

1. The separation of politics and economics.

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

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

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

2. A price- or market-economy.

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

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

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

The result of the action of the markets is twofold:

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

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

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

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

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

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

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

3. Society and the market.

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

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

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

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

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

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

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

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

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

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

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

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Correction in Lecture 1:

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

"except for a few enclaves, the peoples were living in an entirely new institutional setting.", instead of "international" setting as is printed.