the Commercial Revolution which had shifted the center of gravity of the Western world from the Mediterranean to the Atlantic seaboard and thus compelled the backward peoples of larger agrarian countries to organize for commerce and trade. In external politics, the setting up of sovereign power was the need of the day; accordingly, mercantilist statecraft involved the marshaling of the resources of the whole national territory to the purposes of power in foreign affairs. In internal politics, unification of the countries fragmented by feudal and municipal particularism was the necessary by-product of such an endeavor. Economically, the instrument of unification was capital, i.e., private resources available in form of money hoards and thus peculiarly suitable for the development of commerce. Finally the administrative technique underlying the economic policy of the central government was supplied by the extension of the traditional municipal system to the larger territory of the state. In France, where the craft gilds tended to become
state organs, the gild system was simply extended over the whole territory of the country; in England, where the decay of the walled towns had weakened that system fatally, the countryside was industrialized without the supervision of the gilds, while in both countries trade and commerce spread over the whole territory of the nation and became the dominating form of economic activity. In this situation lay the origins of the internal trade policy of mercantilism.

State intervention, which had freed trade from the confines of the privileged town, was now called to deal with two closely connected dangers which the town had successfully met, namely, monopoly and competition. That competition must ultimately lead to monopoly was a truth well understood at the time, while monopoly was feared even more than later as it often concerned the necessaries of life and thus easily waxed into a peril to the community. All-round regulation of economic life, only this time on a national, no more on a merely municipal, scale was the given remedy. What to the modern mind may easily appear as a shortsighted exclusion of competition was in reality the means of safeguarding the functioning of markets under the given conditions. For any temporary intrusion of buyers or sellers in the market must destroy the balance and disappoint regular buyers or sellers, with the result that the market will cease to function. The former purveyors will cease to offer their goods as they cannot be sure that their goods will fetch a price, and the market left without sufficient supply will become a prey to the monopolist. To a lesser degree, the same dangers were present on the demand side, where a rapid falling off might be followed by a monopoly of demand. With every step that the state took to rid the market of particularist restrictions, of tolls and prohibitions, it imperiled the organized system of production and distribution which was now threatened by unregulated competition and the intrusion of the interloper who "scooped" the market but offered no guarantee of permanency. Thus it came that although the new national markets were, inevitably, to some degree competitive, it was the traditional feature of regulation, not the new element of competition, which prevailed. The self-sufficing household of the peasant laboring for his subsistence remained the broad basis of the economic system, which was being integrated into large national units through the formation of the internal market. This national market now took its place alongside, and partly overlapping, the local and foreign markets.

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*Montesquieu, L'Esprit des lois, 1748. "The English constrain the merchant, but it is in favor of commerce."
6

THE SELF-REGULATING MARKET AND THE FICTIONOUS
COMMODITIES: LABOR, LAND, AND MONEY

This cursory outline of the economic system and markets, taken
separately, shows that never before our own time were markets more
than accessories of economic life. As a rule, the economic system was
absorbed in the social system, and whatever principle of behavior pre-
dominated in the economy, the presence of the market pattern was
found to be compatible with it. The principle of barter or exchange,
which underlies this pattern, revealed no tendency to expand at the
expense of the rest. Where markets were most highly developed, as
under the mercantile system, they threw under the control of a cen-
tralized administration which fostered autarchy both in the households
of the peasantry and in respect to national life. Regulation and mar-
kets, in effect, grew up together. The self-regulating market was
unknown; indeed the emergence of the idea of self-regulation was a com-
plete reversal of the trend of development. It is in the light of these
facts that the extraordinary assumptions underlying a market economy
can alone be fully comprehended.

A market economy is an economic system controlled, regulated,
and directed by markets alone; order in the production and distribution
of goods is entrusted to this self-regulating mechanism. An economy
of this kind derives from the expectation that human beings behave in
such a way as to achieve maximum money gains. It assumes markets
in which the supply of goods (including services) available at a definite
price will equal the demand at that price. It assumes the presence of
money, which functions as purchasing power in the hands of its owners.
Production will then be controlled by prices, for the profits of those
who direct production will depend upon them; the distribution of the
goods also will depend upon prices, for prices form incomes, and it is
with the help of these incomes that the goods produced are distributed
amongst the members of society. Under these assumptions order in
the production and distribution of goods is ensured by prices alone.

Ch. 6] THE SELF-REGULATING MARKET

Self-regulation implies that all production is for sale on the market
and that all incomes derive from such sales. Accordingly, there are
markets for all elements of industry, not only for goods (always includ-
ing services) but also for labor, land, and money, their prices being
called respectively commodity prices, wages, rent, and interest. The
very terms indicate that prices form incomes: interest is the price for the
use of money and forms the income of those who are in the position
to provide it; rent is the price for the use of land and forms the
income of those who supply it; wages are the price for the use of labor
power, and form the income of those who sell it; commodity prices,
finally, contribute to the incomes of those who sell their entrepreneurial
services, the income called profit being actually the difference between
two sets of prices, the price of the goods produced and their costs, i.e.,
the price of the goods necessary to produce them. If these conditions
are fulfilled, all incomes will derive from sales on the market, and in-
comes will be just sufficient to buy all the goods produced.

A further group of assumptions follows in respect to the state and
its policy. Nothing must be allowed to inhibit the formation of markets,
nor must incomes be permitted to be formed otherwise than through
sales. Neither must there be any interference with the adjustment of
prices to changed market conditions—whether the prices are those of
goods, labor, land, or money. Hence there must not only be markets for
all elements of industry, but no measure or policy must be counter-
nanced that would influence the action of these markets. Neither price,
nor supply, nor demand must be fixed or regulated; only such policies
and measures are in order which help to ensure the self-regulation of
the market by creating conditions which make the market the only
organizing power in the economic sphere.

To realize fully what this means, let us return for a moment to the
mercantile system and the national markets which it did so much to
develop. Under feudalism and the guild system land and labor formed
part of the social organization itself (money had yet hardly developed
into a major element of industry). Land, the pivotal element in the
feudal order, was the basis of the military, judicial, administrative, and
political system; its status and function were determined by legal and
customary rules. Whether its possession was transferable or not, and
if so, to whom and under what restrictions; what the rights of property

1 Henderson, H. D., Supply and Demand, 1902. The practice of the market
is twofold: the apportionment of factors between different uses, and the organizing
of the forces influencing aggregate supplies of factors.
entailed; to what uses some types of land might be put—all these questions were removed from the organization of buying and selling, and subjected to an entirely different set of institutional regulations.

The same was true of the organization of labor. Under the guild system, as under every other economic system in previous history, the motives and circumstances of productive activities were embedded in the general organization of society. The relations of master, journeyman, and apprentice; the terms of the craft; the number of apprentices; the wages of the workers were all regulated by the custom and rule of the guild and the town. What the mercantile system did was merely to unify these conditions either through statute as in England, or through the "nationalization" of the guilds as in France. As to land, its feudal status was abolished only in so far as it was linked with provincial privileges; for the rest, land remained extra commercium, in England as in France. Up to the time of the Great Revolution of 1789, landed estate remained the source of social privilege in France, and even after that time in England Common Law on land was essentially medieval. Mercantilism, with all its tendency towards commercialization, never attacked the safeguards which protected these two basic elements of production—labor and land—from becoming the objects of commerce. In England the "nationalization" of labor legislation through the Statute of Artificers (1563) and the Poor Law (1601), removed labor from the danger zone, and the anti-enclosure policy of the Tudors and early Stuarts was one consistent protest against the principle of the gainful use of landed property.

That mercantilism, however emphatically it insisted on commercialization as a national policy, thought of markets in a way exactly contrary to market economy, is best shown by its vast extension of state intervention in industry. On this point there was no difference between mercantilists and feudalists, between crowned planners and vested interests, between centralizing bureaucrats and conservative particularists. They disagreed only on the methods of regulation: guilds, towns, and provinces appealed to the force of custom and tradition, while the new state authority favored statute and ordinance. But they were all equally averse to the idea of commercializing labor and land—the precondition of market economy. Craft guilds and feudal privileges were abolished in France only in 1790; in England the Statute of Artificers was repealed only in 1813–14, the Elizabethan Poor Law in 1834. Not before the last decade of the eighteenth century was, in either country, the establishment of a free labor market even discussed; and the idea of the self-regulation of economic life was utterly beyond the horizon of the age. The mercantilist was concerned with the development of the resources of the country, including full employment, through trade and commerce; the traditional organization of land and labor he took for granted. He was in this respect as far removed from modern concepts as he was in the realm of politics, where his belief in the absolute powers of an enlightened despot was tempered by no intimations of democracy. And just as the transition to a democratic system and representative politics involved a complete reversal of the trend of the age, the change from regulated to self-regulating markets at the end of the eighteenth century represented a complete transformation in the structure of society.

A self-regulating market demands nothing less than the institutional separation of society into an economic and political sphere. Such a dichotomy is, in effect, merely the restatement, from the point of view of society as a whole, of the existence of a self-regulating market. It might be argued that the separateness of the two spheres obtains in every type of society at all times. Such an inference, however, would be based on a fallacy. True, no society can exist without a system of some kind which ensures order in the production and distribution of goods. But that does not imply the existence of separate economic institutions; normally, the economic order is merely a function of the social, in which it is contained. Neither under tribal, nor feudal, nor mercantile conditions was there, as we have shown, a separate economic system in society. Nineteenth century society, in which economic activity was isolated and imputed to a distinctive economic motive, was, indeed, a singular departure.

Such an institutional pattern could not function unless society was somehow subordinated to its requirements. A market economy can exist only in a market society. We reached this conclusion on general grounds in our analysis of the market pattern. We can now specify the reasons for this assertion. A market economy must comprise all elements of industry, including labor, land, and money. (In a market economy the last also is an essential element of industrial life and its inclusion in the market mechanism has, as we will see, far-reaching institutional consequences.) But labor and land are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists. To include them in the market mechanism means to subordinate the substance of society itself to the laws of the market.

We are now in the position to develop in a more concrete form the institutional nature of a market economy, and the perils to society...
which it involves. We will, first, describe the methods by which the market mechanism is enabled to control and direct the actual elements of industrial life; second, we will try to gauge the nature of the effects of such a mechanism on the society which is subjected to its action.

It is with the help of the commodity concept that the mechanism of the market is geared to the various elements of industrial life. Commodities are here empirically defined as objects produced for sale on the market; markets, again, are empirically defined as actual contacts between buyers and sellers. Accordingly, every element of industry is regarded as having been produced for sale, as then and then only will it be subject to the supply-and-demand mechanism interacting with price. In practice this means that there must be markets for every element of industry; that in these markets each of these elements is organized into a supply and a demand group; and that each element has a price which interacts with demand and supply. These markets—and they are numberless—are interconnected and form One Big Market.*

The crucial point is this: labor, land, and money are essential elements of industry; they also must be organized in markets; in fact, these markets form an absolutely vital part of the economic system. But labor, land, and money are obviously not commodities; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them. In other words, according to the empirical definition of a commodity they are not commodities. Labor is only another name for a human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized; land is only another name for nature, which is not produced by man; actual money, finally, is merely a token of purchasing power which, as a rule, is not produced at all, but comes into being through the mechanism of banking or state finance. None of them is produced for sale. The commodity description of labor, land, and money is entirely fictitious.

Nevertheless, it is with the help of this fiction that the actual markets for labor, land, and money are organized; * they are being actually bought and sold on the market; their demand and supply

* Hawtree, G. R., op. cit. Its function is seen by Hawtree in making "the relative market values of all commodities mutually consistent."

* Marx's assertion of the fetish character of the value of commodities refers to the exchange value of genuine commodities and has nothing in common with the fictitious commodities mentioned in the text.

are real magnitudes; and any measures or policies that would inhibit the formation of such markets would ipso facto endanger the self-regulation of the system. The commodity fiction, therefore, supplies a vital organizing principle in regard to the whole of society affecting almost all its institutions in the most varied way, namely, the principle according to which no arrangement or behavior should be allowed to exist that might prevent the actual functioning of the market mechanism on the lines of the commodity fiction.

Now, in regard to labor, land, and money such a postulate cannot be upheld. To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity "labor power" cannot be shov ed about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity. In disposing of a man's labor power the system would, incidentally, dispose of the physical, psychological, and moral entity "man" attached to that tag. Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation. Nature would be reduced to its elements, neighborhoods and landscapes defiled, rivers polluted, military safety jeopardized, the power to produce food and raw materials destroyed. Finally, the market administration of purchasing power would periodically liquidate business enterprise, for shortages and surpluses of money would prove as disastrous to business as floods and droughts in primitive society. Undoubtedly, labor, land, and money markets are essential to a market economy. But no society could stand the effects of such a system of crude fictions even for the shortest stretch of time unless its human and natural substance as well as its business organization was protected against the ravages of this satanic mill.

The extreme artificiality of market economy is rooted in the fact that the process of production itself is here organized in the form of buying and selling. * No other way of organizing production for the market is possible in a commercial society. During the late Middle Ages industrial production for export was organized by wealthy bur-gees, and carried on under their direct supervision in the home town. Later, in the mercantile society, production was organized by mer-

which completely changed the relationship of the merchant to production. Although the new productive organization was introduced by the merchant—a fact which determined the whole course of the transformation—the use of elaborate machinery and plant involved the development of the factory system and therewith a decisive shift in the relative importance of commerce and industry in favor of the latter. Industrial production ceased to be an accessory of commerce organized by the merchant as a buying and selling proposition; it now involved long-term investment with corresponding risks. Unless the continuance of production was reasonably assured, such a risk was not bearable.

But the more complicated industrial production became, the more numerous were the elements of industry the supply of which had to be safeguarded. Three of these, of course, were of outstanding importance: labor, land, and money. In a commercial society their supply could be organized in one way only: by being made available for purchase. Hence, they would have to be organized for sale on the market—in other words, as commodities. The extension of the market mechanism to the elements of industry—labor, land, and money—was the inevitable consequence of the introduction of the factory system in a commercial society. The elements of industry had to be on sale.

This was synonymous with the demand for a market system. We know that profits are ensured under such a system only if self-regulation is safeguarded through interdependent competitive markets. As the development of the factory system had been organized as part of a process of buying and selling, therefore labor, land, and money had to be transformed into commodities in order to keep production going. They could, of course, not be really transformed into commodities, as actually they were not produced for sale on the market. But the fiction of their being so produced became the organizing principle of society.

Of the three, one stands out: labor is the technical term used for human beings, in so far as they are not employers but employed; it follows that henceforth the organization of labor would change concurrently with the organization of the market system. But as the organization of labor is only another word for the forms of life of the common people, this means that the development of the market system would be accompanied by a change in the organization of society itself. All along the line, human society had become an accessory of the economic system.
We recall our parallel between the ravages of the enclosures in English history and the social catastrophe which followed the Industrial Revolution. Improvements, we said, are, as a rule, bought at the price of social dislocation. If the rate of dislocation is too great, the community must succumb in the process. The Tudors and early Stuarts saved England from the fate of Spain by regulating the course of change so that it became bearable and its effects could be canalized into less destructive avenues. But nothing saved the common people of England from the impact of the Industrial Revolution. A blind faith in spontaneous progress had taken hold of people’s minds, and with the fanaticism of sectarians the most enlightened pressed forward for boundless and unregulated change in society. The effects on the lives of the people were awful beyond description. Indeed, human society would have been annihilated but for protective counter-moves which blunted the action of this self-destructive mechanism.

Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. While on the one hand markets spread all over the face of the globe and the amount of goods involved grew to unbelievable proportions, on the other hand a network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to labor, land, and money. While the organization of world commodity markets, world capital markets, and world currency markets under the aegis of the gold standard gave an unparalleled momentum to the mechanism of markets, a deep-seated movement sprang into being to resist the pernicious effects of a market-controlled economy. Society protected itself against the perils inherent in a self-regulating market system—this was the one comprehensive feature in the history of the age.

**SPEENHAMLAND, 1795**

EIGHTEENTH CENTURY society unconsciously resisted any attempt at making it a mere appendage of the market. No market economy was conceivable that did not include a market for labor; but to establish such a market, especially in England’s rural civilization, implied no less than the wholesale destruction of the traditional fabric of society. During the most active period of the Industrial Revolution, from 1795 to 1834, the creating of a labor market in England was prevented through the Speenhamland Law.

The market for labor was, in effect, the last of the markets to be organized under the new industrial system, and this final step was taken only when market economy was set to start, and when the absence of a market for labor was proving a greater evil even to the common people themselves than the calamities that were to accompany its introduction. In the end the free labor market, in spite of the inhuman methods employed in creating it, proved financially beneficial to all concerned.

Yet it was only now that the crucial problem appeared. The economic advantages of a free labor market could not make up for the social destruction wrought by it. Regulation of a new type had to be introduced under which labor was again protected, only this time from the working of the market mechanism itself. Though the new protective institutions, such as trade unions and factory laws, were adapted, as far as possible, to the requirements of the economic mechanism, they nevertheless interfered with its self-regulation and, ultimately, destroyed the system.

In the broad logic of this development the Speenhamland Law occupied a strategic position.

In England both land and money were mobilized before labor was. The latter was prevented from forming a national market by strict
legal restrictions on its physical mobility, since the laborer was practically bound to his parish. The Act of Settlement of 1662, which laid down the rules of so-called parish serfdom, was loosened only in 1795. This step would have made possible the setting up of a national labor market had it not in the very same year the Speenhamland Law or “allowance system” been introduced. The tendency of this law was to the opposite; namely, towards a powerful reinforcement of the paternalistic system of labor organization as inherited from the Tudors and Stuarts. The justices of Berkshire, meeting at the Pelikan Inn, in Speenhamland, near Newbury, on May 6, 1795, in a time of great distress, decided that subsidies in aid of wages should be granted in accordance with a scale dependent upon the price of bread, so that a minimum income should be assured to the poor irrespective of their earnings. The magistrates’ famous recommendation ran: When the gallon loaf of bread of definite quality “shall cost 1 shilling, then every poor and industrious person shall have for his support 3 shillings weekly, either procured by his own or his family’s labor, or an allowance from the poor rates, and for the support of his wife and every other of his family, 1 shilling, 6 pence; when the gallon loaf shall cost 1/6, then 4 shillings weekly, plus 1/10; on every pence which the bread price raises above 1 shilling he shall have 3 pence for himself and 1 pence for the others.” The figures varied somewhat in various counties, but in most cases the Speenhamland scale was adopted. This was meant as an emergency measure, and was informally introduced. Although commonly called a law, the scale itself was never enacted. Yet very soon it became the law of the land over most of the countryside, and later even in a number of manufacturing districts; actually it introduced no less a social and economic innovation than the “right to live,” and until abolished in 1834, it effectively prevented the establishment of a competitive labor market. Two years earlier, in 1892, the middle class had forced its way to power, partly in order to remove this obstacle to the new capitalist economy. Indeed, nothing could be more obvious than that the wage system imperatively demanded the withdrawal of the “right to live” as proclaimed in Speenhamland—under the new regime of the economic man, nobody would work for a wage if he could make a living by doing nothing.

Another feature of the reversal of the Speenhamland method was less obvious to most nineteenth century writers, namely, that the wage system had to be made universal in the interest also of the wage earners themselves, even though this meant depriving them of their legal claim to subsistence. The “right to live” had proved a death-trap.

The paradox was merely apparent. Allegedly, Speenhamland meant that the Poor Law was to be administered liberally—actually, it was turned into the opposite of its original intent. Under Elizabethan Law the poor were forced to work at whatever wages they could get and only those who could obtain no work were entitled to relief; relief in aid of wages was neither intended nor given. Under the Speenhamland Law a man was relieved even if he was in employment, as long as his wages amounted to less than the family income granted to him by the scale. Hence, no laborer had any material interest in satisfying his employer, his income being the same whatever wages he earned; this was different only in case standard wages, i.e., the wages actually paid, exceeded the scale, an occurrence which was not the rule in the countryside since the employer could obtain labor at almost any wages; however little he paid, the subsidy from the rates brought the workers’ income up to scale. Within a few years the productivity of labor began to sink to that of pauper labor, thus providing an added reason for employers not to raise wages above the scale. For, once the intensity of labor, the care and efficiency with which it was performed, dropped below a definite level, it became indistinguishable from “boondoggling” or the semblance of work maintained for the sake of appearances. Though in principle work was still enforced, in practice outdoor relief became general and even when relief was administered in the poorhouse the enforced occupation of the inmates now hardly deserved the name of work. This amounted to the abandonment of Tudor legislation not for the sake of less but of more paternalism. The extension of outdoor relief, the introduction of aid-in-wages supplemented by separate allowances for wife and children, each item rising and falling with the bread price, meant a dramatic re-entry in regard to labor of that same regulative principle that was being rapidly eliminated in regard to industrial life as a whole.

No measure was ever more universally popular. Parents were free of the care of their children, and children were no more dependent upon parents; employers could reduce wages at will and laborers were safe from hunger whether they were busy or slack; humanitarians applauded the measure as an act of mercy even though not of justice and the selfish gladly consoled themselves with the thought that though

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it was merciful at least it was not liberal; and even ratepayers were slow to realize what would happen to the rates under a system which proclaimed the "right to live" whether a man earned a living wage or not.

In the long run the result was ghastly. Although it took some time till the self-respect of the common man sank to the low point where he preferred poor relief to wages, his wages which were subsidized from public funds were bound eventually to be bottomless, and to force him upon the rates. Little by little the people of the countryside were pauperized; the adage, "once on the rates, always on the rates" was a true saying. But for the protracted effects of the allowance system, it would be impossible to explain the human and social degradation of early capitalism.

The Speenhamland episode revealed to the people of the leading country of the century the true nature of the social adventure on which they were embarking. Neither the rulers nor the ruled ever forgot the lessons of that fool's paradise; if the Reform Bill of 1832 and the Poor Law Amendment of 1834 were commonly regarded as the starting point of modern capitalism, it was because they put an end to the rule of the benevolent landlord and his allowance system. The attempt to create a capitalistic order without a labor market had failed disastrously. The laws governing such an order had asserted themselves, and manifested their radical antagonism to the principle of paternalism. The rigor of these laws had become apparent and their violation had been cruelly visited upon those who had disobeyed them.

Under Speenhamland society was rent by two opposing influences, the one emanating from paternalism and protecting labor from the dangers of the market system; the other organizing the elements of production, including land, under a market system, and thus divesting the common people of their former status, compelling them to gain a living by offering their labor for sale, while at the same time depriving their labor of its market value. A new class of employers was being created, but no corresponding class of employees could constitute itself. A new gigantic wave of enclosures was mobilizing the land and producing a rural proletariat, while the "maladministration of the Poor Law" precluded them from gaining a living by their labor. No wonder that the contemporaries were appalled at the seeming contradiction of an almost miraculous increase in production accompanied by a near starvation of the masses. By 1834, there was a general conviction—with many thinking people a passionately held conviction—that anything was preferable to the continuance of Speenhamland. Either machines had to be demolished, as the Luddites had tried to do, or a regular labor market had to be created. Thus was mankind forced into the paths of a utopian experiment.

This is not the place to expatiate upon the economics of Speenhamland; there will be occasion for that later on. On the face of it the "right to live" should have stopped wage labor altogether. Standard wages should have gradually dropped to zero, thus putting the actual wage bill wholly on the parish, a procedure which would have made the absurdity of the arrangement manifest. But this was an essentially precapitalistic age, when the common people were still traditionally minded, and far from being directed in their behavior by monetary motives alone. The great majority of the countryfolk were occupier-owners or lifeholders, who preferred any kind of existence to the status of pauper, even if it was not deliberately burdened by irksome or ignominious disabilities, as subsequently happened. If laborers had been free to combine for the furtherance of their interests, the allowance system might, of course, have had a contrary effect on standard wages: for trade union action would have been greatly helped by the relief of the unemployed implied in so liberal an administration of the Poor Law. That was presumably one of the reasons for the unjust Anti-Combination Laws of 1799-1800, which would be otherwise hardly explicable since the Berkshire magistrates and members of Parliament were both, on the whole, concerned about the economic condition of the poor, and after 1797 political unrest had subsided. Indeed, it might be argued that the paternalistic intervention of Speenhamland called forth the Anti-Combination Laws, a further intervention, but for which Speenhamland might have had the effect of raising wages instead of depressing them as it actually did. In conjunction with the Anti-Combination Laws, which were not revoked for another quarter century, Speenhamland led to the ironical result that the financially implemented "right to live" eventually ruined the people whom it was ostensibly designed to succor.

To later generations nothing could have been more patent than the mutual incompatibility of institutions like the wage system and the "right to live," or, in other words, than the impossibility of a functioning capitalistic order as long as wages were subsidized from public funds. But the contemporaries did not comprehend the order for which they were preparing the way. Only when a grave deterioration
of the productive capacity of the masses resulted—a veritable national calamity which was obstructing the progress of machine civilization—did the necessity of abolishing the unconditional right of the poor to relief impose itself upon the consciousness of the community. The complicated economics of Speenhamland transcended the comprehension of even the most expert observers of the time; but the conclusion appeared only the more compelling that aid-in-wages must be inherently vicious, since it miraculously injured even those who received it.

The pitfalls of the market system were not readily apparent. To realize this clearly we must distinguish between the various vicissitudes to which the laboring people were exposed in England since the coming of the machine: first, those of the Speenhamland period, 1795 to 1834; second, the hardships caused by the Poor Law Reform, in the decade following 1834; third, the deleterious effects of a competitive labor market after 1834, until in the 1870’s the recognition of the trade unions offered sufficient protection. Chronologically, Speenhamland antedated market economy; the decade of the Poor Law Reform Act was a transition to that economy. The last period—overlapping the former—was that of market economy proper.

The three periods differed sharply. Speenhamland was designed to prevent the proletarianization of the common people, or at least to slow it down. The outcome was merely the pauperization of the masses, who almost lost their human shape in the process.

The Poor Law Reform of 1834 did away with this obstruction to the labor market: the “right to live” was abolished. The scientific cruelty of that Act was so shocking to public sentiment in the 1830’s and 1840’s that the vehement contemporary protests blurred the picture in the eyes of posterity. Many of the most needy poor, it was true, were left to their fate as outdoor relief was withdrawn, and among those who suffered most bitterly were the “deserving poor” who were too proud to enter the workhouse which had become an abode of shame. Never perhaps in all modern history has a more ruthless act of social reform been perpetrated; it crushed multitudes of lives while merely pretending to provide a criterion of genuine destitution in the workhouse test. Psychological torture was cooly advocated and smoothly put into practice by mild philanthropists as a means of oiling the wheels of the labor mill. Yet the bulk of the complaints were really due to the abruptness with which an institution of old standing was uprooted and a radical transformation rushed into effect. Disraeli denounced this “inconceivable revolution” in the lives of the people. However, if money incomes alone had counted, the condition of the people would have soon been deemed improved.

The problems of the third period went incomparably deeper. The bureaucratic atrocities committed against the poor during the decade following 1834 by the new centralized Poor Law authorities were merely sporadic and as nothing compared to the all-round effects of that most potent of all modern institutions, the labor market. It was similar in scope to the threat Speenhamland offered, with the significant difference that not the absence but the presence of a competitive labor market was now the source of danger. If Speenhamland had prevented the emergence of a working class, now the laboring poor were being formed into such a class by the pressure of an unfeeling mechanism. If under Speenhamland the people had been taken care of as none too precious beasts deserved to be, now they were expected to take care of themselves, with all the odds against them. If Speenhamland meant the moral misery of degradation, now the laboring man was homeless in society. If Speenhamland had overworked the values of neighborhood, family, and rural surroundings, now man was detached from home and kin, torn from his roots and all meaningful environment. In short, if Speenhamland meant the rot of immobility, now the peril was that of death through exposure.

Not until 1834 was a competitive labor market established in England; hence, industrial capitalism as a social system cannot be said to have existed before that date. Yet almost immediately the self-protection of society set in: factory laws and social legislation, and a political and industrial working class movement sprang into being. It was in this attempt to stave off the entirely new dangers of the market mechanism that protective action conflicted fatally with the self-regulation of the system. It is no exaggeration to say that the social history of the nineteenth century was determined by the logic of the market system proper after it was released by the Poor Law Reform Act of 1834. The starting point of this dynamic was the Speenhamland Law.

If we suggest that the study of Speenhamland is the study of the birth of nineteenth century civilization, it is not its economic and social effect that we have exclusively in mind, nor even the determining influence of these effects upon modern political history, but the fact that, mostly unknown to the present generation, our social consciousness was cast in its mold. The figure of the pauper, almost forgotten since, dominated a discussion the imprint of which was as powerful as
that of the most spectacular events in history. If the French Revolution
was indebted to the thought of Voltaire and Diderot, Quesnay and
Rousseau, the Poor Law discussion formed the minds of Bentham
and Burke, Godwin and Malthus, Ricardo and Marx, Robert
Owen and John Stuart Mill, Darwin and Spencer, who shared with
the French Revolution the spiritual parentage of nineteenth century
civilization. It was in the decades following Speenhamland and the
Poor Law Reform that the mind of man turned towards his own
community with a new anguish of concern: the revolution which the
justices of Berkshire had vainly attempted to stem and which the Poor
Law Reform eventually freed shifted the vision of men towards their
own collective being as if they had overlooked its presence before. A
world was uncovered the very existence of which had not been sus-
pected, that of the laws governing a complex society. Although the
emergence of society in this new and distinctive sense happened in the
economic field, its reference was universal.

The form in which the nascent reality came to our consciousness
was political economy. Its amazing regularities and stunning contra-
dictions had to be fitted into the scheme of philosophy and theology
in order to be assimilated to human meanings. The stubborn facts and
the inexorable brute laws that appeared to abolish our freedom had
in one way or another to be reconciled to freedom. This was the
mainspring of the metaphysical forces that secretly sustained the pos-
tivist and utilitarians. Unbounded hope and limitless despair looking
towards unexplored regions of human possibilities were the mind’s
ambivalent response to these awful limitations. Hope—the vision of
perfectibility—was distilled out of the nightmare of population and
wage laws, and was embodied in a concept of progress so inspiring
that it appeared to justify the vast and painful dislocations to come.
Despair was to prove an even more powerful agent of transformation.

Man was forced to resign himself to secular perdition: he was
doomed either to stop the procreation of his race or to condemn him-
self willingly to liquidation through war and pestilence, hunger and
vice. Poverty was nature surviving in society; that the limitedness of
food and the unlimitedness of men had come to an issue just when the
promise of a boundless increase of wealth burst in upon us made the
irony only the more bitter.

Thus was the discovery of society integrated with man’s spiritual
universe; but how was this new reality, society, to be translated into
terms of life? As guides to practice the moral principles of harmony
and conflict were strained to the utmost, and forced into a pattern of
all but complete contradiction. Harmony was inherent in economy,
it was said, the interests of the individual and the community being
ultimately identical—but such harmonious self-regulation required
that the individual respect economic law even if it happened to destroy
him. Conflict, also, seemed inherent in economy, whether as competi-
tion of individuals or as struggle of classes—but such conflict, again,
might turn out to be only the vehicle of a deeper harmony immanent
in present, or perhaps future, society.

Pauperism, political economy, and the discovery of society were
closely interwoven. Pauperism fixed attention on the incomprehen-
sible fact that poverty seemed to go with plenty. Yet this was only the
first of the baffling paradoxes with which industrial society was to con-
front modern man. He had entered his new abode through the door of
economics, and this adventitious circumstance invested the age with
its materialist aura. To Ricardo and Malthus nothing seemed more
real than material goods. The laws of the market meant for them
the limit of human possibilities. Godwin believed in unlimited possi-
bilities and hence had to deny the laws of the market. That human
possibilities were limited, not by the laws of the market, but by those
of society itself was a recognition reserved to Owen who alone dis-
cerned behind the veil of market economy the emergent reality: society.
However, his vision was lost again for a century.

Meanwhile, it was in relation to the problem of poverty that
people began to explore the meaning of life in a complex society. The
induction of political economy into the realm of the universal hap-
pened in two opposite perspectives, that of progress and perfectibility
on the one hand, determinism and damnation on the other; its trans-
lation into practice was also achieved in two opposite ways, through
the principle of harmony and self-regulation on the one hand, competi-
tion and conflict on the other. Economic liberalism and the class
concept were preformed in these contradictions. With the finality of
an elemental event, a new set of ideas entered our consciousness.
Ch. 8]  ANTECEDENTS AND CONSEQUENCES  

The Speenhamland system was originally no more than a makeshift. Yet few institutions have shaped the fate of a whole civilization more decisively than this, which had to be discarded before the new era could begin. It was the typical product of an age of transformation and deserves the attention of any student of human affairs today.

Under the mercantile system the labor organization of England rested on the Poor Law and the Statute of Artificers. Poor Law, as applied to the laws of 1536 to 1601, is admittedly a misnomer; actually these laws, and subsequent amendments, formed half of the labor code of England; the other half consisted of the Statute of Artificers of 1563. The latter dealt with the employed; the Poor Law, with what we would call the unemployed and unemployable (apart from the aged and children). To these measures were added later, as we saw, the Act of Settlement of 1662 concerning the legal abode of the people which restricted their mobility to the utmost. (The neat distinction between employed, unemployed, and unemployable is, of course, anachronistic since it implies the existence of a modern wage system which was absent for another 250 years or so; we use these terms for the sake of simplicity in this very broad presentation.)

Labor organization, according to the Statute of Artificers, rested on three pillars: enforcement of labor, seven years’ apprenticeship, and yearly wage assessments by public officials. The law—this should be emphasized—applied to agricultural laborers as much as to artisans, and was enforced in rural districts as well as in towns. For about eighty years the Statute was strictly executed; later the apprenticeship clauses fell partly into desuetude, being restricted to the traditional crafts; to the new industries like cotton they simply did not apply; yearly wage assessments, based on the cost of living, also were in abeyance in a large part of the country after the Restoration (1660). Formally, the assessment clauses of the Statute were repealed only in 1813, the wage clauses in 1814. However, in many respects the apprenticeship rule survived the Statute; it is still the general practice in the skilled trades in England. The enforcement of labor in the countryside was discontinued little by little. Still it can be said that for the two and a half centuries in question the Statute of Artificers laid down the outlines of a national organization of labor based on the principles of regulation and paternalism.

The Statute of Artificers was thus supplemented by the Poor Laws, a most confusing term in modern ears, to which “poor” and “pauper” sound much alike. Actually, the gentlemen of England judged all persons poor who did not command an income sufficient to keep them in leisure. “Poor” was thus practically synonymous with “common people,” and the common people comprised all but the landed classes (hardly any successful merchant failed to acquire landed property). Hence the term “poor” meant all people who were in need and all the people, if and when they were in need. This, of course, included paupers, but not them alone. The aged, the infirm, the orphans had to be taken care of in a society which claimed that within its confines there was a place for every Christian. But over and above, there were the able-bodied poor, whom we would call the unemployed, on the assumption that they could earn their living by manual work if only they could find employment. Beggary was severely punished; vagrancy, in case of repetition, was a capital offense. The Poor Law of 1601 decreed that the able-bodied poor should be put to work so as to earn their keep, which the parish was to supply; the burden of relief was put squarely on the parish, which was empowered to raise the necessary sums by local taxes or rates. These were to be levied upon all householders and tenants, rich and nonrich alike, according to the rental of the land or houses they occupied.

The Statute of Artificers and the Poor Law together provided what might be called a Code of Labor. However, the Poor Law was administered locally; every parish—a tiny unit—had its own provisions for setting the able-bodied to work; for maintaining a poorhouse; for apprenticing orphans and destitute children; for caring for the aged and the infirm; for the burial of paupers; and every parish had its own scale of rates. All this sounds grander than it often was; many parishes had no poorhouses; a great many more had no reasonable provisions for the useful occupation of the able-bodied; there was an endless variety of ways in which the slaggardliness of the local ratepayers, the indifference of the overseers of the poor, the callousness of the interests centering on pauperism vitiated the working of the law.
Still, by and large, the nearly sixteen thousand Poor Law authorities of the country managed to keep the social fabric of village life unbroken and undamaged.

Yet under a national system of labor, the local organization of unemployment and poor relief was a patent anomaly. The greater the variety of local provisions for the poor, the greater the danger to the well-kept parish that it would be swamped by the professional pauper. After the Restoration the Act of Settlement and Removal was passed to protect the “better” parishes from the influx of paupers. More than a century later, Adam Smith inveighed against this Act because it immobilized the people, and thus prevented them from finding useful employment as it prevented the capitalist from finding employees. Only with the good will of the local magistrate and the parish authorities could a man stay in any other but his home parish; everywhere else he was liable to expulsion even though in good standing and employed. The legal status of the people was therefore that of freedom and equality subject to incisive limitations. They were equal before the law, and free as to their persons. But they were not free to choose their occupations or those of their children; they were not free to settle where they pleased; and they were forced to labor. The two great Elizabethan Statutes and the Act of Settlement together were a charter of liberty to the common people as well as a seal of their disabilities.

The Industrial Revolution was well on the way, when in 1795, under the pressure of the needs of industry, the Act of 1662 was partially repealed, parish serfdom was abolished, and the physical mobility of the laborer was restored. A labor market could now be established on a national scale. But in the very same year, as we know, a practice of Poor Law administration was introduced which meant the reversal of the Elizabethan principle of enforced labor. Speenhamland ensured the “right to live”; grants in aid-of-wages were made general; family allowances were superadded; and all this was to be given in outdoor relief, i.e., without committing the recipient to the workhouse. Although the scale of relief was exiguous, it was enough for bare subsistence. This was a return to regulationism and paternalism with a vengeance just when, it would seem, the steam engine was clamoring for freedom and the machines were crying out for human hands. Yet the Speenhamland Law coincided in time with the withdrawal of the Act of Settlement. The contradiction was patent: the Act of Settlement was being repealed because the Industrial Revolution demanded a national supply of laborers who would offer to work for wages, while Speenhamland proclaimed the principle that no man need fear to starve and that the parish would keep him and his family however little he earned. There was stark contradiction between the two industrial policies; what else but a social enormity could be expected from their simultaneous continued application?

But the generation of Speenhamland was unconscious of what was on its way. On the eve of the greatest industrial revolution in history, no signs and portents were forthcoming. Capitalism arrived unannounced. No one had forecast the development of a machine industry; it came as a complete surprise. For some time England had been actually expecting a permanent recession of foreign trade when the dam burst, and the old world was swept away in one indomitable surge towards a planetary economy.

However, not until the 1850's could anybody have said so with assurance. The key to the comprehension of the Speenhamland magistrates' recommendation lay in their ignorance of the wider implications of the development they were facing. In the retrospect it may seem as if they had not only attempted the impossible, but had done so by means the inner contradictions of which should have been apparent at the time. Actually, they were successful in achieving their aim of protecting the village against dislocation, while the effects of their policy were all the more disastrous in other, unforeseen directions. Speenhamland policy was the outcome of a definite phase in the development of a market for labor power and should be understood in the light of the views taken of that situation by those in the position to shape policy. From this angle the allowance system will appear as a device contrived by squirearchy to meet a situation in which physical mobility could no longer be denied to labor, while the squire wished to avoid such unsettlement of local conditions, including higher wages, as was involved in the acceptance of a free national labor market.

The dynamic of Speenhamland was thus rooted in the circumstances of its origin. The rise in rural pauperism was the first symptom of the impending upheaval. Yet nobody seemed to have thought so at the time. The connection between rural poverty and the impact of world trade was anything but obvious. Contemporaries had no reason to link the number of the village poor with the development of commerce in the Seven Seas. The inexplicable increase in the number of the poor was almost generally put down to the method of Poor Law administration, and not without some good cause. Actually, beneath
the surface, the ominous growth of rural pauperism was directly linked with the trend of general economic history. But this connection was still hardly perceptible. Scores of writers probed into the channels by which the poor trickled into the village, and the number as well as the variety of reasons adduced for their appearance was amazing. And yet only a few contemporary writers pointed to those symptoms of the dislocations which we are used to connect with the Industrial Revolution. Up to 1785 the English public was unaware of any major change in economic life, except for a fitful increase of trade and the growth of pauperism.

Where do the poor come from? was the question raised by a bevy of pamphlets which grew thicker with the advancing century. The causes of pauperism and the means of combating it could hardly be expected to be kept apart in a literature which was inspired by the conviction that if only the most apparent evils of pauperism could be sufficiently alleviated it would cease to exist altogether. On one point there appears to have been general agreement, namely, on the great variety of causes that accounted for the fact of the increase. Amongst them were scarcity of grain; too high agricultural wages, causing high food prices; too low agricultural wages; too high urban wages; irregularity of urban employment; disappearance of the yeomanry; ineptitude of the urban worker for rural occupations; reluctance of the farmers to pay higher wages; the landlords'^426; fear that rents would have to be reduced if higher wages were paid; failure of the workhouse to compete with machinery; want of domestic economy; incommmodious habitations; bigoted diets; drug habits. Some writers blamed a new type of large sheep; others, horses which should be replaced by oxen; still others urged the keeping of fewer dogs. Some writers believed that the poor should eat less, or no, bread, while others thought that even feeding on the "best bread should not be charged against them." Tea impaired the health of many poor, it was thought, while "home-brewed beer" would restore it; those who most strongly on this score insisted that tea was no better than the cheapest dram. Forty years later Harriet Martineau still believed in preaching the advantages of dropping the tea habit for the sake of relieving pauperism.¹ True, many writers complained of the unsettling effects of enclosures; a number of others insisted on the damage done to rural employment by the ups and downs of manufacturers. Yet on the whole, the impression prevails that pauperism was regarded as a


phenomenon *sui generis*, a social disease which was caused by a variety of reasons, most of which became active only through the failure of the Poor Law to apply the right remedy.

The true answer almost certainly was that the aggravation of pauperism and the higher rates were due to an increase in what we would today call invisible unemployment. Such a fact would not be obvious at a time when even employment was, as a rule, invisible, as it necessarily was up to a point under cottage industry. Still there remain these questions: how to account for this increase in the number of the unemployed and underemployed? and why did the signs of imminent changes in industry escape the notice even of observant contemporaries?

The explanation lies primarily in the excessive fluctuations of trade in early times which tended to cover up the absolute increase in trade. While the latter accounted for the rise in employment, the fluctuations accounted for the much bigger rise in unemployment. But while the increase in the general level of employment was slow, the increase in unemployment and underemployment would tend to be fast. Thus the building up of what Friedrich Engels called the industrial reserve army outweighed by much the creation of the industrial army proper.

This had the important consequence that the connection between unemployment and the rise of total trade could be easily overlooked. While it was often remarked that the rise in unemployment was due to the great fluctuations in trade, it escaped notice that these fluctuations formed part of an underlying process of even greater amplitude, namely, a general growth of commerce increasingly based on manufactures. For the contemporaries, there seemed to be no connection between the mainly urban manufactories and the great increase of the poor in the countryside.

The increase in the aggregate of trade naturally swelled the volume of employment while territorial division of labor combined with sharp fluctuations of trade was responsible for the severe dislocation of both village and town occupations, which resulted in the rapid growth of unemployment. The distant rumor of large wages made the poor dissatisfied with those which agriculture could afford, and it created a dislike for that labor as poorly recompensed. The industrial regions of that age resembled a new country, like another America, attracting immigrants by the thousands. Migration is usually accompanied by a very considerable remigration. That such a reflux towards the village must have taken place seems to find support also in the fact that no
absolute decrease of the rural population was noted. Thus a cumulative unsettling of the population was proceeding as different groups were drawn for varying periods into the sphere of commercial and manufactural employment, and then left to drift back to their original rural habitat.

Much of the social damage done to England’s countryside sprang at first from the dislocating effects of trade directly upon the countryside itself. The Revolution in Agriculture definitely antedated the Industrial Revolution. Both enclosures of the common and consolidations into compact holdings, which accompanied the new great advance in agricultural methods, had a powerfully unsettling effect. The war on cottages, the absorption of cottage gardens and grounds, the confiscation of rights in the common deprived cottage industry of its two mainstays: family earnings and agricultural background. As long as domestic industry was supplemented by the facilities and amenities of a garden plot, a scrap of land, or grazing rights, the dependence of the laborer on money earnings was not absolute; the potato plot or “studding geese,” a cow or even an ass in the commons made all the difference; and family earnings acted as a kind of unemployment insurance. The rationalization of agriculture inevitably uprooted the laborer and undermined his social security.

On the urban scene the effects of the new scourge of fluctuating employment were, of course, manifest. Industry was generally regarded as a blind alley occupation. “Workmen who are today fully employed may be tomorrow in the streets begging for bread . . . ,” wrote David Davies and added: “Uncertainty of labor conditions is the most vicious result of these new innovations.” “When a Town employed in a Manufactory is deprived of it, the inhabitants are as it were struck with a palsy, and become instantly a rent-charge upon the Parish; but the mischief does not die with that generation . . . .” For in the meantime division of labor wreaks its vengeance: the unemployed artisan returns in vain to his village for “the weaver can turn his hand to nothing.” The fatal irreversibility of urbanization hinged upon this simple fact which Adam Smith foresaw when he described the industrial worker as intellectually the inferior of the poorest tiller of the soil, for the latter can usually take himself to any job. Still, up to the time Adam Smith published his Wealth of Nations pauperism was not increasing alarmingly.

In the next two decades the picture suddenly changed. In his Thoughts & Details on Scarcity, which Burke submitted to Pitt in

1795, the author admitted that in spite of the general progress there had been a “last bad cycle of twenty years.” Indeed, in the decade following upon the Seven Years’ War (1763) unemployment increased noticeably, as the rise in outdoor relief showed. It happened for the first time that a boom in trade was remarked to have been accompanied by signs of growing distress of the poor. This apparent contradiction was destined to become to the next generation of Western humanity the most perplexing of all the recurrent phenomena in social life. The specter of overpopulation was beginning to haunt people’s minds. William Townsend warned in his Dissertation on the Poor Laws: “Speculation apart, it is a fact, that in England, we have more than we can feed, and many more than we can profitably employ under the present system of law.” Adam Smith, in 1776, had been reflecting the mood of quiet progress. Townsend, writing only ten years later, was already conscious of a groundswell.

However, many things had to happen before (only five years later) a man as removed from politics, as successful, and as matter-of-fact as the Scotch bridgebuilder, Telford, could burst forth with the bitter complaint that little change is to be expected from the ordinary course of government, and that revolution was the only hope. A single copy of Paine’s Rights of Man mailed by Telford to his home village caused a riot to break out there. Paris was catalyzing the European fermentation.

In Canning’s conviction the Poor Law saved England from a revolution. He was primarily thinking of the 1790’s and the French Wars. The new outburst of enclosures further depressed the standards of the poor in the countryside. J. H. Clapham, an apologist of these enclosures, conceded that the “coincidence of the area in which wages were most systematically augmented from the rates with the area of maximum recent enclosures is striking.” In other words, but for aid-in-wages the poor would have sunk below the starvation level in wide areas of rural England. Rick burning was rampant. The Popgun Plot found wide credence. Rioting was frequent; rumors of rioting very much more so. In Hampshire—and not there alone—the Courts threatened death for any attempt at “forcibly lowering the price of commodities, either at market or on the road”; yet simultaneously, the magistrates of that same county urgently pressed for the general granting of subsidies to wages. Clearly, the time for preventive action had come.

But why, of all courses of action, was that one chosen which
appeared later as the most impracticable of all? Let us consider the situation and the interests involved. Squire and parson ruled the village. Townsend summed up the situation by saying that the landed gentleman keeps manufactures “at a convenient distance” because “he considers that manufactures fluctuate; that the benefit which he is to derive from them will not bear proportion with the burthen which it must entail upon his property. . . .” The burden consisted mainly in two seemingly contradictory effects of manufactures, namely, the increase in pauperism and the rise in wages. But the two were contradictory only if the existence of a competitive labor market was assumed, which, would, of course, have tended to diminish unemployment by reducing the wages of the employed. In the absence of such a market—and the Act of Settlement was still in force—pauperism and wages might rise simultaneously. Under such conditions the “social cost” of urban unemployment was mainly borne by the home village to which the out-of-work would often repair. High wages in the towns were a still greater burden on rural economy. Agricultural wages were more than the farmer could carry, though less than the laborer could subsist on. It seems clear that agriculture could not compete with town wages. On the other hand, there was general agreement that the Act of Settlement should be repealed, or at least loosened, so as to help labor to find employment and the employers to find laborers. This, it was felt, would increase the productivity of labor all around and, incidentally, diminish the real burden of wages. But the immediate question of the wage differential between town and village would obviously become even more pressing for the village by allowing wages to “find their own level.” The flux and reflux of industrial employment alternating with spasms of unemployment would dislocate rural communities more than ever. A dam had to be erected to protect the village from the flood of rising wages. Methods had to be found which would protect the rural setting against social dislocation, reinforce traditional authority, prevent the draining off of rural labor, and raise agricultural wages without overburdening the farmer. Such a device was the Speenhamland Law. Shoved into the turbulent waters of the Industrial Revolution, it was bound to create an economic vortex. However, its social implications met squarely the situation, as it was judged by the ruling village interest—the squire’s.

From the point of view of Poor Law administration Speenhamland was a grievously retrogressive step. The experience of 250 years had shown that the parish was too small a unit for Poor Law administration, since no treatment of this matter was adequate which failed to distinguish between the able-bodied unemployed on the one hand, the aged, infirm, and children on the other. It was as if a township today attempted to deal singlehanded with unemployment insurance, or as if such an insurance were mixed up with the care for the aged. Accordingly, only in those short periods, when the administration of the Poor Law was both national and differentiated could it be more or less satisfactory. Such a period was that from 1590 to 1649, under Burleigh and Laud, when the Crown handled the Poor Law through the justices of peace, and an ambitious scheme of erecting poorhouses, together with the enforcement of labor, was initiated. But the Commonwealth (1642-60) destroyed again what was now denounced as the personal rule of the Crown, and the Restoration, ironically enough, completed the work of the Commonwealth. The Act of Settlement of 1662 restricted the Poor Law to the parish basis, and legislation paid but scant attention to pauperism up to the third decade of the eighteenth century. In 1722, at last, efforts at differentiation set in; workhouses were to be built by unions of parishes, as distinct from local poorhouses; and occasional outdoor relief was permitted, as the workhouse would now provide a test of need. In 1762, with Gilbert’s Act, a long step was taken to expand the units of administration by encouraging the setting up of parish unions; at that time it was urged that parishes find employment for the able-bodied in the neighborhood. Such a policy was to be supplemented by the granting of outdoor relief and even of aid-in-wages, in order to diminish the cost of relief to the able-bodied. Although the setting up of unions of parishes was permissive, not mandatory, it meant an advance toward the larger unit of administration and the differentiation of the various categories of the relieved poor. Thus in spite of the deficiencies of the system, Gilbert’s Act represented an attempt in the right direction, and as long as outdoor relief and aid-in-wages were merely subsidiary to positive social legislation, they need not have been fatal to a rational solution. Speenhamland put a stop to reform. By making outdoor relief and aid-in-wages general, it did not (as has been falsely asserted) follow up the line of Gilbert’s Act, but completely reversed its tendency and actually demolished the whole system of the Elizabethan Poor Law. The laboriously established distinction between workhouse and poorhouse became meaningless; the various categories of paupers and able-bodied unemployed now tended to fuse into one indiscriminate mass
of dependent poverty. The opposite of a process of differentiation set in: the workhouse merged into the poorhouse, the poorhouse itself tended more and more to disappear; and the parish was again made the sole and final unit in this veritable masterpiece of institutional degeneration.

The supremacy of squire and parson was even enhanced in consequence of Speenhamland, if such a thing was at all possible. The "undistinguishing benevolence of power," of which the overseers of the poor complained, was at its best in that role of "Tory socialism" in which the justices of peace swayed the benevolent power, while the brunt of the rates was borne by the rural middle class. The bulk of yeomanry had long vanished in the vicissitudes of the Agricultural Revolution, and the remaining lifeholders and occupying-propriets tended to merge with the cottagers and scrap-holders into one social stratum in the eyes of the potentate of the countryside. He did not too well distinguish between needy people, and people who happened to be in need; from the lofty heights from which he was watching the struggling life of the village there seemed to be no hard and fast line separating the poor from the destitute, and he may have been not unduly surprised to learn in a bad year that a small farmer was going "on the rates," after having been ruined by their disastrous level. Surely such cases were not frequent, but their very possibility emphasized the fact that many ratepayers were themselves poor. On the whole, the relationship of the ratepayer and the pauper was somewhat similar to that of the employed and the unemployed of our times under various schemes of insurance which make the employed bear the burden of keeping the temporarily unemployed. Still, the typical ratepayer was usually not eligible for poor relief, and the typical agricultural laborer paid no rates. Politically, the squire's pull with the village poor was strengthened by Speenhamland while that of the rural middle class was weakened.

The craziest aspect of the system was its economics proper. The question "Who paid for Speenhamland?" was practically unanswerable. Directly, the main burden fell, of course, on the ratepayers. But the farmers were partly compensated by the low wages they had to pay their laborers—a direct result of the Speenhamland system. Moreover, the farmer was frequently remitted a part of his rates, if he was willing to employ a villager who would otherwise fall on the rates. The consequent overcrowding of the farmer's kitchen and yard with unnecessary hands, some of them not too keen performers, had to be set down on the debit side. The labor of those who were actually on the rates was to be had even more cheaply. They had often to work as "roundsmen" at alternating places, being paid only their food, or being put up for auction in the village "pound," for a few pence a day. How much this kind of indented labor was worth is another question. To top it all, aids-in-rent were sometimes allowed to the poor, while the unscrupulous proprietor of the cottages made money by rack-renting the unsanitary habitations; the village authorities were likely to close an eye as long as the rates for the hovels continued to be turned in. That such a tangle of interests would undermine any sense of financial responsibility and encourage every kind of petty corruption is evident.

Still, in a broader sense, Speenhamland paid. It was started as aid-in-wages, ostensibly benefiting the employees, but actually using public means to subsidize the employers. For the main effect of the allowance system was to depress wages below the subsistence level. In the thoroughly pauperized areas, farmers did not care to employ agricultural laborers who still owned a scrap of land, "because none with property was eligible for parish relief and the standard wage was so low that, without relief of some sort, it was insufficient for a married man." Consequently, in some areas only those people who were on the rates had a chance of employment; those who tried to keep off the rates and earn a living by their own exertions were hardly able to secure a job. Yet in the country at large the great majority must have been of the latter sort and on each of them employers as a class made an extra profit since they benefited from the lowness of wages, without having to make up for it from the rates. In the long run, a system as uneconomical as that was bound to affect the productivity of labor and to depress standard wages, and ultimately even the "scale" set by the magistrates for the benefit of the poor. By the 1820's the scale of bread was actually being whittled down in various counties, and the wretched incomes of the poor were reduced even further. Between 1815 and 1830 the Speenhamland scale, which was fairly equal all over the country, was reduced by almost one-third (this fall also was practically universal). Clapham doubts whether the total burden of the rates was as severe as the rather sudden outburst of complaints would have made one believe. Rightly. For although the rise in the rates was spectacular and in some regions must have been felt as a calamity, it seems most probable that it was not so much the burden itself as rather the economic effect of aid-in-wages on the productivity of labor that
was at the root of the trouble. Southern England, which was most
sorely hit, paid out in poor rates not quite 3.3 per cent of its income—
a very tolerable charge, Clapham thought, in view of the fact that a
considerable part of this sum “ought to have gone to the poor in
wages.” Actually, total rates were falling steadily in the 1830’s, and
their relative burden must have even more quickly decreased in view
of the growing national welfare. In 1818 the sums actually spent on
the relief of the poor totaled near eight million pounds; they fell
almost continuously until they were less than six million in 1826, while
national income was rising rapidly. And yet the criticism of Speen-
hamland became more and more violent owing to the fact, so it
appears, that the dehumanization of the masses began to paralyze
national life, and notably to constrain the energies of industry itself.

Speenhamland precipitated a social catastrophe. We have become
accustomed to discount the lurid presentations of early capitalism as
“sob-stuff.” For this there is no justification. The picture drawn by
Harriet Martineau, the fervid apostle of Poor Law Reform, coincides
with that of the Chartist propagandists who were leading the
outcry against the Poor Law Reform. The facts set out in the famous
Report of the Commission on the Poor Law (1834), advocating the
immediate repeal of the Speenhamland Law, could have served as the
material for Dickens’ campaign against the Commission’s policy.
Neither Charles Kingsley nor Friedrich Engels, neither Blake nor
Carlyle, was mistaken in believing that the very image of man had
been defiled by some terrible catastrophe. And more impressive even
than the outbursts of pain and anger that came from poets and philan-
thropists was the icy silence with which Malthus and Ricardo passed
over the scenes out of which their philosophy of secular perdition was
born.

Undoubtedly, the social dislocation caused by the machine and the
circumstances under which man was now condemned to serve it had
many results that were unavoidable. England’s rural civilization was
lacking in those urban surroundings out of which the later industrial
towns of the Continent grew. There was in the new towns no settled
urban middle class, no such nucleus of artisans and craftsmen, of
respectable petty bourgeoisie and townspeople as could have served as
an assimilating medium for the crude laborer who—attracted by high

 Professor Usher puts the date of the beginning of general urbanization about
1795.

wages or chased from the land by tricky enclosers—was drudging in
the early mills. The industrial town of the Midlands and the North
West was a cultural wasteland; its slums merely reflected its lack of
tradition and civic self-respect. Dumped into this bleak slough of
misery, the immigrant peasant, or even the former yeoman or copy-
holder was soon transformed into a nondescript animal of the mire.
It was not that he was paid too little, or even that he labored too long—
though either happened often to excess—but that he was now existing
under physical conditions which denied the human shape of life.
Negroes of the African forest who found themselves caged, panting
for air in the hull of a slave trader might have felt as these people felt.
And yet all this was not irremediable. As long as a man had a
status to hold on to, a pattern set by his kin or fellows, he could fight
it, and regain his soul. But in the case of the laborer this could
happen only in one way: by his constituting himself the member of
a new class. Unless he was able to make a living by his own labor, he
was not a worker but a pauper. To reduce him artificially to such a
condition was the supreme abomination of Speenhamland. This act
of an ambiguous humanitarianism prevented laborers from constituting
themselves an economic class and thus deprived them of the only
means of staving off the fate to which they were doomed in the eco-
nomic mill.

Speenhamland was an unfailing instrument of popular demoral-
ization. If a human society is a self-acting machine for maintaining
the standards on which it is built, Speenhamland was an automaton
for demolishing the standards on which any kind of society could be
based. Not only did it put a premium on the shirking of work and the
pretense of inadequacy, but it increased the attraction of pauperism
precisely at the juncture when a man was straining to escape the fate
of the destitute. Once a man was in the poorhouse (he would usually
land there if he and his family had been for some time on the rates)
he was trapped, and could rarely leave it. The decencies and self-
respect of centuries of settled life wore off quickly in the promiscuity
of the poorhouse, where a man had to be cautious not to be thought
better off than his neighbor, lest he be forced to start out on the hunt
for work, instead of “boon-doggling” in the familiar fold. “The poor-
rate had become public spoil. . . . To obtain their share the brutal
bullied the administrators, the profligate exhibited their bastards which
must be fed, the idle folded their arms and waited till they got it;
ignorant boys and girls married upon it; poachers, thieves and prosti-
tutes extorted it by intimidation; country justices lavished it for popularity, and Guardians for convenience. This was the way the fund went. . . .” “Instead of the proper number of laborers to till his land—laborers paid by himself—the farmer was compelled to take double the number, whose wages were paid partly out of the rates; and these men, being employed by compulsion on him, were beyond his control—worked or not as they chose—let down the quality of his land, and disabled him from employing the better men who would have toiled hard for independence. These better men sank down amongst the worst; the rate paying cottager, after a vain struggle, went to the pay table to seek relief. . . .” Thus Harriet Martineau.\(^3\) Bashful later-day liberals ungratefully neglected the memory of this outspoken apostle of their creed. Yet even her exaggerations, which they now feared, put the highlights in the right place. She herself belonged to that struggling middle class, whose genteel poverty made them only the more sensitive to the moral intricacies of the Poor Law. She understood and clearly expressed the need of society for a new class, a class of “independent laborers.” They were the heroes of her dreams, and she makes one of them—a chronically unemployed laborer who refuses to go on relief—say proudly to a colleague who decides to go on the rates: “Here I stand, and defy anybody to despise me. I could set my children into the middle of the church aisle and dare anyone to taunt them about the place they hold in society. There may be some wiser; there may be many richer; but there are none more honorable.” The big men of the ruling class were still far from comprehending the need for this new class. Miss Martineau pointed to “the vulgar error of the aristocracy, of supposing only one class of society to exist below that wealthy one with which they are compelled by their affairs to have business.” Lord Eldon, she complained, like others who must know better, “included under one head [the lower classes] everybody below the wealthiest bankers—manufacturers, tradesmen, artisans, laborers and paupers. . . .”\(^4\) But it was the distinction between these last two, she passionately insisted, that the future of society depended upon. “Except the distinction between sovereign and subject, there is no social difference in England so wide as that between the independent laborer and the pauper; and it is equally ignorant, immoral, and impolitic to confound the two,” she

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\(^3\) Martineau, H., *History of England During the Thirty Years' Peace (1816–1846)*, 1849.

shelter which was deliberately made into a place of horror. The workhouse was invested with a stigma; and staying in it was made a psychological and moral torture, while complying with the requirements of hygiene and decency—indeed, ingeniously using them as a pretense for further deprivations. Not the justices of peace, nor local overseers, but wider authorities—the guardians—were to administer the law under dictatorial central supervision. The very burial of a pauper was made an act by which his fellow men renounced solidarity with him even in death.

In 1834 industrial capitalism was ready to be started, and Poor Law Reform was ushered in. The Speenhamland Law which had sheltered rural England, and thereby the laboring population in general, from the full force of the market mechanism was eating into the marrow of society. By the time of its repeal huge masses of the laboring population resembled more the specters that might haunt a nightmare than human beings. But if the workers were physically dehumanized, the owning classes were morally degraded. The traditional unity of a Christian society was giving place to a denial of responsibility on the part of the well-to-do for the conditions of their fellows. The Two Nations were taking shape. To the bewilderment of thinking minds, unheard-of wealth turned out to be inseparable from unheard-of poverty. Scholars proclaimed in unison that a science had been discovered which put the laws governing man’s world beyond any doubt. It was at the behest of these laws that compassion was removed from the hearts, and a stoic determination to renounce human solidarity in the name of the greatest happiness of the greatest number gained the dignity of secular religion.

The mechanism of the market was asserting itself and clamoring for its completion: human labor had to be made a commodity. Reactionary paternalism had in vain tried to resist this necessity. Out of the horrors of Speenhamland men rushed blindly for the shelter of a utopian market economy.

9

PAUPERISM AND UTOPIA

The problem of poverty centered around two closely related subjects: pauperism and political economy. Though we will deal with their impact on modern consciousness separately, they formed part of one indivisible whole: the discovery of society.

Up to the time of Speenhamland no satisfactory answer could be found to the question of where the poor come from. It was, however, generally agreed among eighteenth century thinkers that pauperism and progress were inseparable. The greatest number of poor is not to be found in barren countries or amidst barbarous nations, but in those which are the most fertile and the most civilized, wrote John M’Farlane, in 1782. Giambaria Ortes, the Italian economist, pronounced it an axiom that the wealth of a nation corresponds with its population; and its misery corresponds with its wealth (1774). And even Adam Smith in his cautious manner declared that it is not in the richest countries that the wages of labor are highest. M’Farlane was not, therefore, venturing an unusual view when he expressed his belief that as England had now approached the meridian of her greatness, the “number of poor will continue to increase.”

Again, for an Englishman to forecast commercial stagnation was merely to echo a widely held opinion. If the rise in exports during the half century preceding 1782 was striking, the ups and downs of trade were even more so. Trade was just starting to recover from a slump which had reduced export figures to the level of almost half a century before. To contemporaries the great expansion of trade and apparent growth of national prosperity which followed upon the Seven Years’ War merely signified that England too had had her chance after Portugal, Spain, Holland, and France. Her steep rise was now a matter of the past, and there was no reason to believe in the con-

1 M’Farlane, J., Enquiries Concerning the Poor, 1782. Cf. also Postlethwayt’s editorial remark in the Universal Dictionary of 1757 on the Dutch Poor Law of 7th October, 1591.
tinuance of her progress, which seemed merely the result of a lucky war. Almost unanimously, as we saw, a falling off of trade was expected.

In actual fact, prosperity was just round the corner, a prosperity of gigantic proportions which was destined to become a new form of life not for one nation alone but for the whole of mankind. But neither statesmen nor economists had the slightest intimation of its oncoming. As for the statesmen, this may have been a matter of indifference, as for another two generations the rocketing trade figures only dented the edge of popular misery. But in the case of the economists it was singularly unfortunate as their whole theoretical system was erected during this spate of “abnormalcy,” when a tremendous rise in trade and production happened to be accompanied by an enormous increase in human misery—in effect, the apparent facts on which the principles of Malthus, Ricardo, and James Mill were grounded reflected merely paradoxical tendencies prevailing during a sharply defined period of transition.

The situation was indeed puzzling. It was in the first half of the sixteenth century that the poor first appeared in England; they became conspicuous as individuals unattached to the manor, “or to any feudal superior” and their gradual transformation into a class of free laborers was the combined result of the fierce persecution of vagrancy and the fostering of domestic industry which was powerfully helped by a continuous expansion of foreign trade. During the course of the seventeenth century there was less mention of pauperism, even the incisive measure of the Act of Settlement was passed without public discussion. When by the end of the century discussion revived, Thomas More’s Utopia and the early Poor Laws were more than 150 years old, the dissolution of the monasteries and Kett’s Rebellion were long forgotten. Some enclosing and “engrossing” had been going on all the time, for example, during the reign of Charles I, but the new classes as a whole had become settled. Also while the poor in the middle of the sixteenth century were a danger to society, on which they descended like hostile armies, at the end of the seventeenth century the poor were merely a burden on the rates. On the other hand, this was no more a semi-feudal society but a semicommercial one, the representative members of which were favoring work for its own sake, and could accept neither the medieval view that poverty was no problem, nor that of the successful encloser that the unemployed were merely able-bodied idlers. From this time onward, opinions about pauperism began to reflect philo-

sophical outlook, very much as theological questions had before. Views on the poor mirrored more and more views on existence as a whole. Hence, the variety and seeming confusion in these views, but also their paramount interest to the history of our civilization.

The Quakers, these pioneers in the exploration of the possibilities of modern existence, were the first to recognize that involuntary unemployment must be the outcome of some defect in the organization of labor. With their strong faith in businesslike methods they applied to the poor amongst themselves that principle of collective self-help which they occasionally practiced as conscientious objectors when wishing to avoid supporting the authorities by paying for their keep in prison. Lawson, a zealous Quaker, published an Appeal to the Parliament concerning the Poor that there be no beggar in England as a “Platorme,” in which he suggested the establishment of Labor Exchanges in the modern sense of the public employment agency. This was in 1660; an “Office of Addresses and Encounters” had been proposed ten years before by Henry Robinson. But the Restoration government favored more pedestrian methods; the tendency of the Act of Settlement in 1662 was directly contrary to any rational system of labor exchanges, which would have created a wider market for labor; settlement—a term used for the first time in the Act—bound labor to the parish.

After the Glorious Revolution (1688), Quaker philosophy produced in John Bellers a veritable prognosticator of the trend of social ideas of the distant future. It was out of the atmosphere of the Meetings of Sufferings, in which statistics were now often used to give scientific precision to religious policies of relief, that, in 1696, his suggestion for the establishment of “Colleges of Industry” was born, in which the involuntary leisure of the poor could be turned to good account. Not the principles of a Labor Exchange, but the very different ones of exchange of labor underlay this scheme. The former was associated with the conventional idea of finding an employer for the unemployed; the latter implied no less than that laborers need no employer as long as they can exchange their products directly. “The labor of the poor being the mines of the rich,” as Bellers said, why should they not be able to support themselves by exploiting those riches for their own benefit, leaving even something over? All that was needed was to organize them in a “College” or corporation, where they could pool their efforts. This was at the heart of all later socialist thought on the subject of poverty, whether it took the form of Owen’s
Villages of Union, Fourier’s Phalanstères, Proudhon’s Banks of Exchange, Louis Blanc’s Ateliers Nationaux, Lassalle’s Nationale Werkstätten, or for that matter, Stalin’s Five-Year Plans. Bellers’ book contained in nuce most of the proposals that have been connected with the solution of this problem ever since the first appearance of those great dislocations that the machine produced in modern society. “This college-fellowship will make labor and not money, the standard to value all necessaries by. . .” It was planned as “a College of all sorts of useful trades that shall work for one another without relief. . .” The linking of labor-notes, self-help, and cooperation is significant. The laborers, to the number of three hundred, were to be self-supporting, and work in common for their bare existence, “what any doth more, to be paid for it.” Thus subsistence rations and payment according to results were to be combined. In the case of some minor experiments of self-help the financial surplus had gone to the Meeting of Sufferings and was spent for the benefit of other members of the religious community. This surplus was destined to have a great future; the novel idea of profits was the panacea of the age. Bellers’ national scheme for the relief of unemployment was actually to be run for profit by capitalists! In the same year, 1696, John Cary promoted the Bristol Corporation for the Poor, which, after some initial success failed to yield profits as did, ultimately, all other ventures of the kind. Yet Bellers’ proposal was built on the same assumption as John Locke’s labor-rate system, put forward also in 1696, according to which the village poor should be allocated to the local ratepayers for work, in the proportion in which these latter were contributing to the rates. This was the origin of the ill-starred system of roundsmen practiced under Gilbert’s Act. The idea that pauperism could be made to pay had firmly gripped people’s minds.

It was exactly a century later that Jeremy Bentham, the most prolific of all social projectors, formed the plan of using paupers on a large scale to run machinery devised by his even more inventive brother, Samuel, for the working of wood and metal. “Bentham,” says Sir Leslie Stephen, “had joined his brother and they were looking out for a steam engine. It had now occurred to them to employ convicts instead of steam.” This was in 1794; Jeremy Bentham’s Panopticon plan with the help of which gaols could be designed so as to be cheaply and effectively supervised had been in existence for a couple of years, and he now decided to apply it to his convict-run factory; the place of the convicts was to be taken by the poor. Presently the

Bentham brothers’ private business venture merged into a general scheme of solving the social problem as a whole. The decision of the Speenhamland magistrates, Whitbread’s minimum wage proposal, and, above all, Pitt’s privately circulated draft of a comprehensive Bill for the reform of the Poor Law made pauperism a topic among statesmen. Bentham, whose criticism of Pitt’s Bill was supposed to have brought about its withdrawal, now came forward in Arthur Young’s Annals with elaborate proposals of his own (1797). His Industry-Houses, on the Panopticon plan—five storeys in twelve sectors—for the exploitation of the labor of the assisted poor were to be ruled by a central board set up in the capital and modeled on the Bank of England’s Board, all members with shares worth five or ten pounds having a vote. A text published a few years later ran: “(1) The management of the concerns of the poor throughout South Britain to be vested in one authority, and the expense to be charged upon one fund. (2) This Authority, that of a Joint-Stock Company under some such name as that of the National Charity Company.” No less than 250 Industry-Houses were to be erected, with approximately 500,000 inmates. The plan was accompanied by a detailed analysis of the various categories of unemployed, in which Bentham anticipated by more than a century the results of other investigators in this field. His classifying mind showed its capacity for realism at its best. “Out of place hands” who had been recently dismissed from jobs were distinguished from such as could not find employment on account of “casual-stagnation”; “periodical stagnation” of seasonal workers was distinguished from “superseeded hands,” such as had been “rendered superfluous by the introduction of machinery” or, in even more modern terms, from the technologically unemployed; a last group consisted of “disbanded hands,” another modern category brought into prominence, in Bentham’s time, by the French war. The most significant category, however, was that of “casual-stagnation,” mentioned above, which included not only craftsmen and artists exercising occupations “dependent upon fashion” but also the much more important group of those unemployed “in the event of a general stagnation of manufactures.” Bentham’s plan amounted to no less than the leveling out of the business cycle through the commercialization of unemployment on a gigantic scale.

Robert Owen, in 1819, republished Bellers’ more than 120-year-old plans for the setting up of Colleges of Industry. Sporadic destitution

* Bentham, J., Pauper Management. First published 1797.
had now grown into a torrent of misery. His own Villages of Union differed from Bellers' mainly by being much larger, comprising 1,200 persons on as many acres of land. The committee calling for subscriptions to this highly experimental plan to solve the problem of unemployment included no less an authority than David Ricardo. But no subscribers appeared. Somewhat later, the Frenchman Charles Fourier was ridiculed for expecting day by day the sleeping-partner to turn up who would invest in his Phalanstère plan, which was based on ideas very similar to those sponsored by one of the greatest contemporary experts on finance. And had not Robert Owen's firm in New Lanark—with Jeremy Bentham as a sleeping-partner—become world-famous through the financial success of its philanthropic schemes? There was yet no standard view of poverty nor any accepted way of making profits out of the poor.

Owen took over from Bellers the labor-notes idea and applied it in his National Equitable Labor Exchange in 1832; it failed. The closely related principle of the economic self-sufficiency of the laboring class—also an idea of Bellers—was at the back of the famous Trades-Union movement in the next two years. The Trades-Union was a general association of all trades, crafts, and arts, not excluding small masters, with the vague purpose of constituting them the body of society, in one peaceful manifestation. Who would have thought that this was the embryo of all violent One Big Union attempts for a hundred years to come? Syndicalism, capitalism, socialism, and anarchism were indeed almost indistinguishable in their plans for the poor. Proudhon's Bank of Exchange, the first practical exploit of philosophical anarchism, in 1848, was, essentially, an outgrowth of Owen's experiment. Marx, the state-socialist, sharply assailed Proudhon's ideas and henceforth it was the state that would be called upon to supply the capital for collectivist schemes of this type, of which Louis Blanc's and Lassalle's went down to history.

The economic reason why no money could be made out of the paupers should have been no mystery. It was given almost 150 years before by Daniel Defoe whose pamphlet, published in 1704, stalled the discussion started by Bellers and Locke. Defoe insisted that if the poor were relieved, they would not work for wages; and that if they were put to manufacturing goods in public institutions, they would merely create more unemployment in private manufactures. His pamphlet bore the satanic title: Giving Alms no Charity and employing the Poor a Grievance to the Nation, and was followed by

Doctor Mandeville's more famous doggerels about the sophisticated bees whose community was prosperous only because it encouraged vanity and envy, vice and waste. But while the whimsical doctor indulged in a shallow moral paradox, the pamphleteer had hit upon basic elements of the new political economy. His essay was soon forgotten outside the circles of "inferior politics," as problems of policing were called in the eighteenth century, while Mandeville's cheap paradox exercised minds of the quality of a Berkeley, Hume, and Smith. Evidently, in the first half of the eighteenth century mobile wealth was still a moral issue, while poverty was not yet one. The Puritan classes were shocked by the feudal forms of conspicuous waste which their conscience condemned as luxury and vice, while they had reluctantly to agree with Mandeville's bees that but for those evils commerce and trade would quickly decay. Later these wealthy merchants were to be reassured about the morality of business: the new cotton mills did not cater any more to idle ostentation but to drab daily needs, and subtle forms of waste developed which pretended to be less conspicuous while managing to be even more wasteful than the old. Defoe's jibe at the perils of relieving the poor was not topical enough to penetrate consciences preoccupied with the moral dangers of wealth; the Industrial Revolution was still to come. And yet, as far as it went, Defoe's paradox was a forecast of the perplexities to come: "Giving alms no charity"—for in taking away the edge of hunger one hindered production and merely created famine; "employing the poor, a grievance to the nation"—for by creating public employment one merely increased the glut of the goods on the market and hastened the ruin of private traders. Between John Bellers, the Quaker, and Daniel Defoe, the time-serving journalist, between saint and cynic, somewhere around the turn of the seventeenth century, the issues were raised to which more than two centuries of work and thought, hope and suffering, were to provide the laborious solutions.

But at the time of Speenhamland the true nature of pauperism was still hidden from the minds of men. There was complete agreement on the desirability of a large population, as large as possible, since the power of the state consisted in men. There was also ready agreement on the advantages of cheap labor, since only if labor were cheap could manufactures flourish. Moreover, but for the poor, who would man the ships and go to the wars? Yet, there was doubt whether pauperism was not an evil after all. And in any case, why should not paupers be as profitably employed for public profit as they obviously were for
private profit? No convincing answer to these questions could be
given. Defoe had chanced upon the truth which seventy years later
Adam Smith may or may not have comprehended; the undeveloped
condition of the market system concealed its inherent weaknesses.
Neither the new wealth nor the new poverty was yet quite compre-
hensible.

That the question was in its chrysalid stage was shown by the
amazing congruence of the projects reflecting minds as different as
those of the Quaker Bellers, the atheist Owen, and the utilitarian Ben-
tham. Owen, a socialist, was an ardent believer in the equality of
man and his inborn rights; while Bentham despised equalitarianism,
ridiculed the rights of man and bent heavily towards laisser-faire. Yet
Owen’s “parallelograms” resembled Bentham’s Industry-Houses so
closely that one might imagine he was solely inspired by them until
his indebtedness to Bellers is remembered. All three men were con-
vincing that an appropriate organization of the labor of the unemployed
must produce a surplus, which Bellers, the humanitarian, hoped to
use primarily for the relief of other sufferers; Bentham, the utilitarian
liberal, wanted to turn over to the shareholders; Owen, the socialist,
wished to return to the unemployed themselves. But while their differ-
ences merely revealed the almost imperceptible signs of future rifts,
their common illusions disclosed the same radical misunderstanding
of the nature of pauperism in the nascent market economy. More
important than all other differences between them, there had been mean-
while a continuous growth in the number of the poor: in 1696, when
Bellers wrote, total rates approximated 400,000 pounds; in 1796,
when Bentham struck out against Pitt’s bill, they must have passed
the 2 million mark; by 1818, Robert Owen’s beginnings, they were
nearing 8 million. In the 120 years that elapsed between Bellers and
Owen the population may have trebled, but rates increased twentyfold.
Pauperism had become a portent. But its meaning was still anybody’s
guess.

10

POLITICAL ECONOMY AND THE DISCOVERY OF
SOCiETY

WHEN THE SIGNIFICANCE of poverty was realized, the stage was set
for the nineteenth century. The watershed lay somewhere around
1780. In Adam Smith’s great work poor relief was no problem as yet;
only a decade later it was raised as a broad issue in Townsend’s Dis-
sertation on the Poor Laws and never ceased to occupy men’s minds
for another century and a half.

The change of atmosphere from Adam Smith to Townsend was,
indeed, striking. The former marked the close of an age which opened
with the inventors of the state, Thomas More and Machiavelli, Luther
and Calvin; the latter belonged to that nineteenth century in which
Ricardo and Hegel discovered from opposite angles the existence of a
society that was not subject to the laws of the state, but, on the con-
trary, subjected the state to its own laws. Adam Smith, it was true,
treated material wealth as a separate field of study; to have done so
with a great sense of realism made him the founder of a new science,
economics. For all that, wealth was to him merely an aspect of the
life of the community, to the purposes of which it remained subordi-
nate; it was an appurtenance of the nations struggling for survival in
history and could not be dissociated from them. In his view, one set
of conditions which governed the wealth of nations derived from the
improving, stationary, or declining state of the country as a whole;
another set derived from the paramountcy of safety and security as
well as the needs of the balance of power; still another was given by
the policy of the government as it favored town or countryside, indus-
try or agriculture; hence, it was only within a given political frame-
work that he deemed it possible to formulate the question of wealth,
by which he for one meant the material welfare of “the great body of
the people.” There is no intimation in his work that the economic
interests of the capitalists laid down the law to society; no intimation
that they were the secular spokesmen of the divine providence which:
governed the economic world as a separate entity. The economic sphere, with him, is not yet subject to laws of its own that provide us with a standard of good and evil.

Smith wished to regard the wealth of the nations as a function of their national life, physical and moral; that is why his naval policy fitted in so well with Cromwell’s Navigation Laws and his notions of human society harmonized with John Locke’s system of natural rights. In his view nothing indicates the presence of an economic sphere in society that might become the source of moral law and political obligation. Self-interest merely prompts us to do what, intrinsically, will also benefit others, as the butcher’s self-interest will ultimately supply us with a dinner. A broad optimism pervades Smith’s thinking since the laws governing the economic part of the universe are consonant with man’s destiny as are those that govern the rest. No hidden hand tries to impose upon us the rites of cannibalism in the name of self-interest. The dignity of man is that of a moral being, who is, as such, a member of the civic order of family, state, and “the great Society of mankind.” Reason and humanity set a limit to piecework; emulation and gain must give way to them. Natural is that which is in accordance with the principles embodied in the mind of man; and the natural order is that which is in accordance with those principles. Nature in the physical sense was consciously excluded by Smith from the problem of wealth. “Whatever be the soil, climate or extent of territory of any particular nation, the abundance or scantiness of its annual supply, must, in that particular situation, depend upon two circumstances,” namely, the skill of labor and the proportion between the useful and the idle members in society. Not the natural, but only the human factors enter. This exclusion of the biological and geographical factor in the very beginning of his book was deliberate. The fallacies of the Physiocrats served him as a warning; their predilection for agriculture tempted them to confuse physical nature with man’s nature, and induced them to argue that the soil alone was truly creative. Nothing was further from the mind of Smith than such a glorification of Physic. Political economy should be a human science; it should deal with that which was natural to man, not to Nature.

Townsend’s Dissertation, ten years afterwards, centered on the theorem of the goats and the dogs. The scene is Robinson Crusoe’s island in the Pacific Ocean, off the coast of Chile. On this island Juan Fernandez landed a few goats to provide meat in case of future visits. The goats had multiplied at a Biblical rate and became a convenient store of food for the privateers, mostly English, who were molesting Spanish trade. In order to destroy them, the Spanish authorities landed a dog and a bitch, which also, in the course of time, greatly multiplied, and diminished the number of goats on which they fed. “Then a new kind of balance was restored,” wrote Townsend. “The weakest of both species were among the first to pay the debt of nature; the most active and vigorous preserved their lives.” To which he added: “It is the quantity of food which regulates the number of the human species.”

We note that a search in the sources failed to authenticate the story. Juan Fernandez duly landed the goats; but the legendary dogs were described by William Funnell as beautiful cats, and neither dogs nor cats are known to have multiplied; also the goats were inhabiting inaccessible rocks, while the beaches—on this all reports agree—were teeming with fat seals which would have been a much more engaging prey for the wild dogs. However, the paradigm is not dependent upon empirical support. Lack of antiquarian authenticity can detract nothing from the fact that Malthus and Darwin owed their inspiration to this source—Malthus learnt of it from Condorcet, Darwin from Malthus. Yet neither Darwin’s theory of natural selection, nor Malthus’ population laws might have exerted any appreciable influence on modern society but for the following maxims which Townsend deduced from his goats and dogs and wished to have applied to the reform of the Poor Law: “Hunger will tame the fiercest animals, it will teach decency and civility, obedience and subjection, to the most perverse. In general it is only hunger which can spur and goad them [the poor] on to labor; yet our laws have said they shall never hunger. The laws, it must be confessed, have likewise said, they shall be compelled to work. But then legal constraint is attended with much trouble, violence and noise; creates ill will, and never can be productive of good and acceptable service: whereas hunger is not only peaceable, silent, unremitting pressure, but, as the most natural motive to industry and labor, it calls forth the most powerful exertions; and, when satisfied by the free bounty of another, lays lasting and sure foundations for good will and gratitude. The slave must be compelled to work but the free man should be left to his own judgment, and discretion; should be

1 Cf. Antonio de Ulloa, Wafer, William Funnell, as well as Isaac James (which also contains Captain Wood Rogers’ account on Alexander Selkirk) and the observations of Edward Cooke.
protected in the full enjoyment of his own, be it much or little; and punished when he invades his neighbor's property."

Here was a new starting point for political science. By approaching human community from the animal side, Townsend by-passed the supposedly unavoidable question as to the foundations of government; and in so doing introduced a new concept of law into human affairs, that of the laws of Nature. Hobbes' geometrical bias, as well as Hume's and Hartley's, Quesnay's and Helvetius' hankering after Newtonian laws in society had been merely metaphorical: they were burning to discover a law as universal in society as gravitation was in Nature, but they thought of it as a human law—for instance, a mental force such as fear with Hobbes, association in Hartley's psychology, self-interest with Quesnay, or the quest for utility with Helvetius. There was no squeamishness about it: Quesnay like Plato occasionally took the breeder's view of man and Adam Smith did certainly not ignore the connection between real wages and long-run supply of labor. However, Aristotle had taught that only gods or beasts could live outside society, and man was neither. To Christian thought also the chasm between man and beast was constitutive; no excursions into the realm of physiological facts could confuse theology about the spiritual roots of the human commonwealth. If, to Hobbes, man was as wolf to man, it was because outside of society men behaved like wolves, not because there was any biological factor which men and wolves had in common. Ultimately, this was so because no human community had yet been conceived of which was not identical with law and government. But on the island of Juan Fernandez there was neither government nor law; and yet there was balance between goats and dogs. That balance was maintained by the difficulty the dogs found in devouring the goats which fled into the rocky part of the island, and the inconveniences the goats had to face when moving to safety from the dogs. No government was needed to maintain this balance; it was restored by the pangs of hunger on the one hand, the scarcity of food on the other. Hobbes had argued the need for a despot because men were like beasts; Townsend insisted that they were actually beasts and that, precisely for that reason, only a minimum of government was required. From this novel point of view, a free society could be regarded as consisting of two races: property owners and laborers. The number of the latter was limited by the amount of food; and as long as property was safe, hunger would drive them to work. No magistrates were necessary, for hunger was a better disciplinar than the magistrate. To appeal to him, Townsend pungently remarked, would be "an appeal from the stronger to the weaker authority."

The new foundations closely fitted the society that was emerging. Since the middle of the eighteenth century national markets had been developing; the price of grain was no longer local, but regional; this presupposed the almost general use of money and a wide marketability of goods. Market prices and incomes, including rents and wages, showed considerable stability. The Physiocrats were the first to note these regularities, which they could not even theoretically fit into a whole as feudal incomes were still prevalent in France, and labor was often semiservile, so that neither rents nor wages were, as a rule, determined in the market. But the English countryside in Adam Smith's time had become part and parcel of a commercial society; the rent due to the landlord as well as the wages of the agricultural laborer showed a marked dependence on prices. Only exceptionally were wages or prices fixed by the authorities. And yet in this curious new order the old classes of society continued to exist more or less in their former hierarchy, notwithstanding the disappearance of their legal privileges and disabilities. Though no law constrained the laborer to serve the farmer, nor the farmer to keep the landlord in plenty, laborers and farmers acted as if such compulsion existed. By what law was the laborer ordained to obey a master, to whom he was bound by no legal bond? What force kept the classes of society apart as if they were different kinds of human beings? And what maintained balance and order in this human collective which neither invoked nor even tolerated the intervention of political government?

The paradigm of the goats and the dogs seemed to offer an answer. The biological nature of man appeared as the given foundation of a society that was not of a political order. Thus it came to pass that economists presently relinquished Adam Smith's humanistic foundations, and incorporated those of Townsend. Malthus' population law and the law of diminishing returns as handled by Ricardo made the fertility of man and soil constitutive elements of the new realm the existence of which had been uncovered. Economic society had emerged as distinct from the political state.

The circumstances under which the existence of this human aggregate—a complex society—became apparent were of the utmost importance for the history of nineteenth century thought. Since the emerging society was no other than the market system, human society
was now in danger of being shifted to foundations utterly foreign to the moral world of which the body politic hitherto had formed part. The apparently insoluble problem of pauperism was forcing Malthus and Ricardo to endorse Townsend's lapse into naturalism.

Burke approached the issue of pauperism squarely from the angle of public security. Conditions in the West Indies convinced him of the danger of nurturing a large slave population without any adequate provision for the safety of the white masters, especially as the Negroes were often allowed to go armed. Similar considerations, he thought, applied to the increase of the number of the unemployed at home, seeing that the government had no police force at its disposal. Although an out-and-out defender of patriarchal traditions, he was a passionate adherent of economic liberalism, in which he saw the answer to the burning administrative problem of pauperism. Local authorities were gladly taking advantage of the unexpected demand of the cotton mills for destitute children whose apprenticing was left to the care of the parish. Many hundreds were indentured with manufacturers, often in distant parts of the country. Altogether the new towns developed a healthy appetite for paupers; factories were even prepared to pay for the use of the poor. Adults were assigned to any employer who would take them for their keep; just as they would be billeted out in turn amongst the farmers of the parish, in one or another form of the roundman system. Farming out was cheaper than the running of "gaols without guilt," as workhouses were sometimes called. From the administrative angle this meant that the "more persistent and more minutely detailed authority of the employer" took the place of the government's and the parish's enforcement of work.

Clearly, a question of statesmanship was involved. Why should the poor be made a public charge and their maintenance put on the parish, if ultimately the parish discharged its obligation by farming out the able-bodied to the capitalist entrepreneurs, who were so eager to fill their mills with them that they would even spend money to obtain their services? Did this not clearly indicate that there was also a less expensive way of compelling the poor to earn their keep than the parish way? The solution lay in the abolishment of the Elizabethan legislation without replacing it by any other. No assessment of wages,

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no relief for the able-bodied unemployed, but no minimum wages either, nor a safeguarding of the right to live. Labor should be dealt with as that which it was, a commodity which must find its price in the market. The laws of commerce were the laws of nature and consequently the laws of God. What else was this than an appeal from the weaker magistrate to the stronger, from the justice of the peace to the all-powerful pangs of hunger? To the politician and administrator laissez-faire was simply a principle of the assurance of law and order, with the minimum cost and effort. Let the market be given charge of the poor, and things will look after themselves. It was on this point that Bentham, the rationalist, agreed with Burke, the traditionalist. The calculus of pain and pleasure required that no avoidable pain should be inflicted. If hunger would do the job, no other penalty was needed. To the question, "What can the law do relative to subsistence?" Bentham answered, "Nothing, directly." Poverty was Nature surviving in society; its physical sanction was hunger. "The force of the physical sanction being sufficient, the employment of the political sanction would be superfluous." All that was needed was the "scientific and economical" treatment of the poor. Bentham was strongly opposed to Pitt's Poor Law Bill which would have amounted to an enactment of Speenhamland, as it permitted both outdoor relief and aid-in-wages. Yet Bentham, unlike his pupils, was at this time no rigid economic liberal, nor was he a democrat. His Industry-Houses were a nightmare of minute utilitarian administration enforced by all the chicanery of scientific management. He maintained that there always would be a need for them as the community could not quite disinterest itself in the fate of the indigent. Bentham believed that poverty was part of plenty. "In the highest stage of social prosperity," he said, "the great mass of the citizens will most probably possess few other resources than their daily labor, and consequently will always be near to indigence. . . ." Hence he recommended that "a regular contribution should be established for the wants of indigence," though thereby "in theory want is decreased and thus industry hit," as he regretfully added, since from the utilitarian point of view the task of the government was to increase want in order to make the physical sanction of hunger effective.

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8 Bentham, J., Principles of Civil Code, Ch. 4. (Bowering, Vol. I, p. 333.)
9 Bentham, J., ibid.
10 Bentham, J., Observation on the Poor Bill, 1797.
The acceptance of near-indigency of the mass of the citizens as the price to be paid for the highest stage of prosperity was accompanied by very different human attitudes. Townsend righted his emotional balance by indulging in prejudice and sentimentalism. The improvidence of the poor was a law of nature, for servile, sordid, and ignoble work would otherwise not be done. Also what would become of the fatherland unless we could rely on the poor? “For what is it but distress and poverty which can prevail upon the lower classes of the people to encounter all the horrors which await them on the tempestuous ocean or on the field of battle?” But this display of a rugged patriotism still left room for more tender sentiments. Poor relief should, of course, be abolished outright. The Poor Laws “proceed from principles which border on absurdity, as professing to accomplish that which, in the very nature and constitution of the world, is impracticable.” But once the indigent were left to the mercy of the well-to-do, who can doubt that “the only difficulty” is to restrain the impetuosity of the latter’s benevolence? And are the sentiments of charity not far nobler than those that flow from hard and fast legal obligations? “Can in nature anything be more beautiful than the mild complacency of benevolence?” he cried out, contrasting it with the cold heartlessness of “a parish pay-table,” which knew not those scenes of an “artless expression of unfeigned gratitude for unexpected favors . . .” “When the poor are obliged to cultivate the friendship of the rich, the rich will never want inclination to relieve the distress of the poor. . . .” No one who has read this touching portrayal of the intimate life of the Two Nations can doubt that, unconsciously, it was from the island of the goats and dogs that Victorian England drew its sentimental education.

Edmund Burke was a man of different stature. Where men like Townsend failed in a small way, he failed in a great way. His genius exalted brutal fact into tragedy, and invested sentimentality with the halo of mysticism. “When we affect to pity as poor those who must labor or the world cannot exist, we are trifling with the condition of mankind.” This was undoubtedly better than coarse indifference, empty laments, or the cant of sympathetic uplift. But the virility of this realistic attitude was impaired by the subtle complacency with which he spotlighted the scenes of aristocratic pageantry. The result was to out-Herod Herod, but to underestimate the chances of timely reform. It is a fair guess that had Burke lived, the Parliamentary Reform Bill of 1832, which put an end to the ancien régime, would have been passed only at the cost of an avoidable bloody revolution. And yet, Burke might have countered, once the masses were fated by the laws of political economy to toil in misery, what else was the idea of equality but a cruel bait to goad mankind into self-destruction?

Bentham possessed neither the sleek complacency of a Townsend nor the all too precipitate historicism of a Burke. Rather, to this believer in reason and reform the newly discovered realm of social law appeared as the coveted no man’s land of utilitarian experimentation. Like Burke, he refused to defer to zoological determinism, and he too rejected the ascendancy of economics over politics proper. Though author of the Essay on Usury, and of a Manual of Political Economy, he was an amateur at that science and even failed to provide the one great contribution which utilitarianism might have been expected to make to economics, namely, the discovery that value derived from utility. Instead, he was induced by associationist psychology to give rein to his boundless imaginative faculties as a social engineer. Laissez-faire meant to Bentham only another device in social mechanics. Social not technical invention was the intellectual mainspring of the Industrial Revolution. The decisive contribution of the natural sciences to engineering was not made until a full century later, when the Industrial Revolution was long over. To the practical bridge or canal builder, the designer of machines or engines, knowledge of the general laws of nature was utterly useless before the new applied sciences in mechanics and chemistry were developed. Telford, founder and lifelong President of the Society of Civil Engineers, refused membership in that body to applicants who had studied physics and, according to Sir David Brewster, never made himself acquainted with the elements of geometry. The triumphs of natural science had been theoretical in the true sense, and could not compare in practical importance with those of the social sciences of the day. It was to these latter that the prestige of science as against routine and tradition was due, and, unbelievable though it may seem to our generation, the standing of natural science greatly gained by its connection with the human sciences. The discovery of economics was an astounding revelation which hastened greatly the transformation of society and the establishment of a market system, while the decisive machines had been the inventions of uneducated artisans some of whom could hardly read or write. It was thus both just and appropriate that not the natural but the social sciences should rank as the intellectual parents of the mechanical revolution which subjected the powers of nature to man.
Bentham himself was convinced that he had discovered a new social science, that of morals and legislation. It was to be founded on the principle of utility, which allowed of exact calculation with the help of associationist psychology. Science, precisely because it became effective within the circumference of human affairs, meant in eighteenth century England invariably a practical art based on empirical knowledge. The need for such a pragmatic attitude was indeed overwhelming. As statistics were not available it was often not possible to say whether population was on the increase or decrease, what the trend of the balance of foreign trade was, or which class of the population was gaining on the other. It was frequently a mere matter of guesswork whether the wealth of the country was waxing or waning, where the poor came from, what the situation of credit, of banking, or profits was. An empirical instead of a purely speculative or antiquarian approach to matters such as these was what in the first place meant by “science”; and as practical interests were naturally paramount, it fell to science to suggest how to regulate and organize the vast realm of new phenomena. We have seen how puzzled the Saints were by the nature of poverty, and how ingeniously they experimented with the forms of self-help; how the notion of profits was hailed as a cure-all for the most diverse ills; how none could say whether pauperism was a good or a bad sign; how bewildered scientific workhouse managers were to find themselves unable to make money out of the poor; how Owen made his fortune by running his factories on the lines of a conscious philanthropy; and how a number of other experiments which seemed to involve the same technique of enlightened self-help failed pitifully, thus causing dire perplexity to their philanthropic authors. Had we extended our purview from pauperism to credit, specie, monopolies, savings, insurance, investing, public finance or, for that matter, prisons, education, and lotteries we might have easily added as many new types of ventures in respect to each of them.

With Bentham’s death, approximately, this period comes to an end; since the 1840’s projector in business were simply promoters of definite ventures, not any more the alleged discoverers of new applications of the universal principles of mutuality, trust, risks, and other elements of human enterprise. Henceforth businessmen imagined they knew what forms their activities should take; they rarely inquired into the nature of money before founding a bank. Social engineers were now usually found only amongst cranks or frauds, and then often con-

augurated with Dr. Price's "Old Jewry" sermon (1789) and reached its literary height in Paine's *The Rights of Man* (1791) was restricted to the political field; the discontent of the laboring poor found no echo in it; the question of the Poor Law was barely mentioned in the pamphlets which raised the cry for universal suffrage and annual parliaments. Yet actually, it was in the sphere of the Poor Law that the squires' decisive countermove came, in the form of Speenhamland. The parish retired behind an artificial morass under the cover of which it outlawed Waterloo by twenty years. But while the evil consequences of the panictry acts of political repression of the 1790's might have been soon overcome, had they stood alone, the degenerative process started by Speenhamland left its indelible mark on the country. The forty years' prolongation of squirearchy which it produced was bought at the price of the sacrifice of the virility of the common people. "When the owning classes complained of the poor rate becoming heavier and heavier," says Mantoux, "they overlooked the fact that it really amounted to an insurance against revolution, while the working class, when they accepted the scanty allowance doled out to them, did not realize that it was partly obtained by a reduction of their own legitimate earnings. For the inevitable result of 'allowances' was to keep wages down to the lowest level, and even to force them below the limit corresponding to the irreducible needs of the wage-earners. The farmer or the manufacturer relied on the parish to make up the difference between the sum he paid the men and the sum on which the men could live. For why should they incur an expense which could so easily be foisted on to the body of the rate payers? On the other hand, those in receipt of the parish relief were willing to work for a lower wage, and thus made competition quite impossible to those who received no parish help. The paradoxical result arrived at was that the so-called 'poor-rate' meant an economy for the employers, and a loss for the industrious workman who expected nothing from public charity. Thus the pitiless interplay of interests had turned a charitable law into a bond of iron."

It was this bond, we submit, on which the new law of wages and of population rested. Malthus himself, like Burke and Bentham, was violently opposed to Speenhamland and advocated complete repeal of the Poor Law. Neither of them had foreseen that Speenhamland would force the wages of the laborer down to subsistence level and below; on the contrary, they expected that it would force wages up, or at least


maintain them artificially, which, but for the Anti-Combination Laws, might well have been the case. This false anticipation helps to explain why the low level of rural wages was not traced by them to Speenhamland, which was its actual cause, but was regarded as incontrovertible proof of the working of the so-called iron law of wages. To this foundation of the new economic science we must now turn.

Townsend's naturalism was doubtless not the only possible basis for the new science of political economy. The existence of an economic society was manifest in the regularities of prices, and the stability of the incomes dependent upon those prices; consequently, economic law may well have been based directly on prices. What induced orthodox economics to seek its foundations in naturalism was the otherwise inexplicable misery of the great mass of the producers which, as we know today, could never have been deduced from the laws of the old market. But the facts as they appeared to contemporaries were roughly these: in times past the laboring people had habitually lived on the brink of indigence (at least, if one accounted for changing levels of customary standards); since the coming of the machine they had certainly never risen above subsistence level; and now that the economic society was finally taking shape, it was an indubitable fact that decade after decade the material level of existence of the laboring poor was not improving a jot, if, indeed, it was not becoming worse.

If ever the overwhelming evidence of the facts seemed to point in one direction, it was, therefore, in the case of the iron law of wages, which asserted that the bare subsistence level on which laborers actually lived was the result of a law which tended to keep their wages so low that no other standard was possible for them. This semblance was, of course, not only misleading but indeed implied an absurdity from the point of view of any consistent theory of prices and incomes under capitalism. Yet, in the last analysis, it was on account of this false appearance that the law of wages could not be based on any rational rule of human behavior, but had to be deduced from the naturalistic facts of the fertility of man and soil, as they were presented to the world by Malthus' law of population combined with the law of diminishing returns. The naturalistic element in the foundations of orthodox economics was the outcome of the conditions primarily created by Speenhamland.

It follows that neither Ricardo nor Malthus understood the working of the capitalist system. Not until a century after the publication of the *Wealth of Nations* was it clearly realized that under a market
system the factors of production shared in the product, and as produce increased, their absolute share was bound to rise. Although Adam Smith had followed Locke’s false start on the labor origins of value, his sense of realism saved him from being consistent. Hence he had confused views on the elements of price, while justly insisting that no society can flourish, the members of which, in their great majority, are poor and miserable. However, what appears as a truism to us was a paradox in his time. Smith’s own view was that universal plenty could not help percolate down to the people; it was impossible that society should get wealthier and wealthier and the people poorer and poorer. Unfortunately, the facts did not seem to bear him out for a long time to come; and as theorists had to account for the facts, Ricardo proceeded to argue that the more society advanced the greater would be the difficulty of procuring food and the richer would landlords grow, exploiting both capitalists and workers; that the capitalists’ and the workers’ interests were in fatal opposition to one another, but that this opposition was ultimately ineffective as the workers’ wages could never rise above the subsistence level and profits were bound to shrivel up in any case. In some remote sense all these assertions contained an element of truth, but as an explanation of capitalism nothing more unreal and abstruse could have been produced. However, the facts themselves were formed on contradictory patterns and even today we find it difficult to unravel them. No wonder that the *deus ex machina* of animal and plant propagation had to be invoked in a scientific system the authors of which claimed to deduce the laws of production and distribution from the behavior not of plants or of animals but of men.

Let us briefly survey the consequences of the fact that the foundations of economic theory were laid down during the Speenhamland period, which made appear as a competitive market economy what actually was capitalism without a labor market.

First, the economic theory of the classical economists was essentially confused. The parallelism between wealth and value introduced the most perplexing pseudo problems into nearly every department of Ricardian economics. The wage-fund theory, a legacy of Adam Smith, was a rich source of misunderstandings. Apart from some special theories like that of rent, taxation, and foreign trade, where deep insights were gained, the theory consisted of the hopeless attempt to arrive at categorical conclusions about loosely defined terms purporting to explain the behavior of prices, the formation of incomes, the process of production, the influence of costs on prices, the level of profits, wages, and interest, most of which remained as obscure as before.

Second, given the conditions under which the problem represented itself, no other result was possible. No unitary system could have explained the facts, as they did not form part of any one system, but were actually the result of the simultaneous action on the body social of two mutually exclusive systems, namely, a nascent market economy and a paternalistic regulationism in the sphere of the most important factor of production, labor.

Third, the solution hit upon by the classical economists had the most far-reaching consequences for the understanding of the nature of economic society. As gradually the laws governing a market economy were apprehended, these laws were put under the authority of Nature itself. The law of diminishing returns was a law of plant physiology. The Malthusian law of population reflected the relationship between the fertility of man and that of the soil. In both cases the forces in play were the forces of Nature, the animal instinct of sex and the growth of vegetation in a given soil. The principle involved was the same as that in the case of Townsend’s goats and dogs: there was a natural limit beyond which human beings could not multiply and that limit was set by the available food supply. Like Townsend, Malthus concluded that the superfluous specimens would be killed off; while the goats are killed off by the dogs, the dogs must starve for lack of food. With Malthus the repressive check consisted in the destruction of the supernumerary specimens by the brute forces of Nature. As human beings are destroyed also by other causes than starvation—such as war, pestilence, and vice—these were equated with the destructive forces of Nature. This involved, strictly, an inconsistency as it made social forces responsible for achieving the balance required by Nature, a criticism, however, to which Malthus might have answered that in absence of wars and vice—that is, in a virtuous community—as many more people would have to starve as were spared by their peaceful virtues. Essentially, economic society was founded on the grim realities of Nature; if man disobeyed the laws which ruled that society, the fell executioner would strangle the offspring of the improvident. The laws of a competitive society were put under the sanction of the jungle.

The true significance of the tormenting problem of poverty now stood revealed: economic society was subjected to laws which were *not* human laws. The rift between Adam Smith and Townsend had broadened into a chasm; a dichotomy appeared which marked the birth of

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nineteenth century consciousness. From this time onward naturalism haunted the science of man, and the reintegration of society into the human world became the persistently sought aim of the evolution of social thought. Marxian economics—in this line of argument—was an essentially unsuccessful attempt to achieve that aim, a failure due to Marx's too close adherence to Ricardo and the traditions of liberal economics.

The classical economists themselves were far from unconscious of such a need. Malthus and Ricardo were in no way indifferent to the fate of the poor but their humane concern merely forced a false theory into even more tortuous paths. The iron law of wages carried a well-known saving clause according to which the higher the customary needs of the laboring class, the higher the subsistence level below which not even the iron law could depress wages. It was this "standard of wretchedness" on which Malthus set his hopes, and which he wished to have raised by every means, for thus alone, he thought, could those be saved from the lowest forms of wretchedness, who, by virtue of his law were doomed to be wretched. Ricardo, too, for the same reason, wished that in all countries the laboring classes should have a taste for comforts and enjoyments, "and that they should be stimulated by all legal means in their exertions to procure them." Ironically, in order to evade the law of nature, men were here enjoined to raise their own starvation level. And yet, these were undoubtedly sincere attempts on the part of the classic economists to rescue the poor from the fate which their very theories helped to prepare for them.

In the case of Ricardo, theory itself included an element which counterbalanced rigid naturalism. This element, pervading his whole system, and firmly grounded in his theory of value, was the principle of labor. He completed what Locke and Smith had begun, the humanization of economic value; what the Physiocrats had credited to Nature, Ricardo reclaimed for man. In a mistaken theorem of tremendous scope he invested labor with the sole capacity of constituting value, thereby reducing all conceivable transactions in economic society to the principle of equal exchange in a society of free men.

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

One man alone perceived the meaning of the ordeal, perhaps because amongst the leading spirits of the age he alone possessed intimate practical knowledge of industry and was also open to inner vision. No thinker ever advanced farther than Robert Owen did into the realm of industrial society. He was deeply aware of the distinction between society and state; while harboring no prejudice against the latter, as Godwin did, he looked to the state merely for that which it could perform; for helpful intervention designed to avert harm from the community, emphatically not for the organizing of society. In the same way, he nourished no animosity against the machine the neutral character of which he recognized. Neither the political mechanism of the state, nor the technological apparatus of the machine hid from him the phenomenon: society. He rejected the animalistic approach to society, refuting its Malthusian and Ricardian limitations. But the fulcrum of his thought was his turning away from Christianity, which he accused of "individualization," or of fixing the responsibility for character on the individual himself, thus denying, to Owen's mind, the reality of society and its all-powerful formative influence upon char-

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acter. The true meaning of the attack on “individualization” lay in his insistence on the social origin of human motives: “Individualized man, and all that is truly valuable in Christianity, are so separated as to be utterly incapable of union through all eternity.” It was Owen’s discovery of society which made him transcend Christianity and reach a position beyond it. He grasped the truth that because society is real, man must ultimately submit to it. His socialism, one might say, was based on a reform of human consciousness to be reached through the recognition of the reality of society. “Should any of the causes of evil be irremovable by the new powers which men are about to acquire,” he wrote, “they will know that they are necessary and unavoidable evils; and childish unavailing complaints will cease to be made.”

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

Robert Owen, in 1817, described the course on which Western man had entered and his words summed up the problem of the coming century. He pointed to the mighty consequences which proceed from manufactures, “when left to their natural progress.” “The general diffusion of manufactures throughout a country generates a new character in its inhabitants; and as this character is formed upon a principle quite unfavorable to individual or general happiness, it will produce the most lamentable and permanent evils, unless its tendency be counteracted by legislative interference and direction.” The organization of the whole of society on the principle of gain and profit must have far-reaching results. He formulated these results in terms of human character. For the most obvious effect of the new institutional system was the destruction of the traditional character of settled populations and their transmutation into a new type of people, migratory, nomadic, lacking in self-respect and discipline—crude, callous beings of whom both laborer and capitalist were an example. He proceeded.

To the generalization that the principle involved was unfavorable to individual and social happiness. Grave evils would be produced in this fashion unless the tendencies inherent in market institutions were checked by conscious social direction made effective through legislation. True, the condition of the laborers which he deplored was partly the effect of the “allowance system.” But essentially, what he observed was true of town and village laborers alike, namely, that “they are at present in a situation infinitely more degraded and miserable than they were before the introduction of those manufactories, upon the success of which their bare subsistence now depends.” Here again, he hit rock bottom, emphasizing not incomes but degradation and misery. And as the prime cause of this degradation he, rightly again, pointed to the dependence for bare subsistence on the factory. He grasped the fact that what appeared primarily as an economic problem was essentially a social one. In economic terms the worker was certainly exploited: he did not get in exchange that which was his due. But important though this was, it was far from all. In spite of exploitation, he might have been financially better off than before. But a principle quite unfavorable to individual and general happiness was working havoc with his social environment, his neighborhood, his standing in the community, his craft; in a word, with those relationships to nature and man in which his economic existence was formerly embedded. The Industrial Revolution was causing a social dislocation of stupendous proportions, and the problem of poverty was merely the economic aspect of this event. Owen justly pronounced that unless legislative interference and direction counteracted these devastating forces, great and permanent evils would follow.

He did not, at this time, foresee that the self-protection of society for which he was calling would prove incompatible with the functioning of the economic system itself.
ability to develop an export trade on favorable terms restricted her imports of machinery and hence the establishment of a national industry; this, again, affected the terms of barter between town and countryside—the so-called “scissors”—unfavorably, thus increasing the antagonism of the peasantry to the rule of the urban workers. In this way the disintegration of world economy increased the strain on the makeshift solutions of the agrarian question in Russia, and hastened the coming of the kolkhoz. The failure of the traditional political system of Europe to provide safety and security worked in the same direction since it induced the need for armaments, thus enhancing the burdens of high-pressure industrialization. The absence of the nineteenth century balance-of-power system, as well as the inability of the world market to absorb Russia’s agricultural produce, forced her reluctantly into the paths of self-sufficiency. Socialism in one country was brought about by the incapacity of market economy to provide a link between all countries; what appeared as Russian autarchy was merely the passing of capitalist internationalism.

The failure of the international system let loose the energies of history—the rails were set by the tendencies inherent in a market society.

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FREEDOM IN A COMPLEX SOCIETY

NINETEENTH CENTURY civilization was not destroyed by the external or internal attack of barbarians; its vitality was not sapped by the devastations of World War I nor by the revolt of a socialist proletariat or a fascist lower middle class. Its failure was not the outcome of some alleged laws of economics such as that of the falling rate of profit or of underconsumption or overproduction. It disintegrated as the result of an entirely different set of causes: the measures which society adopted in order not to be, in its turn, annihilated by the action of the self-regulating market. Apart from exceptional circumstances such as existed in North America in the age of the open frontier, the conflict between the market and the elementary requirements of an organized social life provided the century with its dynamics and produced the typical strains and stresses which ultimately destroyed that society. External wars merely hastened its destruction.

After a century of blind “improvement” man is restoring his “habitation.” If industrialism is not to extinguish the race, it must be subordinated to the requirements of man’s nature. The true criticism of market society is not that it was based on economics—in a sense, every and any society must be based on it—but that its economy was based on self-interest. Such an organization of economic life is entirely unnatural, in the strictly empirical sense of exceptional. Nineteenth century thinkers assumed that in his economic activity man strove for profit, that his materialistic propensities would induce him to choose the lesser instead of the greater effort and to expect payment for his labor; in short, that in his economic activity he would tend to abide by what they described as economic rationality, and that all contrary behavior was the result of outside interference. It followed that markets were natural institutions, that they would spontaneously arise if only men were left alone. Thus, nothing could be more normal than an economic system consisting of markets and under the sole control of market prices, and
a human society based on such markets appeared, therefore, as the goal of all progress. Whatever the desirability or undesirability of such a society on moral grounds, its practicability—this was axiomatic—was grounded in the immutable characteristics of the race.

Actually, as we now know, the behavior of man both in his primitive state and right through the course of history has been almost the opposite from that implied in this view. Frank H. Knight's "no specifically human motive is economic" applies not only to social life in general, but even to economic life itself. The tendency to barter, on which Adam Smith so confidently relied for his picture of primitive man, is not a common tendency of the human being in his economic activities, but a most infrequent one. Not only does the evidence of modern anthropology give the lie to these rationalistic constructs, but the history of trade and markets also has been completely different from that assumed in the harmonistic teachings of nineteenth century sociologists. Economic history reveals that the emergence of national markets was in no way the result of the gradual and spontaneous emancipation of the economic sphere from governmental control. On the contrary, the market has been the outcome of a conscious and often violent intervention on the part of government which imposed the market organization on society for noneconomic ends. And the self-regulating market of the nineteenth century turns out on closer inspection to be radically different from even its immediate predecessor in that it relied for its regulation on economic self-interest.

The congenital weakness of nineteenth century society was not that it was industrial but that it was a market society. Industrial civilization will continue to exist when the utopian experiment of a self-regulating market will be no more than a memory.

Yet the shifting of industrial civilization onto a new nonmarketing basis seems to many a task too desperate to contemplate. They fear an institutional vacuum, or, even worse, the loss of freedom. Need these perils prevail?

Much of the massive suffering inseparable from a period of transition is already behind us. In the social and economic dislocation of our age, in the tragic vicissitudes of the depression, fluctuations of currency, mass unemployment, shifts of social status, spectacular destruction of historical states, we have experienced the worst. Unwittingly we have been paying the price of the change. Far as mankind still is from having adapted itself to the use of machines, and great as the pending changes are, the restoration of the past is as impossible as the transfer-
petitive markets continue to function need not interfere with the constitution of society any more than the fixing of prices outside the market for labor, land, and money interferes with the costing-function of prices in respect to the various products. The nature of property, of course, undergoes a deep change in consequence of such measures since there is no longer any need to allow incomes from the title of property to grow without bounds, merely in order to ensure employment, production, and the use of resources in society.

The removal of the control of money from the market is being accomplished in all countries in our day. Unconsciously, the creation of deposits effected this to a large extent, but the crisis of the gold standard in the twenties proved that the link between commodity money and token money had by no means been severed. Since the introduction of "functional finance" in all important states, the directing of investments and the regulation of the rate of saving have become government tasks.

To remove the elements of production—land, labor, and money—from the market is thus a uniform act only from the viewpoint of the market, which was dealing with them as if they were commodities. From the viewpoint of human reality that which is restored by the disestablishment of the commodity fiction lies in all directions of the social compass. In effect, the disintegration of a uniform market economy is already giving rise to a variety of new societies. Also, the end of market society means in no way the absence of markets. These continue, in various fashions, to ensure the freedom of the consumer, to indicate the shifting of demand, to influence producers' income, and to serve as an instrument of accountancy, while ceasing altogether to be an organ of economic self-regulation.

In its international methods, as in these internal methods, nineteenth century society was constricted by economics. The realm of fixed foreign exchanges was coincident with civilization. As long as the gold standard and—what became almost its corollary—constitutional regimes were in operation, the balance of power was a vehicle of peace. The system worked through the instrumentality of those Great Powers, first and foremost Great Britain, who were the center of world finance, and pressed for the establishment of representative government in less advanced countries. This was required as a check on the finances and currencies of debtor countries with the consequent need for controlled budgets, such as only responsible bodies can provide. Though, as a rule, such considerations were not consciously present in the minds of statesmen, this was the case only because the requirements of the gold standard ranked as axiomatic. The uniform world pattern of monetary and representative institutions was the result of the rigid economy of the period.

Two principles of nineteenth century international life derived their relevance from this situation: anarchistic sovereignty and "justified" intervention in the affairs of other countries. Though apparently contradictory, the two were interrelated. Sovereignty, of course, was a purely political term, for under unregulated foreign trade and the gold standard governments possessed no powers in respect to international economics. They neither could nor would bind their countries in respect to monetary matters—this was the legal position. Actually, only countries which possessed a monetary system controlled by central banks were reckoned sovereign states. With the powerful Western countries this unlimited and unrestricted national monetary sovereignty was combined with its complete opposite, an unrelenting pressure to spread the fabric of market economy and market society elsewhere. Consequently, by the end of the nineteenth century the peoples of the world were institutionally standardized to a degree unknown before.

This system was hampering both on account of its elaborateness and its universality. Anarchistic sovereignty was a hindrance to all effective forms of international co-operation, as the history of the League of Nations strikingly proved; and enforced uniformity of domestic systems hovered as a permanent threat over the freedom of national development, especially in backward countries and sometimes even in advanced, but financially weak countries. Economic co-operation was limited to private institutions as rambling and ineffective as free trade, while actual collaboration between peoples, that is, between governments, could never even be envisaged.

The situation may well make two apparently incompatible demands on foreign policy: it will require closer co-operation between friendly countries than could even be contemplated under nineteenth century sovereignty, while at the same time the existence of regulated markets will make national governments more jealous of outside interference than ever before. However, with the disappearance of the automatic mechanism of the gold standard, governments will find it possible to drop the most obstructive feature of absolute sovereignty, the refusal to collaborate in international economics. At the same time it will become possible to tolerate willingly that other nations shape their domestic institutions according to their inclinations, thus transcending the puerile nineteenth century dogma of the necessary uniformity of domestic regimes within the orbit of world economy. Out of the ruins of the
Old World, cornerstones of the New can be seen to emerge: economic collaboration of governments and the liberty to organize national life at will. Under the constrictive system of free trade neither of these possibilities could have been conceived of, thus excluding a variety of methods of co-operation between nations. While under market economy and the gold standard the idea of federation was justly deemed a nightmare of centralization and uniformity, the end of market economy may well mean effective co-operation with domestic freedom.

The problem of freedom arises on two different levels: the institutional and the moral or religious. On the institutional level it is a matter of balancing increased against diminished freedoms; no radically new questions are encountered. On the more fundamental level the very possibility of freedom is in doubt. It appears that the means of maintaining freedom are themselves adulterating and destroying it. The key to the problem of freedom in our age must be sought on this latter plane. Institutions are embodiments of human meaning and purpose. We cannot achieve the freedom we seek, unless we comprehend the true significance of freedom in a complex society.

On the institutional level, regulation both extends and restricts freedom; only the balance of the freedoms lost and won is significant. This is true of juridical and actual freedoms alike. The comfortable classes enjoy the freedom provided by leisure in security; they are naturally less anxious to extend freedom in society than those who for lack of income must rest content with a minimum of it. This becomes apparent as soon as compulsion is suggested in order to more justly spread out income, leisure and security. Though restriction applies to all, the privileged tend to resent it, as if it were directed solely against themselves. They talk of slavery, while in effect only an extension to the others of the vested freedom they themselves enjoy is intended. Initially, there may have to be reduction in their own leisure and security, and, consequently, their freedom so that the level of freedom throughout the land shall be raised. But such a shifting, reshaping and enlarging of freedoms should offer no ground whatsoever for the assertion that the new condition must necessarily be less free than was the old.

Yet there are freedoms the maintenance of which is of paramount importance. They were, like peace, a by-product of nineteenth-century economy, and we have come to cherish them for their own sake. The institutional separation of politics and economics, which proved a deadly danger to the substance of society, almost automatically produced freedom at the cost of justice and security. Civic liberties, private enterprise and wage-system fused into a pattern of life which favored moral freedom and independence of mind. Here again, juridical and actual freedoms merged into a common fund, the elements of which cannot be neatly separated. Some were the corollary of evils like unemployment and speculator’s profits; some belonged to the most precious traditions of Renaissance and Reformation. We must try to maintain by all means in our power these high values inherited from the market-economy which collapsed. This, assuredly, is a great task. Neither freedom nor peace could be institutionalized under that economy, since its purpose was to create profits and welfare, not peace and freedom. We will have consciously to strive for them in the future if we are to possess them at all; they must become chosen aims of the societies towards which we are moving. This may well be the true purport of the present world effort to make peace and freedom secure. How far the will to peace can assert itself once the interest in peace which sprang from nineteenth-century economy has ceased to operate will depend upon our success in establishing an international order. As to personal liberty, it will exist to the degree in which we will deliberately create new safeguards for its maintenance and, indeed, extension. In an established society, the right to nonconformity must be institutionally protected. The individual must be free to follow his conscience without fear of the powers that happen to be entrusted with administrative tasks in some of the fields of social life. Science and the arts should always be under the guardianship of the republic of letters. Compulsion should never be absolute; the “objector” should be offered a niche to which he can retire, the choice of a “second-best” that leaves him a life to live. Thus will be secured the right to nonconformity as the hallmark of a free society.

Every move towards integration in society should thus be accompanied by an increase of freedom; moves towards planning should comprise the strengthening of the rights of the individual in society. His indefeasible rights must be enforceable under the law even against the supreme powers, whether they be personal or anonymous. The true answer to the threat of bureaucracy as a source of abuse of power is to create spheres of arbitrary freedom protected by unbreakable rules. For, however generously devolution of power is practised, there will be strengthening of power at the center, and, therefore, danger to individual freedom. This is true even in respect to the organs of democratic
communities themselves, as well as the professional and trade unions whose function it is to protect the rights of each individual member. Their very size might make him feel helpless, even though he had no reason to suspect ill-will on their part. The more so, if his views or actions were such as to offend the susceptibilities of those who wield power. No mere declaration of rights can suffice: institutions are required to make the rights effective. Habeas corpus need not be the last constitutional device by which personal freedom was anchored in law. Rights of the citizen hitherto unacknowledged must be added to the Bill of Rights. They must be made to prevail against all authorities, whether State, municipal or professional. The list should be headed by the right of the individual to a job under approved conditions, irrespective of his or her political or religious views, or of color and race. This implies guarantees against victimization however subtle it be. Industrial tribunals have been known to protect the individual member of the public even from such agglomerations of arbitrary power as were represented by the early railway companies. Another instance of possible abuse of power at once met by tribunals was the Essential Works Order in England, or the “freezing of labor” in the United States, during the emergency, with their almost unlimited opportunities for discrimination. Wherever public opinion was solid in upholding civic liberties, tribunals or courts have always been found capable of vindicating personal freedom. It should be upheld at all cost—even that of efficiency in production, economy in consumption or rationality in administration. An industrial society can afford to be free.

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

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

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

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

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

But power and economic value are a paradigm of social reality. They do not spring from human volition; non-co-operation is impossible in regard to them. The function of power is to ensure that measure of conformity which is needed for the survival of the group; its ultimate source is opinion—and who could help holding opinions of some sort or other? Economic value ensures the usefulness of the goods produced; it must exist prior to the decision to produce them; it is a seal set on the division of labor. Its source is human wants and scarcity—and how could we be expected not to desire one thing more than another? Any opinion or desire will make us participants in the creation of power and in the constituting of economic value. No freedom to do otherwise is conceivable.

We have reached the final stage of our argument.

The discarding of the market utopia brings us face to face with the reality of society. It is the dividing line between liberalism on the one hand, fascism and socialism on the other. The difference between these two is not primarily economic. It is moral and religious. Even where they profess identical economics, they are not only different but are, indeed, embodiments of opposite principles. And the ultimate on which they separate is again freedom. By fascists and socialists alike the reality of society is accepted with the finality with which the knowledge of death has molded human consciousness. Power and compulsion are a part of that reality; an ideal that would ban them from society must be invalid. The issue on which they divide is whether in the light of this knowledge the idea of freedom can be upheld or not; is freedom an empty word, a temptation, designed to ruin man and his works, or can man reassert his freedom in the face of that knowledge and strive for its fulfillment in society without lapsing into moral illusionism?

This anxious question sums up the condition of man. The spirit and content of this study should indicate an answer.

We invoked what we believed to be the three constitutive facts in the consciousness of Western man: knowledge of death, knowledge of freedom, knowledge of society. The first, according to Jewish legend, was revealed in the Old Testament story. The second was revealed through the discovery of the uniqueness of the person in the teachings of Jesus as recorded in the New Testament. The third revelation came to us through living in an industrial society. No one great name attaches to it; perhaps Robert Owen came nearest to becoming its vehicle. It is the constitutive element in modern man’s consciousness.

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

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

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

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

1. Balance-of-power policy. The balance-of-power policy is an English national institution. It is purely pragmatic and factual, and should not be confused either with the balance-of-power principle or with the balance-of-power system. That policy was the outcome of her island position off a continental littoral occupied by organized political communities. "Her rising school of diplomacy, from Wolsey to Cecil, pursued the Balance of Power as England's only chance of security in face of the great Continental states being formed," says Trevelyan. This policy was definitely established under the Tudors, was practiced by Sir William Temple, as well as by Canning, Palmerston, or Sir Edward Grey. It antedated the emergence of a balance-of-power system on the Continent by almost two centuries, and was entirely independent in its development from the Continental sources of the doctrine of the balance of power as a principle put forward by Fénélon or Vattel. However, England's national policy was greatly assisted by the growth of such a system, as it eventually made it easier for her to organize alliances against any power leading on the Continent. Consequently, British statesmen tended to foster the idea that England's balance-of-power policy was actually an expression of the balance-of-power principle, and that England, by following such a policy, was only playing her part in a system based upon that principle. Still, the difference between her own policy of self-defense and any principle which would help its advancement was not purposely obscured by her statesmen. Sir Edward Grey wrote in his Twenty-five Years as follows: "Great Britain has not, in theory, been adverse to the predominance of a strong group in Europe, when it seemed to make for stability and peace. To support such a combination has generally been the first choice. It is only when the dominant power becomes aggressive and she feels her own interests to be threatened that she, by an instinct of self-defence if not by deliberate policy, gravitates to anything that can be fairly described as a Balance of Power."