

Karl Polanyi

The Great Transformation

The Political and
Economic Origins
of Our Time

FOREWORD BY

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INTRODUCTION BY

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*To my beloved wife
Ilona Duczynska
I dedicate this book
which owes all to her help and criticism*

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Disruptive Strains

From such uniformity of underlying institutional arrangements derived the intriguing similarity in the pattern of events which in the half-century 1879-1929 was spread out over an enormous expanse.

An endless variety of personalities and backgrounds, mentalities and historical antecedents gave local color and topical emphasis to the vicissitudes of many countries, and yet, over its greater part the civilized world was of the same fabric. This affinity transcended that of the culture traits common to peoples using similar tools, enjoying similar amusements, and rewarding effort with similar prizes. Rather, the similarity concerned the function of concrete events in the historical context of life, the time-bound component of collective existence. An analysis of these typical strains and stresses should reveal much of the mechanism that produced the singularly uniform pattern of history during this period.

The strains can be readily grouped according to the main institutional spheres. In the domestic economy the most varied symptoms of disequilibrium—as decline of production, employment, and earnings—shall be represented here by the typical scourge of *unemployment*. In domestic politics there was the struggle and deadlock of social forces, which we shall typify by *tension of classes*. Difficulties in the field of international economics, which centered around the so-called balance of payment and comprised a falling off of exports, unfavorable terms of trade, dearth of imported raw materials, and losses on foreign investments, we shall designate as a group by a characteristic form of strain, namely, *pressure on exchanges*. Lastly, tensions in international politics will be subsumed under *imperialist rivalries*.

Now let us consider a country which, in the course of a business depression, is stricken by unemployment. It is easy to see that any mea-

sure of economic policy which the banks may decide upon will have to conform to the requirement of stable exchanges. The banks will not be able to expand or further extend credits to industry, without appealing to the central bank which, on its part, will refuse to follow suit since the safety of the currency requires the opposite course. On the other hand, if the strain spread from industry to state—trade unions might induce affiliated political parties to raise the issue in parliament—the scope of any policy of relief or public works will be limited by the requirements of budgetary equilibrium, another precondition of stable exchanges. The gold standard will thus check the action of the Treasury as effectively as that of the bank of issue, and the legislature will find itself confronted with identically the same limitations that applied to industry.

Within the compass of the nation the strain of unemployment can, of course, be borne alternatively in the industrial or the governmental zone. If in a particular instance the crisis was overcome by a deflationary pressure on wages, then, it might be said, the burden fell primarily on the economic sphere. If, however, that painful measure was avoided with the help of public works subsidized from death duties, the brunt of the tension would fall on the political sphere (the same would be the case if the decrease in wages was forced upon the trade unions by some governmental measure in defiance of acquired rights). In the first instance—deflationary pressure on wages—the tension remained within the market zone, and was expressed in a shift of incomes transmitted by a change in prices; in the latter instance—public works or trade union restrictions—there was a shift in legal status or in taxation which affected primarily the political position of the group concerned.

Eventually, the strain of unemployment might have spread outside the confines of the nation and affected foreign exchanges. This again might happen whether political or economic methods of combating unemployment had been used. Under the gold standard—*which we all the time assume to be in force*—any governmental measure that caused a budgetary deficit might start a depreciation of the currency: if, on the other hand, unemployment was being fought by the expansion of bank credit, rising domestic prices would hit exports and affect the balance of payment in that way. In either case exchanges would slump and the country feel the pressure on its currency.

Alternatively, the strain which sprang from unemployment might

induce foreign tension. In the case of a weak country this had sometimes the gravest consequences for its international position. Its status deteriorated, its rights were disregarded, foreign control was foisted upon it, its national aspirations were foiled. In the case of strong states the pressure might be deflected into a scramble for foreign markets, colonies, zones of influence, and other forms of imperialist rivalry.

The strains emanating from the market were thus shifting to and fro between the market and the other main institutional zones, sometimes affecting the working of the field of government, sometimes that of the gold standard or that of the balance-of-power system, as the case might be. Each field was comparatively independent of the other and tended toward an equilibrium of its own; whenever this balance was not achieved, the imbalance spread over into the other spheres. It was the relative autonomy of the spheres that caused the strain to accumulate and to generate tensions which eventually exploded in more or less stereotyped forms. While in imagination the nineteenth century was engaged in constructing the liberal Utopia, in reality it was handing over things to a definite number of concrete institutions the mechanisms of which ruled the day.

The nearest approach to the realization of the true position was perhaps the rhetorical query of an economist who, as late as 1933, arraigned the protectionist policies of *"the overwhelming majority of governments?"* Can a policy, he asked, be right which is being unanimously condemned by all experts as utterly mistaken, grossly fallacious, and contrary to all principles of economic theory? His answer was an unconditional "No."* But in vain would one seek in liberal literature for anything in the nature of an explanation for the patent facts. An unending stream of abuse of the governments, politicians, and statesmen whose ignorance, ambition, greed, and shortsighted prejudice were supposedly responsible for the consistently followed policies of protectionism in an "overwhelming majority" of countries was the only answer. Rarely was as much as a reasoned argument on the subject to be found. Not since the schoolmen's defiance of the empirical facts of science was sheer prejudice displayed in so fearful array. The only intellectual response was to supplement the myth of the protectionist conspiracy by the myth of the imperialist craze.

The liberal argument, in so far as it became articulate, asserted that sometime in the early 1880s imperialist passions began to stir in the

* Haberler, G., *Der internationale Handel*, 1933, p. vi.

Western countries, and destroyed the fruitful work of economic thinkers by their emotional appeal to tribal prejudice. These sentimental policies gradually gathered strength and finally led to World War I. After the Great War the forces of Enlightenment had another chance of restoring the reign of reason but an unexpected outburst of imperialism, especially on the part of the small new countries, later on also of the "have-nots," such as Germany, Italy, and Japan, upset the wagon of progress. The "crafty animal," the politician, had defeated the brain centers of the race—Geneva, Wall Street, and the City of London.

In this piece of popular political theology imperialism stands for the old Adam. States and empires are held to be congenitally imperialist; they will eat up their neighbors without moral compunction. The latter half of the contention is true, but not the former. While imperialism, when and where it appears, does not wait on rational or moral justification for expansion, it is contrary to fact that states and empires are always expansionist. Territorial associations are not necessarily eager to extend their boundaries; neither cities, nor states, nor empires stand under such compulsion. To argue the opposite is to mistake some typical situations for a general law. In effect, contrary to popular preconceptions, modern capitalism started with a long period of contractionism; only late in its career did the turn toward imperialism happen.

Anti-imperialism was initiated by Adam Smith, who thereby not only anticipated the American Revolution but also the Little England movement of the following century. The reasons for the break were economic: the rapid expansion of markets started by the Seven Years' War made empires go out of fashion. While geographical discoveries, combined with comparatively slow means of transportation, favored overseas plantations, fast communications turned colonies into an expensive luxury. Another factor unfavorable to plantations was that exports now eclipsed imports in significance; the ideal of the buyer's market gave way to the seller's market, an aim attainable now by the simple means of underselling one's competitors, including, eventually, the colonists themselves. Once the Atlantic seaboard colonies were lost, Canada hardly managed to have herself retained in the Empire (1837); even a Disraeli advocated the liquidation of the West African possessions; the Orange State vainly offered to join the empire; and some islands in the Pacific, regarded today as pivots of world strategy, were consistently refused admission. Free traders and protection-

ists, liberals and ardent Tories joined in the popular conviction that colonies were a wasting asset destined to become a political and financial liability. Anybody who talked colonies in the century between 1780 and 1880 was looked upon as an adherent of the *ancien regime*. The middle class denounced war and conquest as dynastic machinations, and pandered to pacifism (Francois Quesnay had been the first to claim for *laissez-faire* the laurels of peace). France and Germany followed in England's wake. The former slowed down her rate of expansion appreciably, and even her imperialism was now more Continental than colonial. Bismarck contemptuously declined to pay the price of one single life for the Balkans and put all his influence behind anti-colonial propaganda. Such was governmental attitude at the time when capitalistic companies were invading whole continents; when the East India Company had been dissolved at the insistence of eager Lancashire exporters, and anonymous piece-goods dealers replaced in India the resplendent figures of Clive and Warren Hastings. The governments held aloof. Canning ridiculed the notion of intervention on behalf of gambling investors and overseas speculators. The separation of politics and economics now spread into international affairs. While Queen Elizabeth had been loath to distinguish too strictly between her private income and privateer's income, Gladstone would have branded it a calumny that British foreign policy was being put at the service of foreign investors. To allow state power and trading interests to fuse was not a nineteenth-century idea; on the contrary, early Victorian statesmen had proclaimed the independence of politics and economics as a maxim of international behavior. Only in narrowly defined cases were diplomatic representatives supposed to be active on behalf of the private interests of their nationals, and the surreptitious extension of these occasions was publicly denied, and if proven, reprimanded accordingly. Not only at home but also abroad, the principle of nonintervention of the state in the affairs of private business was maintained. The home government was not supposed to intervene in private trade, nor were foreign offices expected to regard private interests abroad otherwise than on broad national lines. Investments were overwhelmingly agricultural and located at home; foreign investments were still deemed a gamble, and the frequent total losses incurred by investors were regarded as amply compensated for by the scandalous terms of usurious lending.

The change came suddenly, and this time simultaneously in all leading Western countries. While Germany repeated England's do-

mestic development only after a lag of half a century, external events of world scope would necessarily affect all trading countries alike. Such an event was the increase in the rhythm and volume of international trade as well as the universal mobilization of land, implied in the mass transportation of grain and agricultural raw materials from one part of the planet to another, at a fractional cost. This economic earthquake dislocated the lives of dozens of millions in rural Europe. Within a few years free trade was a matter of the past, and the further expansion of market economy took place under utterly new conditions.

These conditions themselves were set by the "double movement." The pattern of international trade which was now spreading at an accelerated rate was crossed by the introduction of protectionist institutions designed to check the all-round action of the market. The agrarian crisis and the Great Depression of 1873-86 had shaken confidence in economic self-healing. From now onward the typical institutions of market economy could usually be introduced only if accompanied by protectionist measures, all the more so because since the late 1870s and early 1880s nations were forming themselves into organized units which were apt to suffer grievously from the dislocations involved in any sudden adjustment to the needs of foreign trade or foreign exchanges. The supreme vehicle of the expansion of market economy, the gold standard, was thus usually accompanied by the simultaneous introduction of the typical protectionist policies of the age such as social legislation and customs tariffs.

On this point also the traditional liberal version of the collectivist conspiracy was a misrepresentation of the facts. The free trade and gold standard system was not wantonly wrecked by selfish tariff mongers and soft-hearted legislators; on the contrary, the coming of the gold standard itself hastened the spreading of these protectionist institutions, which were the more welcome the more burdensome fixed exchanges proved. From this time onward tariffs, factory laws, and an active colonial policy were prerequisites of a stable external currency (Great Britain with her vast industrial superiority was the exception which proved the rule). Only when these prerequisites were given could now the methods of market economy be safely introduced. Where such methods were forced upon a helpless people in absence of protective measures, as in exotic and semicolonial regions, unspeakable suffering ensued.

Herein we hold the key to the seeming paradox of imperialism—

the economically inexplicable and therefore allegedly irrational refusal of countries to trade with one another indiscriminately, and their aiming instead at the acquisition of overseas and exotic markets. What made countries act in this manner was simply the fear of consequences similar to those which the powerless peoples were unable to avert. The difference was merely that while the tropical population of the wretched colony was thrown into utter misery and degradation, often to the point of physical extinction, the Western country's refusal to trade was induced by a lesser peril but still sufficiently real to be avoided at almost all cost. That the threat, as in the case of colonies, was not essentially economic made no difference; there was no reason, apart from prejudice, to seek the measure of social dislocation in economic magnitudes. Indeed, to expect that a community would remain indifferent to the scourge of unemployment, the shifting of industries and occupations and to the moral and psychological torture accompanying them, merely because economic effects, in the long run, might be negligible, was to assume an absurdity.

The nation was just as often the passive recipient as the active initiator of strain. If some external event weighed heavily on the country, its internal mechanism functioned in the usual way, shifting the pressure from the economic to the political zone or vice versa. Significant instances occurred in the postwar period. For some Central European countries defeat created highly artificial conditions which included fierce external pressure in the shape of reparations. During more than a decade the German domestic scene was dominated by a shifting of the external burden between industry and state—between wages and profits on the one hand, social benefits and taxes on the other. The nation as a whole was the bearer of reparations, and the domestic position changed according to the manner in which the country—government and business combined—tackled the job. National solidarity was thus anchored in the gold standard, which made the maintenance of the external value of the currency a paramount obligation. The Dawes Plan was expressly devised to safeguard the German currency. The Young Plan made the same condition absolute. But for the obligation to keep the external value of the reichsmark unimpaired, the course of German home affairs during this period would be unintelligible. Collective responsibility for the currency created the indestructible framework within which business and parties, industry and state adjusted to the strain. Yet what a defeated Germany had to put up with as a result of a lost war, all peoples up to the Great War had endured

voluntarily, namely, the artificial integration of their countries through the pressure of stable exchanges. Only resignation to the inevitable laws of the market could explain the proud acquiescence with which the cross was borne.

It might be objected that this outline is the result of sustained oversimplification. Market economy did not start in a day, nor did the three markets run a pace like a troika, nor did protectionism have parallel effects in all markets, and so on. This, of course, is true; only, it misses the point at issue.

Admittedly, economic liberalism merely created a novel mechanism out of more or less developed markets; it unified various types of already existing markets, and coordinated their functions in a single whole. Also, the separation of labor and land was, by that time, well on the way, and so was the development of markets for money and credit. All along the line the present was linked with the past, and nowhere was a break to be found.

Yet institutional change, such is its nature, started to operate abruptly. The critical stage was reached with the establishment of a labor market in England, in which workers were put under the threat of starvation if they failed to comply with the rules of wage labor. As soon as this drastic step was taken, the mechanism of the self-regulating market sprang into gear. Its impact on society was so violent that, almost instantly, and without any prior change in opinion, powerful protective reactions set in.

Also, in spite of their widely different nature and origin, the markets for the various elements of industry now showed a parallel development. This could have hardly been otherwise. The protection of man, nature, and productive organization amounted to an interference with markets for labor and land as well as for the medium of exchange, money, and thereby, *ipso facto*, impaired the self-regulation of the system. Since the purpose of the intervention was to rehabilitate the lives of men and their environment, to give them some security of status, intervention necessarily aimed at reducing the flexibility of wages and the mobility of labor, giving stability to incomes, continuity to production, introducing public control of national resources, and the management of currencies in order to avoid unsettling changes in the price level.

The Depression of 1873-86 and the agrarian distress of the 1870s increased the strain permanently. At the beginning of the Depression,

Europe had been in the heyday of free trade. The new German Reich had forced upon France the most-favored-nation clause between herself and the latter country, committed herself to the removal of tariffs on pig iron, and introduced the gold standard. By the end of the Depression, Germany had surrounded herself with protective tariffs, established a general cartel organization, set up an all-round social insurance system, and was practicing high-pressure colonial policies. Prussianism, which had been a pioneer of free trade, was evidently as little responsible for the change to protectionism as it was for the introduction of "collectivism." The United States had even higher tariffs than the Reich and was just as "collectivistic" in its own way; it subsidized long-range railway building heavily and developed the elephantine formation of the trusts.

All Western countries followed the same trend, irrespective of national mentality and history* With the international gold standard the most ambitious market scheme of all was put into effect, implying absolute independence of markets from national authorities. World trade now meant the organizing of life on the planet under a self-regulating market, comprising labor, land, and money, with the gold standard as the guardian of this gargantuan automaton. Nations and peoples were mere puppets in a show utterly beyond their control. They shielded themselves from unemployment and instability with the help of central banks and customs tariffs, supplemented by migration laws. These devices were designed to counteract the destructive effects of free trade plus fixed currencies, and to the degree in which they achieved this purpose they interfered with the play of those mechanisms. Although each single restriction had its beneficiaries whose super-profits or -wages were a tax on all other citizens, it was often only the *amount* of the tax that was unjustified, not also protection itself. In the long run there was an all-round drop in prices which benefited all.

Whether protection was justified or not, a debility of the world market system was brought to light by the effects of interventions. The import tariffs of one country hampered the exports of another and forced it to seek for markets in politically unprotected regions. Economic imperialism was mainly a struggle between the Powers for the privilege of extending their trade into politically unprotected mar-

* G. D. H. Cole calls the 1870s "by far the most active period for social legislation of the entire nineteenth century."

kets. Export pressure was reinforced by a scramble for raw material supplies caused by the manufacturing fever. Governments lent support to their nationals engaged in business in backward countries. Trade and flag were racing in one another's wake. Imperialism and half-conscious preparation for autarchy were the bent of Powers which found themselves more and more dependent upon an increasingly unreliable system of world economy. And yet rigid maintenance of the integrity of the international gold standard was imperative. This was one institutional source of disruption.

A similar contradiction operated inside the national boundaries. Protectionism helped to transform competitive markets into monopolistic ones. Less and less could markets be described as autonomous and automatic mechanisms of competing atoms. More and more were individuals replaced by associations, men and capital united to non-competing groups. Economic adjustment became slow and difficult. The self-regulation of markets was gravely hampered. Eventually, unadjusted price and cost structures prolonged depressions, unadjusted equipment retarded the liquidation of unprofitable investments, unadjusted price and income levels caused social tension. And whatever the market in question—labor, land, or money—the strain would transcend the economic zone and the balance would have to be restored by political means. Nevertheless, the institutional separation of the political from the economic sphere was constitutive to market society and had to be maintained whatever the tension involved. This was the other source of disruptive strain.

We are nearing the conclusion of our narrative. Yet a considerable part of our argument remains to be unfolded. For even if we have succeeded in proving beyond any doubt that at the heart of the transformation there was the failure of the market Utopia, it is still incumbent upon us to show in what manner actual events were determined by this cause.

In a sense, this is an impossible undertaking, since history is not shaped by any single factor. Yet in spite of all its wealth and variety, the flow of history has its recurrent situations and alternatives which account for the broad similarity in the texture of the events of an age. We need not trouble about the fringe of unpredictable eddies, if we can account to some degree for the regularities which governed currents and countercurrents under typical conditions.

In the nineteenth century such conditions were given by the mechanism of the self-regulating market, the requirements of which had to be met by national and international life. From that mechanism two peculiarities of civilization followed: its rigid determinism and its economic character. Contemporary outlook tended to link the two and to assume that the determinism derived from the nature of economic motivation, according to which individuals were expected to pursue their monetary interests. In point of fact there was no connection between the two. The "determinism" so prominent in many details was simply the outcome of the mechanism of a market society with its predictable alternatives, the stringency of which was erroneously attributed to the strength of economic motives. Actually, the supply-demand-price system will always balance, whatever the motives of the individuals, and economic motives *per se* are notoriously much less effective with most people than so-called emotional ones.

Mankind was in the grip, not of new motives, but of new mechanisms. Briefly, the strain sprang from the zone of the market; from there it spread to the political sphere, thus comprising the whole of society. But within the single nations the tension remained latent as long as world economy continued to function. Only when the last of its surviving institutions, the gold standard, dissolved was the stress within the nations finally released. Different as their responses to the new situation were, essentially they represented adjustments to the disappearance of the traditional world economy; when it disintegrated, market civilization itself was engulfed. This explains the almost unbelievable fact that a civilization was being disrupted by the blind action of soulless institutions the only purpose of which was the automatic increase of material welfare.

But how did the inevitable actually happen? How was it translated into the political events which are the core of history? Into this final phase of the fall of market economy the conflict of class forces entered decisively.

Part Three

Transformation
in 'Progress

Popular Government and Market Economy

When in the 1920s the international system failed, the almost forgotten issues of early capitalism reappeared. First and foremost among them stood that of popular government.

The fascist attack on popular democracy merely revived the issue of political interventionism which haunted the history of market economy, since that issue was hardly more than another name for the separation of the economic from the political sphere.

The interventionist issue was first brought to a head with regard to labor by Speenhamland and the New Poor Law on the one hand, Parliamentary Reform and the Chartist Movement on the other. In regard to land and money, the importance of interventionism was hardly smaller, even though clashes were less spectacular. On the Continent, similar difficulties in respect to labor, land, and money arose with a time lag which brought conflicts to bear on an industrially more modern but socially less unified environment. Everywhere the separation of the economic and the political sphere was the result of the same type of development. In England as on the Continent the starting points were the establishment of a competitive labor market and the democratization of the political state.

Speenhamland has been justly described as a preventive act of intervention, obstructing the creation of a labor market. The battle for an industrial England was first fought and, for the time being, lost on Speenhamland. In this struggle the slogan of interventionism was coined by the classical economists and Speenhamland branded an artificial interference with an actually nonexistent market order. Townsend, Malthus, and Ricardo erected upon the flimsy foundation of Poor Law conditions the edifice of classical economics, the most formidable conceptual instrument of destruction ever directed against an outworn order. Yet for another generation the allowance system

protected the confines of the village against the attraction of high urban wages. By the middle 1820s Huskisson and Peel were broadening the avenues of foreign trade, export of machinery was permitted, the embargo on wool exports was raised, shipping restrictions were abolished, emigration was eased, while the formal revocation of the Statute of Artificers on apprenticeship and on wage assessments was followed by the repeal of the Anti-Combination Laws. And still the demoralizing Speenhamland Law was spreading from county to county, deterring the laborer from honest work, and making the very concept of an independent working man an incongruity. Though the time for a labor market had come, its birth was prevented by the squires' "law."

The Reform Parliament at once set out to abolish the allowance system. The New Poor Law which achieved this end has been called the most important act of social legislation ever carried by the House of Commons. Yet the core of the Bill was simply the repeal of Speenhamland. Nothing could prove more decisively that by this time the bare absence of intervention in the labor market was recognized as a fact of constitutive importance for the whole future structure of society. So much as to the economic source of the tension.

As to the political, the Parliamentary Reform of 1832 achieved a peaceful revolution. By the Poor Law Amendment of 1834 the social stratification of the country was altered, and some of the basic facts of English life were reinterpreted along radically new lines. The New Poor Law abolished the general category of *the poor*, the "honest poor," or "laboring poor"—terms against which Burke had inveighed. The former *poor* were now divided into physically helpless paupers whose place was in the workhouse, and independent workers who earned their living by laboring for wages. This created an entirely new category of the poor, the unemployed, who made their appearance on the social scene. While the pauper, for the sake of humanity, should be relieved, the unemployed, for the sake of industry, should *not* be relieved. That the unemployed worker was innocent of his fate did not matter. The point was not whether he might or might not have found work had he only really tried, but that unless he was in danger of famishing with only the abhorred workhouse for an alternative, the wage system would break down, thus throwing society into misery and chaos. That this meant penalizing the innocent was recognized. The perversion of cruelty consisted precisely in emancipating the laborer

for the avowed purpose of making the threat of destruction through hunger effective. This procedure makes intelligible that dismal feeling of desolation which speaks for us from the works of the classical economists. But to lock the doors safely upon the supernumeraries who were now caged in the confines of the labor market, government was put under a self-denying ordinance to the effect that—in Harriet Martineau's words—to provide any relief to the innocent victims was on the part of the state a "violation of the rights of the people."

When the Chartist Movement demanded entrance for the disinherited into the precincts of the state, the separation of economics and politics ceased to be an academic issue and became the irrefragable condition of the existing system of society. It would have been an act of lunacy to hand over the administration of the New Poor Law with its scientific methods of mental torture to the representatives of the self-same people for whom that treatment was designed. Lord Macaulay was only consistent when he demanded in the House of Lords in one of the most eloquent speeches ever made by a great liberal the unconditional rejection of the Chartist petition in the name of the institution of property on which all civilization rested. Sir Robert Peel called the Charter an impeachment of the Constitution. But the more the labor market contorted the lives of the workers, the more insistently they clamoured for the vote. The demand for popular government was the political source of the tension.

Under these conditions constitutionalism gained an utterly new meaning. Until then constitutional safeguards against unlawful interference with the rights of property were directed only against arbitrary acts from above. Locke's vision did not transcend the limits of landed and commercial property, and aimed merely at excluding high-handed acts of the Crown such as the secularizations under Henry VIII, the robbing of the Mint under Charles I, or the "stop" of the Exchequer under Charles II. Separation of government from business, in John Locke's sense, was achieved in an exemplary fashion in the charter of an independent Bank of England in 1694. Commercial capital had won its tilt against the Crown.

A hundred years later not commercial but industrial property was to be protected, and not against the Crown but against the people. Only by misconception could seventeenth-century meanings be applied to nineteenth-century situations. The separation of powers, which Montesquieu (1748) had meanwhile invented, was now used to

separate the people from power over their own economic life. The American Constitution, shaped in a farmer-craftsman's environment by a leadership forewarned by the English industrial scene, isolated the economic sphere entirely from the jurisdiction of the Constitution, put private property thereby under the highest conceivable protection, and created the only legally grounded market society in the world. In spite of universal suffrage, American voters were powerless against owners.*

In England it became the unwritten law of the Constitution that the working class must be denied the vote. The Chartist leaders were jailed; their adherents, numbered in millions, were derided by a legislature representing a bare fraction of the population, and the mere demand for the ballot was often treated as a criminal act by the authorities. Of the spirit of compromise allegedly characteristic of the British system—a later invention—there was no sign. Not before the working class had passed through the Hungry Forties and a docile generation had emerged to reap the benefits of the Golden Age of capitalism; not before an upper layer of skilled workers had developed their unions and parted company with the dark mass of poverty-stricken laborers; not before the workers had acquiesced in the system which the New Poor Law was meant to enforce upon them was their better-paid stratum allowed to participate in the nation's councils. The Chartists had fought for the right to stop the mill of the market which ground the lives of the people. But the people were granted rights only when the awful adjustment had been made. Inside and outside England, from Macaulay to Mises, from Spencer to Sumner, there was not a militant liberal who did not express his conviction that popular democracy was a danger to capitalism.

The experience of the labor issue was repeated on the currency issue. Here also the 1920s were foreshadowed by the 1790s. Bentham was the first to recognize that inflation and deflation were interventions with the right of property: the former a tax on, the latter an interference with, business.¹ Ever since then labor and money, unemployment and inflation have been politically in the same category. Cobbett denounced the gold standard together with the New Poor Law; Ricardo

* Hadley, A. T., *Economics: An Account of the Relations between Private Property and Public Welfare*, 1896.

¹ Bentham, J., *Manual of Political Economy*, p. 44, on inflation as "forced frugality"; p. 45 (footnote) as "indirect taxation." Cf. also *Principles of Civil Code*, Ch. 15.

fought for both, with very similar arguments, labor as well as money being commodities and the government having no right to interfere with either. Bankers who opposed the introduction of the gold standard, like Atwood of Birmingham, found themselves on the same side with socialists, like Owen. And a century later Mises was still reiterating that labor and money were no more a concern of the government than any other commodity on the market. In eighteenth-century pre-federation America cheap money was the equivalent of Speenhamland, that is, an economically demoralizing concession made by government to popular needs. The French Revolution and its *assignats* showed that the people might smash the currency, and the history of the American states did not help to dispel that suspicion. Burke identified American democracy with currency troubles and Hamilton feared not only factions but also inflation. But while in nineteenth-century America the bickerings of populists and greenback parties with Wall Street magnates were endemic, in Europe the charge of inflationism became an effective argument against democratic legislatures only in the 1920s, with far-reaching political consequences.

Social protection and interference with the currency were not merely analogous but often identical issues. Since the establishment of the gold standard, the currency was just as much endangered by a rising wage level as by direct inflation—both might diminish exports and eventually depress exchanges. This simple connection between the two basic forms of intervention became the fulcrum of politics in the 1920s. Parties concerned for the safety of the currency protested as much against threatening budget deficits as against cheap money policies, thus opposing "treasury inflation" as much as "credit inflation," or, in more practical terms, denouncing social burdens *and* high wages, trade unions *and* labor parties. Not the form, but the essence mattered, and who could doubt but that unrestricted unemployment benefits might be as effective in upsetting the balance of the budget as too low a rate of interest in inflating prices—and with the same nefarious consequences for the exchanges? Gladstone had made the budget the conscience of the British nation. With lesser peoples, a stable currency might take the place of the budget. But the result was closely similar. Whether wages or social services had to be cut, the consequences of not cutting them were inescapably set by the mechanism of the market. From the point of view of this analysis, the National Government of 1931 in Great Britain performed in a modest way the same

function as the American New Deal. Both were moves of adjustment of single countries in the great transformation. But the British instance had the advantage of being free of complicating factors, such as civil strifes or ideological conversions, thus showing up the decisive features more clearly.

Since 1925 the position of Great Britain's currency had been unsound. The return to gold was not accompanied by a corresponding adjustment of the price level, which was distinctly above world parity. Very few people were conscious of the absurdity of the course on which government and Bank, parties and trade unions had jointly embarked. Snowden, Chancellor of the Exchequer in Labour's first government (1924), was a gold standard addict if ever there was one, yet he failed to realize that by undertaking to restore the pound he had committed his party either to shoulder a fall in wages or to go into the wilderness. Seven years later Labour was forced—by Snowden himself—to do both. By autumn 1931 the continuous drain of depression was telling on the pound. In vain had the collapse of the General Strike, in 1926, ensured against a further increase in the wage level—it did not prevent a rise in the financial burden of social services, especially through unconditional unemployment benefit. There was no need for a banker's "ramp" (though ramp there was) to impress upon the nation the alternative of sound currency and sound budgets on the one hand, improved social services and a depreciated currency on the other—whether the depreciation was caused by high wages and falling exports or simply by deficit spending. In other words, there had to be either a cut in the social services or a fall in the exchanges. Since Labour was unable to decide for either—a cut was contrary to trade union policy and going off gold would have been deemed a sacrilege—Labour was shoved out of office, and the traditional parties cut the social services *and*, eventually, went off gold. Unconditional unemployment benefit was scrapped; a means test was introduced. At the same time the political traditions of the country underwent a significant change. The two-party system was suspended and no precipitation was shown to restore it. Twelve years later it was still in eclipse, with all signs against a real comeback. Without any tragic loss of welfare or of freedom the country, by suspending the gold standard, had taken a decisive step toward a transformation. During World War II this was accompanied by changes in the methods of liberal capitalism. However,

these latter were not meant to be permanent and did not, therefore, remove the country from the danger zone.

In all important European countries a similar mechanism was active and with very much the same effect. In Austria in 1923, in Belgium and France in 1926, in Germany in 1931, Labour Parties were made to quit office "to save the currency." Statesmen like Seipel, Francqui, Poincare, or Briining eliminated Labour from government, reduced social services, and tried to break the resistance of the unions to wage adjustments. Invariably the danger was to the currency, and with equal regularity the responsibility was fixed on inflated wages and unbalanced budgets. Such a simplification hardly does justice to the variety of problems involved which comprised almost every question of economic and financial policy, including those of foreign trade, agriculture, and industry. Yet the more closely we consider these questions the clearer it must become that eventually currency and budget focused the issues pending between employers and employees, with the rest of the population swinging in to the support of the one or the other of the leading groups.

The so-called Blum experiment (1936) offered another instance. Labour was in government, but on condition that no embargo on gold exports be imposed. The French New Deal never had a chance since the government was tied on the crucial question of currency. The case is conclusive since in France as in England, once labor had been made innocuous, the middle-class parties gave up the defense of the gold standard without further ado. These examples show how crippling the effect of the sound currency postulate was on popular policies.

The American experience taught the same lesson, in another way. The New Deal could not have been launched without going off gold, though foreign exchange actually mattered but little. Under the gold standard the leaders of the financial market are entrusted, in the nature of things, with the safeguarding of stable exchanges and sound internal credit on which government finance largely depends. The banking organization is thus in the position to obstruct any domestic move in the economic sphere which it happens to dislike, whether its reasons are good or bad. In terms of politics: On currency and credit governments must take the advice of the bankers, who alone can know whether a financial measure would or would not endanger the capital market and the exchanges. That social protectionism did not in this

case result in a deadlock was due to the fact that the United States went off gold in time. For although the technical advantages of this move were slight (and the reasons given by the Administration were, as so often, very poor), the political dispossession of Wall Street was the result of this step. The financial market governs by panic. The eclipse of Wall Street in the 1930s saved the United States from a social catastrophe of the Continental type.

However, only in the United States, with its independence from world trade and its excessively strong currency position, was the gold standard chiefly a matter of domestic politics. In other countries, going off gold involved no less than dropping out of world economy. Perhaps the only exception was Great Britain, whose share in world trade was so large that she had been able to lay down the modalities under which the international monetary system should work, thus shifting the burden of the gold standard largely to other shoulders. In countries like Germany, France, Belgium, and Austria, none of these conditions existed. With them destruction of the currency meant cutting loose from the outer world and thereby sacrificing industries dependent upon imported raw materials, disorganizing foreign trade upon which employment rested, and all this without a chance of forcing a similar degree of depreciation on their purveyors and thus evading the internal consequences of a fall in the gold value of the currency, as Great Britain had done.

Exchanges were the highly effective arm of the lever that was pressing on the wage level. Before exchanges brought matters to a head, usually the wage issue was increasing the tension under the surface. But what the laws of the market often could not force upon reluctant wage-earners, the foreign exchange mechanism most effectively performed. The currency indicator made visible to all the unfavorable effects that interventionist trade union policies had on the market mechanism (the inherent weaknesses of which, including the trade cycle, were taken for granted).

Indeed, the Utopian nature of a market society cannot be better illustrated than by the absurdities in which the commodity fiction in regard to labor must involve the community. The strike, this normal bargaining weapon of industrial action, was more and more frequently felt to be a wanton interruption of socially useful work, which, at the same time, diminished the social dividend out of which, ultimately, wages must come. Sympathy strikes were resented, general

strikes were regarded as a threat to the existence of the community. Actually, strikes in vital services and public utilities held the citizens to ransom while involving them in the labyrinthine problem of the true functions of a labor market. Labor is supposed to find its price on the market, any other price than that so established being uneconomical. As long as labor lives up to this responsibility, it will behave as an element in the supply of that which it is, the commodity "labor," and will refuse to sell below the price which the buyer can still afford to pay. Consistently followed up, this means that the chief obligation of labor is to be almost continually on strike. The proposition could not be outbidden for sheer absurdity, yet it is only the logical inference from the commodity theory of labor. The source of the incongruity of theory and practice is, of course that labor is not really a commodity, and that if labor was withheld merely in order to ascertain its exact price (just as an increase in supply of all other commodities is withheld in similar circumstances) society would very soon dissolve for lack of sustenance. It is remarkable that this consideration is very rarely, if ever, mentioned in the discussion of the strike issue on the part of liberal economists.

Returning to reality: the strike method of fixing wages would be disastrous in any type of society, not to mention our own, which prides itself on its utilitarian rationality. Actually, the worker has no security in his job under a system of private enterprise, a circumstance which involves a grave deterioration in his status. Add to this the threat of mass unemployment, and the function of trade unions becomes morally and culturally vital to the maintenance of minimum standards for the majority of the people. Yet clearly any method of intervention that offers protection to the workers must obstruct the mechanism of the self-regulating market, and eventually diminish the very fund of consumers' goods that provides them with wages.

By inherent necessity the root problems of market society reappeared: interventionism and currency. They became the center of politics in the 1920s. Economic liberalism and socialist interventionism turned upon the different answers given to them.

Economic liberalism made a supreme bid to restore the self-regulation of the system by eliminating interventionist policies which obstructed the freedom of markets for land, labor, and money. It undertook no less than to solve, in an emergency, the secular problem in-

volved in the three fundamental principles of free trade, a free labor market, and a freely functioning gold standard. It became, in effect, the spearhead of a heroic attempt to restore world trade, remove all avoidable hindrances to the mobility of labor, and reconstruct stable exchanges. This last aim had precedence over the rest. For unless confidence in the currencies was restored, the mechanism of the market could not function, in which case it was illusory to expect governments to refrain from protecting the lives of their people by all the means at their disposal. In the nature of things, these means were, primarily, tariffs and social laws designed to secure food and employment, that is, precisely the type of intervention which made a self-regulating system unworkable.

There was also another, more immediate, reason to put the restoration of the international monetary system first: in the face of disorganized markets and unstable exchanges international credit was playing an increasingly vital part. Before the Great War international capital movements (other than those connected with long-term investments) merely helped to keep the balance of payment liquid, but were strictly limited even in this function by economic considerations. Credit was given only to such as seemed deserving of confidence on business grounds. Now the position was reversed: debts had been created on political grounds such as reparations, and loans were given on semipolitical grounds, in order to make reparation payments possible. But loans were also given for reasons of economic policy, in order to stabilize world prices or to restore the gold standard. The credit mechanism was being used by the relatively sound part of world economy to bridge the gaps in the relatively disorganized parts of that economy, irrespective of the conditions of production and trade. Balances of payment, budgets, exchanges were made to balance artificially in a number of countries with the help of a supposedly all-powerful international credit mechanism. But this mechanism itself was based on the expectation of a return to stable exchanges, which again was synonymous with a return to gold. An elastic band of amazing strength helped to maintain the semblance of unity in a dissolving economic system; but whether the band would stand the strain depended upon a timely return to gold.

The achievement of Geneva was remarkable in its way. Had the aim not been intrinsically impossible, it would have been surely attained, so able, sustained, and single-minded was the attempt. As matters

stood, no intervention was probably more disastrous in its results than that of Geneva. Just because it always appeared to be almost successful, it aggravated enormously the effects of the ultimate failure. Between 1923, when the German mark was pulverized within a few months, and the beginning of 1930, when all the important currencies of the world were back to gold, Geneva used the international credit mechanism to shift the burden of the incompletely stabilized economies of Eastern Europe, first, to the shoulders of the Western victors, second, from there to the even broader shoulders of the United States of America.* The collapse came in America in the course of the usual business cycle, but by the time it came, the financial web created by Geneva and Anglo-Saxon banking entangled the economy of the planet in that awful capsize.

But even more was involved. During the 1920s, according to Geneva, questions of social organization had to be wholly subordinated to the needs of the restoration of the currency. Deflation was the primary need; domestic institutions had to adjust as best they might. For the time being, even the restoration of free internal markets and of the liberal state had to be postponed. For in the words of the Gold Delegation, deflation had failed "to affect certain classes of goods and services, and failed, therefore, to bring about a stable new equilibrium." Governments had to intervene in order to reduce prices of monopoly articles, to reduce agreed wage schedules, and to cut rents. The deflationist's ideal came to be a "free economy under a strong government"; but while the phrase on government meant what it said, namely, emergency powers and suspension of public liberties, "free economy" meant in practice the opposite of what it said, namely, governmentally adjusted prices and wages (though the adjustment was made with the express purpose of restoring the freedom of the exchanges and free internal markets). Primacy of exchanges involved no less a sacrifice than that of free markets and free governments—the two pillars of liberal capitalism. Geneva thus represented a change in aim, but no change in method: while the inflationary governments condemned by Geneva subordinated the stability of the currency to stability of incomes and employment, the deflationary governments put in power by Geneva used no fewer interventions in order to subordinate the stability of incomes and employment to the stability of the

* Polanyi, K., "Der Mechanismus der Weltwirtschaftskrise," *Der Osterreichische Volkswirt*, 1933 (Supplement).

currency. In 1932 the Report of the Gold Delegation of the League of Nations declared that with the return of the exchange uncertainty the main monetary achievement of the past decade had been eliminated. What the report did not say was that in the course of these vain deflationary efforts free markets had not been restored though free governments *had* been sacrificed. Though opposed in theory to interventionism and inflation alike, economic liberals had chosen between the two and set the sound-currency ideal above that of nonintervention. In so doing they followed the logic inherent in a self-regulating economy. Yet such a course of action tended to spread the crisis, it burdened finance with the unbearable strain of massive economic dislocation, and it heaped up the deficits of the various national economies to the point where a disruption of the remnants of international division of labor became inevitable. The stubbornness with which economic liberals, for a critical decade, had, in the service of deflationary policies, supported authoritarian interventionism, merely resulted in a decisive weakening of the democratic forces which might otherwise have averted the fascist catastrophe. Great Britain and the United States—masters not servants of the currency—went off gold in time to escape this peril.

Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society. It is the solution natural to industrial workers who see no reason why production should not be regulated directly and why markets should be more than a useful but subordinate trait in a free society. From the point of view of the community as a whole, socialism is merely the continuation of that endeavor to make society a distinctively human relationship of persons which in Western Europe was always associated with Christian traditions. From the point of view of the economic system, it is, on the contrary, a radical departure from the immediate past, insofar as it breaks with the attempt to make private money gains the general incentive to productive activities, and does not acknowledge the right of private individuals to dispose of the main instruments of production. This is, ultimately, why the reform of capitalist economy by socialist parties is difficult even when they are determined not to interfere with the property system. For the mere possibility that they might decide to do so undermines that type of confidence which in liberal economy is vital, namely, absolute confidence in the continuity of titles to property.

While the actual content of property rights might undergo redefinition at the hands of legislation, assurance of formal continuity is essential to the functioning of the market system.

Since the Great War two changes have taken place which affect the position of socialism. First, the market system proved unreliable to the point of almost total collapse, a deficiency that had not been expected even by its critics; second, a socialist economy was established in Russia, representing an altogether new departure. Though the conditions under which this venture took place made it inapplicable to Western countries, the very existence of Soviet Russia proved an incisive influence. True, she had turned to socialism in the absence of developed industries, general literacy, and democratic traditions—all three of which according to Western ideas, were preconditions of socialism. This made her special methods and solutions inapplicable elsewhere, but did not prevent socialism from becoming an inspiration. On the Continent workers' parties had always been socialist in outlook and any reform they wished to achieve was, as a matter of course, suspect of serving socialist aims. In quiet times such a suspicion would have been unjustified; socialist working-class parties were, on the whole, committed to the reform of capitalism, not to its revolutionary overthrow. But the position was different in an emergency. If normal methods were insufficient, abnormal ones would then be tried, and with a workers' party such methods might involve a disregard of property rights. Under the stress of imminent danger workers' parties might strike out for measures which were socialistic or at least appeared as such to the militant adherents of private enterprise. And the very hint would suffice to throw markets into confusion and start a universal panic.

Under conditions such as these the routine conflict of interest between employers and employees took on an ominous character. While a divergence of economic interests would normally end in compromise, the separation of the economic and the political spheres in society tended to invest such clashes with grave consequences to the community. The employers were the owners of the factories and mines and thus directly responsible for carrying on production in society (quite apart from their personal interest in profits). In principle, they would have the backing of all in their endeavor to keep industry going. On the other hand the employees represented a large section of society; their interests also were to an important degree coincident with those

of the community as a whole. They were the only available class for the protection of the interests of the consumers, of the citizens, of human beings as such, and, under universal suffrage, their numbers would give them a preponderance in the political sphere. However, the legislature, like industry, had its formal functions to perform in society. Its members were entrusted with the forming of the communal will, the direction of public policy, the enactment of long-term programs at home and abroad. No complex society could do without functioning legislative and executive bodies of a political kind. A clash of group interests that resulted in paralysing the organs of industry or state—either of them, or both—formed an immediate peril to society.

Yet precisely this was the case in the 1920s. Labor entrenched itself in parliament where its numbers gave it weight, capitalists built industry into a fortress from which to lord the country. Popular bodies answered by ruthlessly intervening in business, disregarding the needs of the given form of industry. The captains of industry were subverting the population from allegiance to their own freely elected rulers, while democratic bodies carried on warfare against the industrial system on which everybody's livelihood depended. Eventually, the moment would come when both the economic and the political systems were threatened by complete paralysis. Fear would grip the people, and leadership would be thrust upon those who offered an easy way out at whatever ultimate price. The time was ripe for the fascist solution.

History in the Gear of Social Change

CTf ever there was a political movement that responded to the needs

A. of an objective situation and was not a result of fortuitous causes, it was fascism. At the same time, the degenerative character of the fascist solution was evident. It offered an escape from an institutional deadlock which was essentially alike in a large number of countries, and yet, if the remedy were tried, it would everywhere produce sickness unto death. That is the manner in which civilizations perish.

The fascist solution of the impasse reached by liberal capitalism can be described as a reform of market economy achieved at the price of the extirpation of all democratic institutions, both in the industrial and in the political realm. The economic system which was in peril of disruption would thus be revitalized, while the people themselves were subjected to a reeducation designed to denaturalize the individual and make him unable to function as the responsible unit of the body politic* This reeducation, comprising the tenets of a political religion that denied the idea of the brotherhood of man in all its forms, was achieved through an act of mass conversion enforced against recalcitrants by scientific methods of torture.

The appearance of such a movement in the industrial countries of the globe, and even in a number of only slightly industrialized ones, should never have been ascribed to local causes, national mentalities, or historical backgrounds as was so consistently done by contemporaries. Fascism had as little to do with the Great War as with the Versailles Treaty, with Junker militarism as with the Italian temperament. The movement appeared in defeated countries like Bulgaria and in victorious ones like Jugoslavia, in countries of Northern temperament like Finland and Norway and of Southern temperament like

* Polanyi, K., "The Essence of Fascism," in *Christianity and the Social Revolution*, 1935-

Italy and Spain, in countries of Aryan race like England, Ireland, or Belgium and non-Aryan race like Japan, Hungary, or Palestine, in countries of Catholic traditions like Portugal and in Protestant ones like Holland, in soldierly communities like Prussia and civilian ones like Austria, in old cultures like France and new ones like the United States and the Latin-American countries. In fact, there was no type of background—of religious, cultural, or national tradition—that made a country immune to fascism, once the conditions for its emergence were given.

Moreover, there was a striking lack of relationship between its material and numerical strength and its political effectiveness. The very term "movement" was misleading since it implied some kind of enrolment or personal participation of large numbers. If anything was characteristic of fascism, it was its independence of such popular manifestations. Though usually aiming at a mass following, its potential strength was reckoned not by the numbers of its adherents but by the influence of the persons in high position whose good will the fascist leaders possessed, and whose influence in the community could be counted upon to shelter them from the consequences of an abortive revolt, thus taking the risks out of revolution.

A country approaching the fascist phase showed symptoms among which the existence of a fascist movement proper was not necessarily one. At least as important signs were the spread of irrationalistic philosophies, racialist aesthetics, anticapitalistic demagogy, heterodox currency views, criticism of the party system, widespread disparagement of the "regime," or whatever was the name given to the existing democratic setup. In Austria the so-called universalist philosophy of Othmar Spann, in Germany the poetry of Stephen George and the cosmogonic romanticism of Ludwig Klages, in England D. H. Lawrence's erotic vitalism, in France Georges Sorel's cult of the political myth were among its extremely diverse forerunners. Hitler was eventually put in power by the feudal clique around President Hindenburg, just as Mussolini and Primo de Rivera were ushered into office by their respective sovereigns. Yet Hitler had a vast movement to support him; Mussolini had a small one; Primo de Rivera had none. In no case was an actual revolution against constituted authority launched; fascist tactics were invariably those of a sham rebellion arranged with the tacit approval of the authorities who pretended to have been overwhelmed by force. These are the bare outlines of a complex picture in

which room would have to be made for figures as diverse as the Catholic freelance demagogue in industrial Detroit, the "Kingfish" in backward Louisiana, Japanese Army conspirators, and Ukrainian anti-Soviet saboteurs. Fascism was an ever-given political possibility, an almost instantaneous emotional reaction in every industrial community since the 1930s. One may call it a "move" in preference to a "movement," to indicate the impersonal nature of the crisis the symptoms of which were frequently vague and ambiguous. People often did not feel sure whether a political speech or a play, a sermon or a public parade, a metaphysics or an artistic fashion, a poem or a party program was fascist or not. There were no accepted criteria of fascism, nor did it possess conventional tenets. Yet one significant feature of all its organized forms was the abruptness with which they appeared and faded out again, only to burst forth with violence after an indefinite period of latency. All this fits into the picture of a social force that waxed and waned according to the objective situation.

What we termed, for short, "fascist situation" was no other than the typical occasion of easy and complete fascist victories. All at once, the tremendous industrial and political organizations of labor and of other devoted upholders of constitutional freedom would melt away, and minute fascist forces would brush aside what seemed until then the overwhelming strength of democratic governments, parties, trade unions. If a "revolutionary situation" is characterized by the psychological and moral disintegration of all forces of resistance to the point where a handful of scantily armed rebels were enabled to storm the supposedly impregnable strongholds of *reaction*, then the "fascist situation" was its complete parallel except for the fact that here the bulwarks of *democracy and constitutional liberties* were stormed and their defenses found wanting in the same spectacular fashion. In Prussia, in July 1932, the legal government of the Social Democrats, entrenched in the seat of legitimate power, capitulated to the mere threat of unconstitutional violence on the part of Herr von Papen. Some six months later Hitler possessed himself peacefully of the highest positions of power, whence he at once launched a revolutionary attack of wholesale destruction against the institutions of the Weimar Republic and the constitutional parties. To imagine that it was the strength of the movement which created situations such as these, and not to see that it was the situation that gave birth in this case to the movement, is to miss the outstanding lesson of the past decades.

Fascism, like socialism, was rooted in a market society that refused to function. Hence, it was worldwide, catholic in scope, universal in application; the issues transcended the economic sphere and begot a general transformation of a distinctively social kind. It radiated into almost every field of human activity whether political or economic, cultural, philosophic, artistic, or religious. And up to a point it coalesced with local and topical tendencies. No understanding of the history of the period is possible unless we distinguish between the underlying fascist move and the ephemeral tendencies with which that move fused in different countries.

In the Europe of the 1920s two such tendencies—counterrevolution and nationalist revisionism—figured prominently and overlay the more comprehensive but fainter pattern of fascism. Their starting point was, of course, the Peace Treaties and postwar revolutions, respectively. Though both counterrevolution and revisionism were obviously limited to their specific objectives, they were easily confounded with fascism.

Counterrevolutions were the usual backswing of the political pendulum toward a state of affairs that had been violently disturbed. Such moves have been typical in Europe at least since the English Commonwealth, and had but limited connection with the social processes of their time. In the 1920s numerous situations of this kind developed, since the upheavals that destroyed more than a dozen thrones in Central and Eastern Europe were partly caused by the backwash of defeat, not the forward move of democracy. The job of counterrevolution was mainly political and fell as a matter of course to the dispossessed classes and groups such as dynasties, aristocracies, churches, heavy industries, and the parties affiliated with them. The alliances and clashes of conservatives and fascists during this period concerned mainly the share that should go to the fascists in the counterrevolutionary undertaking. Now, fascism was a revolutionary tendency directed as much against conservatism as against the competing revolutionary force of socialism. That did not preclude the fascists from seeking power in the political field by offering their services to the counterrevolution. On the contrary, they claimed ascendancy chiefly by virtue of the alleged impotence of conservatism to accomplish that job, which was unavoidable if socialism was to be barred. The conservatives, naturally, tried to monopolize the honors of the counterrevolution and actually, as in Germany, accomplished it alone. They deprived the working-

class parties of influence and power, without giving in to the Nazi. Similarly, in Austria, the Christian Socialists—a conservative party—largely disarmed the workers (1927) without making any concession to the "revolution from the right." Even where fascist participation in the counterrevolution was unavoidable, "strong" governments were established which relegated fascism to the limbo. This happened in Estonia in 1929, in Finland in 1932, in Latvia in 1934. Pseudo-liberal regimes broke the power of fascism for the time, in Hungary in 1922, and in Bulgaria in 1926. In Italy alone were the conservatives unable to restore work-discipline in industry without providing the fascists with a chance of gaining power.

In the militarily defeated countries, but also in the "psychologically" defeated Italy, the national problem loomed large. Here a task was set the stringency of which could not be denied. Deeper than all other issues cut the permanent disarmament of the defeated countries; in a world in which the only existing organization of international law, international order, and international peace rested on the balance of power, a number of countries had been made powerless without any intimation of the kind of system that would replace the old. The League of Nations represented, at the best, an improved system of balance of power, but was actually not even on the level of the late Concert of Europe, since the prerequisite of a general diffusion of power was now lacking. The nascent fascist movement put itself almost everywhere into the service of the national issue; it could hardly have survived without this "pickup" job.

Yet it used this issue only as a stepping-stone; at other times it struck the pacifist and isolationist note. In England and the United States it was allied with appeasement; in Austria the *Heimwehr* cooperated with sundry Catholic pacifists; and Catholic fascism was anti-nationalist, on principle. Huey Long needed no border conflict with Mississippi or Texas to launch his fascist movement from Baton Rouge. Similar movements in Holland and Norway were non-nationalist to the point of treason—Quisling may have been a name for a good fascist, but was certainly not one for a good patriot.

In its struggle for political power fascism is entirely free to disregard or to use local issues, at will. Its aim transcends the political and economic framework: it is social. It puts a political religion into the service of a degenerative process. In its rise it excludes only a very few emotions from its orchestra; yet once victorious it bars from the band

wagon all but a very small group of motivations, though again extremely characteristic ones. Unless we distinguish closely between this pseudo-intolerance on the road to power and the genuine intolerance in power, we can hardly hope to understand the subtle but decisive difference between the sham-nationalism of some fascist movements during the revolution, and the specifically imperialistic non-nationalism which they developed after the revolution.*

While conservatives were as a rule successful in carrying the domestic counterrevolutions alone, they were but rarely able to bring the national-international problem of their countries to an issue. Briining maintained in 1940 that German reparations and disarmament had been solved by him before the "clique around Hindenburg" decided to put him out of office and to hand over power to the Nazis, the reason for their action being that they did not want the honors to go to him.^f Whether, in a very limited sense, this was so or not seems immaterial, since the question of Germany's equality of status was not restricted to technical disarmament, as Briining implied, but included the equally vital question of demilitarization; also, it was not really possible to disregard the strength which German diplomacy drew from the existence of Nazi masses sworn to radical nationalist policies. Events proved conclusively that Germany's equality of status could not have been attained without a revolutionary departure, and it is in this light that the awful responsibility of Nazism, which committed a free and equal Germany to a career of crime, becomes apparent. Both in Germany and in Italy fascism could seize power only because it was able to use as its lever unsolved national issues, while in France as in Great Britain fascism was decisively weakened by its antipatriotism. Only in small and naturally dependent countries could the spirit of subservience to a foreign power prove an asset to fascism.

By accident only, as we see, was European fascism in the 1920s connected with national and counterrevolutionary tendencies. It was a case of symbiosis between movements of independent origin, which reinforced one another and created the impression of essential similarity, while being actually unrelated.

In reality, the part played by fascism was determined by one factor: the condition of the market system.

* Rauschnig, H., *The Voice of Destruction*, 1940.

¹ Heymann, H., *Plan for Permanent Peace*, 1941. Cf. Briining's letter of January 8, 1940.

During the period 1917-23 governments occasionally sought fascist help to restore law and order: no more was needed to set the market system going. Fascism remained undeveloped.

In the period 1924-29, when the restoration of the market system seemed ensured, fascism faded out as a political force altogether.

After 1930 market economy was in a general crisis. Within a few years fascism was a world power.

The first period 1917-23 produced hardly more than the term. In a number of European countries—such as Finland, Lithuania, Estonia, Latvia, Poland, Romania, Bulgaria, Greece, and Hungary—agrarian or socialist revolutions had taken place, while in others—among them Italy, Germany, and Austria—the industrial working class had gained political influence. Eventually counterrevolutions restored the domestic balance of power. In the majority of countries the peasantry turned against the urban workers; in some countries fascist movements were started by officers and gentry, who gave a lead to the peasantry; in others, as in Italy, the unemployed and the petty bourgeoisie formed into fascist troops. Nowhere was any other issue than that of law and order mooted, no question of radical reform was raised; in other words, no sign of a fascist revolution was apparent. These movements were fascist only in form, that is to say only insofar as civilian bands, so-called irresponsible elements, made use of for connivance of persons in authority. The antidemocratic philosophy of fascism was already born, but was not as yet a political factor. Trotsky gave a voluminous report on the situation in Italy on the eve of the Second Congress of the Comintern in 1920, but did not even mention fascism, although *fasci* had been in existence for some time. It took another ten years or more before Italian fascism, long since established in the government of the country, developed anything in the nature of a distinctive social system.

In 1924 and after, Europe and the United States were the scene of a boisterous boom that drowned all concern for the soundness of the market system. Capitalism was proclaimed restored. Both Bolshevism and fascism were liquidated except in peripheric regions. The Comintern declared the consolidation of capitalism a fact; Mussolini eulogized liberal capitalism; all important countries except Great Britain were on the upgrade. The United States enjoyed a legendary prosperity, and the Continent was doing almost as well. Hitler's *putsch* had been quashed; France had evacuated the Ruhr; the reichsmark was re-

stored as by miracle; the Dawes Plan had taken politics out of reparations; Locarno was in the offing; and Germany was starting out on seven fat years. Before the end of 1926 the gold standard ruled again from Moscow to Lisbon.

It was in the third period—after 1929—that the true significance of fascism became apparent. The deadlock of the market system was evident. Until then fascism had been hardly more than a trait in Italy's authoritarian government, which otherwise differed but little from those of a more traditional type. It now emerged as an alternative solution of the problem of industrial society. Germany took the lead in a revolution of European scope and the fascist alignment provided her struggle for power with a dynamic which soon embraced five continents. History was in the gear of social change.

An adventitious but by no means accidental event started the destruction of the international system. A Wall Street slump grew to huge dimensions and was followed by Great Britain's decision to go off gold and, another two years later, by a similar move on the part of the United States. Concurrently, the Disarmament Conference ceased to meet, and, in 1933, Germany left the League of Nations.

These symbolic events ushered in an epoch of spectacular change in the organization of the world. Three Powers, Japan, Germany, and Italy, rebelled against the status quo and sabotaged the crumbling institutions of peace. At the same time the factual organization of world economy refused to function. The gold standard was at least temporarily put out of action by its Anglo-Saxon creators; under the guise of default, foreign debts were repudiated; capital markets and world trade dwindled away. The political *and* the economic system of the planet disintegrated conjointly.

Within the nations themselves the change was no less thorough. Two-party systems were superseded by one-party governments, sometimes by national governments. However, external similarities between dictatorship countries and countries which retained a democratic public opinion merely served to emphasize the superlative importance of free institutions of discussion and decision. Russia turned to socialism under dictatorial forms. Liberal capitalism disappeared in the countries preparing for war like Germany, Japan, and Italy, and, to a lesser extent, also in the United States and Great Britain. But the emerging regimes of fascism, socialism, and the New Deal were similar only in discarding laissez-faire principles.

While history was thus started on its course by an event external to all, the single nations reacted to the challenge according to whither they were bound. Some were averse to change; some went a long way to meet it when it came; some were indifferent. Also, they sought for solutions in various directions. Yet from the point of view of market economy these often radically different solutions merely represented given alternatives.

Among those determined to make use of a general dislocation to further their own interests was a group of dissatisfied Powers for whom the passing of the balance-of-power system, even in its weakened form of the League, appeared to offer a rare chance. Germany was now eager to hasten the downfall of traditional world economy, which still provided international order with a foothold, and she anticipated the collapse of that economy, so as to have the start of her opponents. She deliberately cut loose from the international system of capital, commodity, and currency so as to lessen the hold of the outer world upon her when she would deem it convenient to repudiate her political obligations. She fostered economic autarchy to ensure the freedom required for her far-reaching plans. She squandered her gold reserves, destroyed her foreign credit by gratuitous repudiation of her obligations and even, for a time, wiped out her favorable foreign trade balance. She easily managed to camouflage her true intentions since neither Wall Street nor the City of London nor Geneva suspected that the Nazis were actually banking on the final dissolution of nineteenth-century economy. Sir John Simon and Montagu Norman firmly believed that eventually Schacht would restore orthodox economics in Germany, which was acting under duress and which would return to the fold, if she were only assisted financially. Illusions such as these survived in Downing Street up to the time of Munich and after. While Germany was thus greatly assisted in her conspirative plans by her ability to adjust to the dissolution of the traditional system, Great Britain found herself severely handicapped by her adherence to that system.

Although England had temporarily gone off gold, her economy and finance continued to be based on the principles of stable exchanges and sound currency. Hence the limitations under which she found herself in respect to rearmament. Just as German autarchy was an outcome of military and political considerations that sprang from her intent to forestall a general transformation, Britain's strategy and

foreign policy were constricted by her conservative financial outlook. The strategy of limited warfare reflected the view of an island emporium, which regards itself safe as long as its Navy is strong enough to secure the supplies that its sound money can buy in the Seven Seas. Hitler was already in power when, in 1933, Duff Cooper, a die-hard, defended the cuts in the Army budget of 1932 as made "in the face of the national bankruptcy, which was then thought to be an even greater danger than having an inefficient fighting service." More than three years later Lord Halifax maintained that peace could be had by economic adjustments and that there should be no interference with trade since this would make such adjustments more difficult. In the very year of Munich, Halifax and Chamberlain still formulated Britain's policy in terms of "silver bullets" and the traditional American loans for Germany. Indeed, even after Hitler had crossed the Rubicon and had occupied Prague, Sir John Simon approved in the House of Commons of Montagu Norman's part in the handing over of the Czech gold reserves to Hitler. It was Simon's conviction that the integrity of the gold standard, to the restoration of which his statesmanship was dedicated, outweighed all other considerations. Contemporaries believed that Simon's action was the result of a determined policy of appeasement. Actually, it was an homage to the spirit of the gold standard, which continued to govern the outlook of the leading men of the City of London on strategic as well as on political matters. In the very week of the outbreak of the war the Foreign Office, in answer to a verbal communication of Hitler to Chamberlain*, formulated Britain's policy in terms of the traditional American loans for Germany. England's military unpreparedness was mainly the result of her adherence to gold standard economics.

Germany reaped the advantages of those who help to kill that which is doomed to die. Her start lasted as long as the liquidation of the outworn system of the nineteenth century permitted her to keep in the lead. The destruction of liberal capitalism, of the gold standard, and of absolute sovereignties was the incidental result of her marauding raids. In adjusting to an isolation sought by herself and, later, in the course of her slave-dealer's expeditions, she developed tentative solutions of some problems of the transformation.

Her greatest political asset, however, lay in her ability to compel

* *British BlueBook*, No. 74, Cmd. 6106, 1939.

the countries of the world into an alignment against Bolshevism. She made herself the foremost beneficiary of the transformation by taking the lead in that solution of the problem of market economy which for a long time appeared to enlist the unconditional allegiance of the propertied classes, and indeed not always of these alone. Under the liberal and Marxist assumption of the primacy of economic class interests, Hitler was bound to win. But the social unit of the nation proved, in the long run, even more cohesive than the economic unit of class.

Russia's rise also was linked with her role in the transformation. From 1917 to 1929 the fear of Bolshevism was no more than the fear of disorder which might fatally hamper the restoration of a market economy which could not function except in an atmosphere of unqualified confidence. In the following decade socialism became a reality in Russia. The collectivization of the farms meant the supersession of market economy by cooperative methods in regard to the decisive factor of land. Russia, which had been merely a seat of revolutionary agitation directed toward the capitalistic world, now emerged as the representative of a new system which could replace market economy.

It is not usually realized that the Bolsheviks, though ardent socialists themselves, stubbornly refused to "establish socialism in Russia." Their Marxist convictions alone would have precluded such an attempt in a backward agrarian country. But apart from the entirely exceptional episode of so-called "War Communism" in 1920, the leaders adhered to the position that the world revolution must start in industrialized Western Europe. Socialism in one country would have appeared to them a contradiction in terms, and when it became reality, the Old Bolsheviks rejected it almost to a man. Yet it was precisely this departure which proved an amazing success.

Looking back upon a quarter-century of Russian history, it appears that what we call the Russian Revolution really consisted of two separate revolutions, the first of which embodied traditional Western European ideals, while the second formed part of the utterly new development of the thirties. The Revolution of 1917—24 was indeed the *last* of the political upheavals in Europe that followed the pattern of the English Commonwealth and of the French Revolution; the revolution that started with the collectivization of the farms, about 1930, was the *first* of the great social changes that transformed our world in the thirties. For the first Russian Revolution achieved the destruction of absolutism, feudal land tenure, and racial oppression—a true heir to

the ideals of 1789; the second Revolution established a socialist economy. When all is said, the first was merely a Russian event—it fulfilled a long process of Western development on Russian soil—while the second formed part of a simultaneous universal transformation.

Seemingly in the 1920s Russia stood apart from Europe and was working out her own salvation. A closer analysis might disprove this appearance. For among the factors which forced upon her a decision in the years between the two revolutions was the failure of the international system. By 1924 "War Communism" was a forgotten incident and Russia had reestablished a free domestic grain market, while maintaining state control of foreign trade and key industries. She was now bent on increasing her foreign trade, which depended mainly on exports of grain, timber, furs, and some other organic raw materials, the prices of which were slumping heavily in the course of the agrarian depression which preceded the general break in trade. Russia's inability 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 tracks were laid down by the tendencies inherent in a market society.

Freedom in a Complex Society

Wineteenth-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 *oi 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 let 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, shiftings 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 transferring of our troubles to another planet. Instead of eliminating the demonic forces of aggression and conquest, such a futile attempt would actually ensure the survival of those forces, even after their utter military defeat. The cause of evil would become endowed with the advantage, decisive in politics, of representing the possible, in opposition to that which is impossible of achievement however good it may be of intention.

Nor does the collapse of the traditional system leave us in the void. Not for the first time in history may makeshifts contain the germs of great and permanent institutions.

Within the nations we are witnessing a development under which the economic system ceases to lay down the law to society and the primacy of society over that system is secured. This may happen in a great variety of ways, democratic and aristocratic, constitutionalist and authoritarian, perhaps even in a fashion yet utterly unforeseen. The future in some countries may be already the present in others, while some may still embody the past of the rest. But the outcome is common with them all: the market system will no longer be self-regulating, even in principle, since it will not comprise labor, land, and money.

To take labor out of the market means a transformation as radical as was the establishment of a competitive labor market. The wage contract ceases to be a private contract except on subordinate and accessory points. Not only conditions in the factory, hours of work, and modalities of contract, but the basic wage itself, are determined outside the market; what role accrues thereby to trade unions, state, and other public bodies depends not only on the character of these institutions but also on the actual organization of the management of production. Though in the nature of things wage differentials must (and should) continue to play an essential part in the economic system, other motives than those directly involved in money incomes may outweigh by far the financial aspect of labor.

To remove land from the market is synonymous with the incorporation of land with definite institutions such as the homestead, the cooperative, the factory, the township, the school, the church, parks,

wild life preserves, and so on. However widespread individual ownership of farms will continue to be, contracts in respect to land tenure need deal with accessories only, since the essentials are removed from the jurisdiction of the market. The same applies to staple foods and organic raw materials, since the fixing of prices in respect to them is not left to the market. That for an infinite variety of products competitive 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 1920s 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 cooperation, 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 cooperation 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 cooperation 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 pernicious 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 cooperation 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 cooperation 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 toward 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 toward integration in society should thus be accompanied by an increase of freedom; moves toward 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 practiced, 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 squarely 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 reestablishing 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 compul-

sion 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 illusory 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 fulfillment 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; noncooperation 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 cooperative 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.