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Lecture 4. Is America an Exception?

1. Reform and confidence.

Within the last decade free institutions have succumbed to the impact of sudden change in most of the countries where civilisation bore the imprint of the Industrial Revolution.

Must America go the same way? Or is there hope that she might be able to master her own future?

The breakdown of the international system must, of course, affect America like all other countries. The passing of the gold standard as the chief instrument of international division of labour will alter her relationship to other national economies, just as her foreign policies will have for a long time to come to be shaped by the disappearance of the balance of power system as practiced during the century 1814-1914.

But the response of a people to the stimulus of change is mainly the result of its internal organization. Therefore, though the present catastrophe is of an international order, the answer to our question will largely depend upon the degree to which the institutions of American society can be regarded as analogous to those of the stricken communities of Europe.

The rise of fascism on the European continent was due to the fact that the vitally necessary reform of liberal capitalism could not be carried through under our democratic institutions. Such a reform was inevitable owing to the devastating effects of a separate, self-regulating economic system on the tissue of society. This permanent danger had given rise to the activities of the modern political state as well as of trade unionism and other essentially conservative movements which attempted to protect society against the disastrous effects of the automatism of the market-economy, not, however, without impairing seriously the functioning of that same economy in other respects.

The strain was thus merely shifted from the original separation of economics and politics--a clearly utopian endeavor--to their imperfect re-uniting through mutual interference. Neither liberal capitalism nor representative democracy could function satisfactorily under such conditions. The latent peril to the community as a whole could not be eliminated by the methods of a haphazard integration. The road to a constructive reform of the capitalist system by democratic means was, however, blocked by a set of circumstances which were beyond the control of anybody. Society was helpless.

This is easy to see. Reform had to aim mainly at three desiderata: leveling of the trade cycle; security of tenure for the employees; redistribution of purchasing power. But ~~the~~ no effective measures could be taken by the body politic in either direction without practically stopping the economic mechanism upon which society depended for its everyday existence. For reform could be achieved only through changes in the legal definitions of property, any attempt at which started a panic on the financial markets. These depended for their functioning entirely on confidence,

a psychological situation which was naturally incompatible with any uncertainty as to the definition of property rights. Reform was met by panic:-- flight of capital, slump of exchanges, ceasing of investment, mass unemployment, loss of incomes, bankruptcy, chaos and ruin. Long before this stage was reached, the reforming government was thrown out of office and the body politic had been forced to give up any attempt at reform in order to restore confidence.

2. The 19th century in Europe and America.

Any parallel between Europe and America which is restricted to the 19th century is bound to produce most depressing results. Europe's past then appears as America's future, with a consistency which induced some authors to set out a regular time-table for this country. The accumulation of capital, the concentration of ownership, the centralization of production, the passing of competition, the rise of monopolies, the incidence of the trade cycle, the emergence of an imperialist foreign policy, the growth of class tension, the introduction of factory legislation, social insurance and trade unionism all seemed to have their American counterparts in the giant trusts and Wall Street, big business methods, dollar diplomacy, the I.W.W., the Pinkerton men, the A.F. of L., the C.I.O., the New Deal legislation, and, bigger and better than all its European predecessors, the unexampled slump and mass unemployment of the Nineteen-thirties, and as time went on, similarity seemed to become even closer and closer.

It is hardly surprising that the majority of scholars did not see much reason for hope that the institutional development in America would follow other lines than those which resulted in the tragic deadlock of European history.

3. State and Industry in America.

A different picture presents itself, however, if the parallel is extended to the more distant past. America's beginnings reach back almost two centuries before the oncoming of the Industrial Revolution. A comparison of the history of the two hemispheres in this period would reveal that on the decisive question of the relationship of economics and politics, industry and state, they diverge strongly. While America was founded and carried on as a society, which only quite recently started to develop a state in the strict sense of the term, European countries at least since the 16th century possessed a state power on which the actual social system rested. When after the advent of the Industrial Revolution social relationships became mainly economic, American society continued to exist by the strength of the convictions of its members, and the establishment of a state possessed of any substantial powers was still actually prevented by the Constitution. It was only as recently as the beginning of the 'Thirties that the federal government struck out on a line directed towards the establishment of a political state with real powers in internal affairs. It was a question of decisive importance to the future of this country whether this new state power would prove an effective instrument of the reform of the economic system while remaining basically democratic.

It would be too early to say whether America has already achieved a plastic society, i.e., a society which can be shaped by the political state and other conscious social factors without danger of a fatal stoppage. If so, this would be

mainly due to the absence of the control of the financial market over the credit of the state itself. The conflict of White House and Wall Street in the first years of the New Deal, in conjunction with the dropping of the gold standard, may have had a greater importance than it is usually credited with. For at that period not only the character of the nascent state but also its relationship to the financial market may have been determined. The basis on which the future integration of state, industry and other independent social factors will have to proceed in America is still far from clear; yet it might well be the case that the fatal condition of a helpless society has been finally overcome in this country.

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