

INTERNATIONAL ECONOMIC DISINTEGRATION



WILHELM RÖPKE

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BY

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WITH AN APPENDIX

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TO
EVA RÖPKE
MY COURAGEOUS COMPANION THROUGH
TURBULENT YEARS

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P R E F A C E

THE idea of the present investigation originated in a conference of economists, organized by the Rockefeller Foundation and held at Annecy in July, 1936, for the purpose of discussing the most urgent topics and the different possibilities of organized research in the field of social science. At this conference there was general agreement that, in view of the great structural changes taking place in the economic system to-day, there should be organized an investigation into "post-war agrarian and industrial protectionism." After I had been charged, at the beginning of 1937, with the further development of this project under the auspices of the Graduate Institute of International Studies at Geneva, it was more specifically defined as "an international investigation . . . into the causes and reciprocal effects of industrial protectionism in the agrarian states and of agrarian protectionism in the industrial states, which has been characteristic of post-war commercial policy everywhere and particularly in Europe." "This policy, restrictive of international trade, has been both the expression and the condition of the most significant structural changes within the nations," the statement went on. "It is because the nations, for various reasons, some economic, some political, some psychological, have wished to become more independent of each other, that they have resorted to new forms and to a larger measure of protectionism. And this, in turn, has obliged their former suppliers to retaliate."

The first step to be taken evidently was to prepare a preliminary outline of the different questions and sub-questions connected with the solution of the problem and to array them systematically. This outline—which I presented in March, 1937—was a comprehensive inventory of the relevant questions without any indication of the relative weight of their importance, and a first demarcation of the scientific territory which was to be occupied and cultivated later in the course of the inquiry. An indication of the philosophy underlying this outline of the problem was given some months later in my paper on "International Economics in a Changing World" (*The World Crisis*, ed. by the Graduate Institute of International Studies, London, 1938, pp. 275-292) and worked out more fully in my other paper on the "Decisive Problems of the Disintegration of World Economy" (Swedish, in "*Ekonomisk Tidskrift*," January, 1939).

PREFACE

In accordance with the nature of this preliminary outline, it was to be left to the later development of the research work to regroup the different questions whilst the choice of the most important problems was to be made as the progressive execution of the programme demanded. After a preliminary examination of all the relevant factors, the next task was to find out what were really *strategic problems* which dominated the whole situation, to discover the knots where a number of causal threads met together, and thus to condense the investigation, which at first sight seemed to be discouragingly broad, into a limited number of parts forming a logically coherent whole. It was obvious, however, that this was a task which could only be performed during the course of the investigation, since it was a very important part of this investigation itself. Only a continuous and patient study of the field of the investigation could reveal the points on which everything else hinged, and any objection to such a procedure would betray a misunderstanding of that line of reasoning which was finally considered to be the most fruitful. The real work had to be done by taking up now this, now that causal thread, by connecting them and by experimenting with solutions in order to see the true structure of the whole problem. The first results of such a work are presented in this book.

To discover the strategic problems is an essential part of the investigation itself since not only do these first reveal themselves in the course of the actual study, but also the accomplishment of this task is one of the main and most important results to be expected from such an investigation. The phenomenon of the disintegration of world economy presents itself as such an overwhelming and bewildering mass of factors that any order brought into it would mean an enormous progress over the present state of thought on the subject, the most conspicuous feature of which is the general sense of bewilderment and lack of real orientation. Not knowing, however, how to disentangle the causal threads in this phenomenon and how to comprehend it in causal terms is generally only the first step to accepting it as the result of historical "fate," which simply happens for unfathomable reasons and in face of which man feels completely helpless. Lack of mental order and comprehension breeds pessimism and resignation and thus becomes an important causal factor in the further drift of international disintegration. A successful reduction of this host of factors to a limited number of strategic problems is, therefore, the first requisite of constructive action.

From the beginning I was convinced that in order to carry out

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this ambitious and highly complex research programme, it was necessary to avoid working with a co-operative research organization before the foundations had been thought out thoroughly. Otherwise, it would be difficult to prevent such an investigation from becoming an amorphous collection of studies lacking coherence and directive ideas. It would not be indiscreet to suggest that in recent years not a few research programmes seem to have suffered in this respect.

Following this procedure I worked out, with a minimum of assistance, the present study which—under the title of “Interim Report on International Economic Disintegration”—was sent to a number of experts in the summer of 1939. These experts were invited to a small conference which was to have been held in Geneva at the beginning of September when the report was to have been critically examined and the further research procedure discussed. Although the outbreak of war frustrated all these plans, it was suggested that at least my report should be published in a definite form after the necessary alterations and additions had been made, and a number of suggestions and critical views collected. In presenting now this final result I want to express my sincerest thanks to all those who helped me with this task. While my heaviest debt of gratitude lies with the Rockefeller Foundation and with the directors of the Graduate Institute of International Studies, Professors Paul Mantoux, and William E. Rappard, I want to state how much I owe especially to the very helpful suggestions and criticisms made by Professor Howard S. Ellis (University of California), Professor Allan G. B. Fisher (The Royal Institute of International Affaires), and Professor Alexander Rüstow (University of Istanbul). The latter kindly contributed a special memorandum attached to this volume. For the agricultural part I enjoyed the help of Dr. Count Finckenstein, for the industrial chapter that of Dr. E. Peltzer. The graphs have been made by Dr. A. Kozlik (Ohio State College).

The purpose of this book is to make a new and more promising approach to the diagnostics of that long-run crisis in international economic relations which is one of the most striking symptoms of the general economic, social, and political crisis of occidental society. I believe that the urgent necessity of such an approach has been enhanced rather than diminished by the outbreak of the war. However, I would betray my own philosophy if I regarded this book as anything more than a mere beginning, an invitation to constructive criticism, and a way of opening or furthering a dis-

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cussion for which the world seems to be ripe. In submitting this book to criticism, I am not afraid to expose myself as one who believes not only in the scientific legitimacy but even in the utmost scientific necessity of employing a measure of judgments, which is ultimately based on a definite conception of what is wrong with the world, and of what should be done in order to put it right again. Those who are shocked by such an attitude may be reassured that I gave more thought to this methodological problem than I am able to explain on this occasion.¹

It is hoped that anybody knowing the difficulties of publishing a book under the present circumstances—especially if the author and the publisher are separated by the main theatre of war—will readily excuse both the delay in publication and the fact that when the book finally comes out it will no longer be in accord in every respect with the actual situation, in spite of the many efforts to keep it up to date while the printing was being done. Therefore, an appeal is being made to the chivalrous sentiments of the critics who will easily console themselves with the many other aspects of the book calling for criticism.

WILHELM RÖPKE.

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(GENEVA), 1942.

¹ Cf. my paper "A Value Judgment on Value Judgments" in which I am explaining my attitude in this very important methodological question. It will probably be published in the "American Economic Review."

PUBLISHERS' NOTE

Owing to the difficulty of communicating with Professor Röpke during the preparation of this work, he is not to be considered responsible for every word of the text. The same applies to the Appendix contributed by Professor Rüstow.

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INTRODUCTION

Sometimes I fancy that there are still such crises in store, especially for the Germanic world, that even the most illustrious viri doctissimi with all their books may one day become obscure.

Jacob Burckhardt, letter to F. von Preen, 19th September, 1875.

It is an essential part of the general attitude underlying the present investigation that it is based on the following assumptions:

(a) The constantly shifting scene of international economic relations and of the State measures directed toward influencing them, the oscillations of economic activity in the different countries, the social and political disturbances and all the other phenomena, which occupy the forefront of public attention, are only surface symptoms of a *deep-set structural change* affecting our economic, social, political and cultural system in its entirety and constituting a major "historical crisis,"¹ the outbreak of which can be exactly dated as July, 1914, but for the causes of which we must go still further back.

(b) This crisis puts *social science* in a *new situation*, which is itself highly *critical* and which no partial investigation in any field of this science whatever can ignore without running the risk of missing its aim. Nobody conversant with the current development of the social sciences can overlook the fact that the feeling of being on insecure ground is becoming more and more widespread, until even the most tenacious followers of the traditional lines of approach sense the need for reorientation. The growing literature on methodological questions even in countries like England, where it was formerly distinctly unpopular, is a sure token of this scientific situation, as is also the fact that it has been felt necessary to open the present report in such a roundabout way as would have appeared rather strange even five years ago.²

As the present historical crisis finds its first, its most painful and its most conspicuous manifestation in the economic sphere, and since the nineteenth century has accustomed us to treat the economic problems as the main ones, it is easy to understand why the crisis

¹ The term "historical crisis" is used here in the sense made familiar by Jacob Burckhardt, the great Swiss historian, by his essay on "Die geschichtlichen Krisen" (*Weltgeschichtliche Betrachtungen*, 4th edn., Stuttgart, 1921, pp. 160-209).

² The following pages are largely based on a memorandum which the author wrote together with Professor Alexander Rüstow (University of Istanbul) in the summer of 1938.

is conceived primarily as an economic one and why, therefore, the traditional approaches of economics have been relied upon thus far. Whether or not this traditional conception corresponds to the inner convictions of our scholars and statesmen, it is at least exemplified in the character of by far the greater part of scientific activity in our field. Accordingly, men and means have been mobilized, during the last ten years, on an unprecedented scale. Facts have been piled up sky-high; conferences have been held in endless succession; economic analysis has been brought to an ever greater degree of refinement (and, incidentally, to an ever greater degree of unreality); vast and detailed programmes of research have been elaborated; a complicated machinery of institutionalized science has been set up; and questionnaires have been sent to almost every country and to every section of the population. It would surely be no pessimistic over-statement to say that nobody feels that this hectic activity has brought us any nearer the fundamental diagnosis which alone could serve as the basis for effective therapy.³

The real cause of this deficiency in the social sciences seems to lie just in the narrowness of our *economic* conception and the lack of courage and ability in really synthetic interpretation to connect the economic phenomena with the wider aspects of society.⁴ There is, in fact, increasing evidence that the real epicentre of the earthquake does not lie by any means in the strictly economic sphere, but rather that the economic disturbances are only the external manifestations of a deeper organic disease, of which over-emphasis on economic matters—a legacy of the nineteenth century—is only one of the many symptoms. If that is true, then it becomes clear that the traditional approach is doomed to failure and that a new point of departure has to be found.

In fact, every researcher, who goes below the surface of things, makes the daily experience that it has become impossible to analyse a single problem of present-day economics—be it money, crises, international relations, social relations or what you will—without being brought very quickly to the wider contexts of economic activity and behaviour. To stop, therefore, before studying these

³ See also: W. Röpke, *Die entscheidenden Probleme des weltwirtschaftlichen Verfalls*, *Zeitschrift für schweizerische Statistik und Volkswirtschaft*, 1938, No. 4.

⁴ In current literature there is already some evidence that the understanding of the scientific situation outlined above is growing. See E. F. M. Durbin, "Methods of Research—A Plea for Co-operation in the Social Sciences," *Economic Journal*, June, 1938; A. Löwe, *Economics and Sociology: a Plea for Co-operation in the Social Sciences*, London, 1935; F. Akerman, *Das Problem der sozialökonomischen Synthese*, Lund, 1938. The essential things have been said on a wider scientific scale by A. N. Whitehead, *Science and the Modern World*, New York, 1926; and by Ortega y Gasset, *El Tema de Nuestro Tiempo*, Madrid, 1923.

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wider aspects means missing the real points. A few examples may make this clearer.

The radical dissatisfaction and unrest of the *working classes* are surely among the main disintegrating factors which have brought about the recent dislocations of the economic machinery (wage rigidity and therefore cost rigidity with all its well-known consequences). *Laissez-faire* in social policy, being acknowledged as untenable, has yielded to social reform, which tries to solve the problem by wage fixing, shortening of the working day, social insurance and protection of labour. Much has been done in this field which everybody will regard, in principle, as a real advance over *laissez-faire*. Yet, not only does this policy of social reform easily develop into a heavy burden for other sections of the population which happen to be less well organized, and into a very serious impediment to the economic process, but—and this is the real trouble—it has increased, rather than diminished, the menacing dissatisfaction of the workers, and offers only palliatives, instead of a solution of the challenging problem of the proletariat, which, in the last resort, is a human (vital) rather than an economic one. We are to-day tending more and more to realize that the real cause of the discontent of the working classes is to be sought in the devitalization of their existence, so that neither higher wages nor better cinemas can cure it. To be herded together in giant factories like sheep or soldiers; to devote the vitally important hours of life to work under heteronomous regimentation and without fully realizing the sense and dignity of individual labour; to be uprooted from all natural bonds; to return to gloomy slums and to seek recreation in amusements as senseless, mechanized and devitalized as their work itself; to be dependent every minute of the day on the anonymous forces of society; to live from one pay-day to another—these and many other facts constitute the real problem of the proletariat. In order to see it in the right perspective, one should compare such an existence with that of the peasant, the craftsman and even of many rural “home workers,” who all generally earn less and work longer, but lead a fuller, more dignified and human life than the proletarian workman under present conditions. This diagnosis of the disease called “the proletariat” opens a vast field of research in which most of the work remains to be done. The vitally balanced forms of work and existence must be classified, the facts as to the extent of the disease studied, the causes of proletarianization and devitalization analysed, the means of deproletarianization and of preserving non-proletarian forms of life considered, the functions of small property and of the necessities *de lege ferenda*

appraised, researches made into the place of peasant agriculture under modern conditions and the technological possibilities of industrial decentralization (made easier by the electric motor and the internal combustion engine)—these and other suggestions may indicate the direction of this line of research.

The foregoing problem is closely connected with the formidable one of *economic stability*. Here, the recent advances in purely economic analysis have done much towards a better understanding of the mechanics of economic oscillations. But, here again, refinement in detail has been bought at the price of blindness towards the extra-economic contexts, which constitute the problem of *reality*. The economic crises of to-day in their severity, in their tendency toward recurrence and in their tenacity, cannot ultimately be understood except as the manifestation of a world which has been proletarianized and largely deprived of its regulatory forces and the appropriate psychological atmosphere of security, continuity, confidence and balanced judgment. Any attempt at neutralizing these deep-set structural disturbances by monetary tricks and public works will only end in disaster or, to be more specific, in the totalitarian state, where every policy, which seeks to give coherence to society without giving it inherent and spontaneous stability, must inevitably end. Worse still: the increasing boldness, not to say cynicism, in prescribing remedies only for the market process itself, is apt to increase the forces of spiritual dissolution. If it is agreed that a lack of private and spontaneous investments forms the root of a depression, it has to be emphasized that investing is the one economic activity which, as anticipating the uncertain future, is most dependent on a minimum of security, on continuity and on the undisputed rule of certain norms and principles in the behaviour of men and in the policy and jurisdiction of governments. This, then, is the very heart of the problem, but it would be difficult to find any reference to it in the whole literature on crises and cycles, saving and investment, the "marginal propensity to consume," &c.

It is easy to understand, therefore, why anybody looking beyond these technical discussions must feel very intensely the narrow range of the present scientific activity in this field and hence its disquieting degree of unreality. In spite of all the stupendous intelligence which has gone to the making of this literature, we are simply drifting along to unknown dangers.

But this is by no means all. It seems that every formula of business cycle policy has been tried out by now: the German, the English, the American or the Swedish method (if the latter was

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any method at all and not sheer luck). The paradise of economic stability, however, has not come into sight, only the more or less serious limitations of each and every method. Barring the extreme cases of ill-guided business cycle policy, there are many useful elements in most of these methods; but it seems certain that, with the world as it is, the phenomenon of crises leaves an irreducible remainder; and it is just this remainder which represents an essential, if not the most important part of the problem. What is to be done with this remainder?

The smooth riding of a car depends on two things: on the evenness of the road and on the quality of the springs. If there is no prospect of having a perfectly smooth road, then we must look for better springs. Now, in the matter of economic stability, the prospects of achieving a fairly smooth road are worse than ever. In fact, there is a good chance of its becoming even bumpier than before. If that is to happen, the economic and social system itself must be made more bump-proof, i.e. more capable of absorbing shocks. What this means may be deduced from the example of Switzerland, which, owing to its social structure (peasant agriculture, strong family ties, anchorage of labourers in small property, prevalence of small-size business units, &c.), has shown amazing strength in enduring the series of economic and political shocks of the last twenty years. A country of uprooted and proletarianized nomads soon reaches breaking point in a long period of depression, while a country with a more wholesome social structure possesses large reserves of adaptability and resilience. Where the organic structure of society is better, so too is the economic structure.

But let us consider the more general problem of the degeneration of competitive capitalism occasioned by the growth of *monopoly* and *interventionism*. Though it is impossible to give an adequate idea here of the research which has still to be made in this field, the fact should be stressed that this development is largely the result of the disintegration of the state and of the exploitation of weak governments by sectional interests and pressure groups, for it has now become obvious that the working of competition presupposes a strong state which will with severity and impartiality provide the necessary legal and institutional framework of the competitive market. It is difficult to see how the present situation can be altered without changing both society and state themselves; and this cannot be done without first analysing the causes of the present weakness—a task which again brings the fundamental problem of the structure of society to the fore.

What is the right way to integrate society on the basis of those

fundamental forces of social coherence without which it crumbles into atomistic masses, interest groups and irresponsible parties, until it becomes an easy prey of dictatorships? That is the crucial problem upon the solution of which everything else hinges. In this respect, it should be noted that traditional liberalism not only committed the error of ignoring the legal and institutional conditions of competition, but also of overlooking its sociologically negative effects. The automatic self-regulation of the competitive system with its unconscious tendency toward equilibrium is a fact which cannot be disputed and the discovery of which signifies an immense achievement of classical economics. That this order is invisible and not brought about by a conscious effort of individuals, is one of the reasons for the tremendous advantages it has over any other economic system as far as the production of material wealth is concerned. But at the same time it must be stressed that, much as competition is economically a highly satisfactory and even indispensable arrangement, it does not breed social integration. It is no principle on which society as a whole can safely be based. It supposes that there is enough integration elsewhere outside of the competitive market to keep society in general and competition in particular from collapsing, which is more or less what we are witnessing to-day.

Traditional liberalism, for a number of comprehensible reasons, has been totally blind to these problems; but the future of liberalism—in its widest sense of anti-totalitarianism—depends on our ability to realize them and to act accordingly. Otherwise the advance of totalitarianism, autarky, collectivism and the rest will not be arrested. The combination of a working competition not only with the corresponding legal and institutional framework, but also with a reintegrated society of freely co-operating and *vitaly satisfied* men, is the only alternative to *laissez-faire* and totalitarianism which we have to offer. Working out this alternative in all its details and ramifications is a formidable task in which studies of the spiritual forces (religion, rationalism, ideologies, &c.) should play a prominent part if it is to yield real results.

The foregoing examples may suffice, for the moment, to indicate the general direction in which the necessary reorientation of social science is to be sought. It is because we are still far from having grasped the real nature of the problem of present-day reality that the situation in this science, which is responsible for the world of to-morrow, is so lamentably unsatisfactory. It has, indeed, become to some extent almost a fact-recording machine or an intellectual amusement park. “The progressiveness in detail only adds to

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the danger produced by the feebleness of co-ordination" (A. N. Whitehead). What is to be done about it?

Without in any way belittling the value of traditional activities which, in their proper context, are of great service, there is no doubt that what we need now is the broad and intelligent synthesis which sees society as the whole it really is. Specialization in social sciences, after having rendered immense services, has now become dangerous. It belonged to that stage of the development of modern society in which the sound constitution of the whole body could be safely assumed, so that treatment could be confined to specific parts. Everybody could peacefully work on his own field and cultivate it with infinite care. But now mankind is again on the move to unknown destinations. Under these circumstances, a co-ordination of the different branches of the social sciences is called for: synthesis instead of analysis. This seems to suggest the idea of "scientific co-operation" in which different scholars work out some means of linking up their researches. It would, however, be unfortunate if we had to start in this way. What we need first is the co-ordination within those single minds that have the intellectual courage and power to accomplish it. All fruitful ideas have to be born and developed in individual research work, before any ambitious plans of organized research are set in motion. Otherwise, we shall again be lost in scattered and hastily co-ordinated detail studies lacking any central ideas behind them. The importance of the proper milieu of work and existence has first to be stressed for science itself. The private study, where the scholar can work without being distracted by institutional machinery and without being regimented and pressed for quick results, was ever and will remain the proper birthplace of everything that is of any lasting scientific value.

Fruitful co-operation between a number of researchers is evidently possible only upon the condition that the work is subordinated to a common range of problems. This common range, therefore, must exist as a basis of co-operation before co-operation itself can usefully start. Consequently, the task of working out such a *new range* of problems cannot be a matter of co-operation—that would be a vicious circle in logic—but only a matter of individual research on the part of single scholars. Now, in the social sciences we have to-day reached the point where a new range of problems, aspects and scientific philosophies has to be worked out. It is only after this has been done that the organized co-operation of a number of scholars will become possible and necessary. So we have to do with two phases in scientific history which, in due

INTRODUCTION

the danger produced by the feebleness of co-ordination" (A. N. Whitehead). What is to be done about it?

Without in any way belittling the value of traditional activities which, in their proper context, are of great service, there is no doubt that what we need now is the broad and intelligent synthesis which sees society as the whole it really is. Specialization in social sciences, after having rendered immense services, has now become dangerous. It belonged to that stage of the development of modern society in which the sound constitution of the whole body could be safely assumed, so that treatment could be confined to specific parts. Everybody could peacefully work on his own field and cultivate it with infinite care. But now mankind is again on the move to unknown destinations. Under these circumstances, a co-ordination of the different branches of the social sciences is called for: synthesis instead of analysis. This seems to suggest the idea of "scientific co-operation" in which different scholars work out some means of linking up their researches. It would, however, be unfortunate if we had to start in this way. What we need first is the co-ordination within those single minds that have the intellectual courage and power to accomplish it. All fruitful ideas have to be born and developed in individual research work, before any ambitious plans of organized research are set in motion. Otherwise, we shall again be lost in scattered and hastily co-ordinated detail studies lacking any central ideas behind them. The importance of the proper milieu of work and existence has first to be stressed for science itself. The private study, where the scholar can work without being distracted by institutional machinery and without being regimented and pressed for quick results, was ever and will remain the proper birthplace of everything that is of any lasting scientific value.

Fruitful co-operation between a number of researchers is evidently possible only upon the condition that the work is subordinated to a common range of problems. This common range, therefore, must exist as a basis of co-operation before co-operation itself can usefully start. Consequently, the task of working out such a *new range* of problems cannot be a matter of co-operation—that would be a vicious circle in logic—but only a matter of individual research on the part of single scholars. Now, in the social sciences we have to-day reached the point where a new range of problems, aspects and scientific philosophies has to be worked out. It is only after this has been done that the organized co-operation of a number of scholars will become possible and necessary. So we have to do with two phases in scientific history which, in due

course, are always bound to follow one another, and it would surely be a fatal error in methodology to deal with one of these according to rules which have proved useful only for the other.

PART I

THE MEANING OF INTERNATIONAL ECONOMIC
DISINTEGRATION



CHAPTER I

HISTORICAL ORIENTATION

THAT, for whatever reasons, something very serious is happening to international economic relations, which amounts to a *quantitative shrinkage* and to a *pathological qualitative change*, is the undisputed fact which has given rise to the present investigation. To define more exactly what this "something" really is presents a major problem and one which makes us pause. The best thing is to take a long-range view and try to understand the present situation more thoroughly by incorporating it in the chain of history. Our first endeavour must be to study the preceding phase of expanding world economy from which the present one seems to be a reaction, and our second to make the most of the fact that this sequence of economic integration and disintegration has been preceded by earlier examples the analysis of which may contribute to a better understanding and a more satisfactory interpretation of the present development.

Along with the general development of our modern economic system, the *nineteenth century* saw a gradual and almost uninterrupted process of growing international economic expansion and integration, whose essential features are so well known that it seems unnecessary to dwell on them. Its most impressive side is the enormous quantitative increase in the volume and value of world trade resulting (a) from the intensification of economic relations between the old-established trading nations and (b) from the extension of "capitalism" to new areas of the globe, which has made the growth of world economy both an intensive and an extensive process.¹

That the development of world economy has been, first of all, a process of *intensification* is as important as it is evident. It can be deduced from the fact that the most highly developed countries showed the greatest percentage of world trade, which, in view of

¹ There exist many statistics illustrating the growth of world economy, but it seems rather pointless to reproduce them here since, far into the nineteenth century, they are very unreliable and the undisputed fact of growth is sufficient for all our purposes. The order of magnitude may best be indicated by the fact that the value of world trade has roughly trebled during the thirty-two years from 1881 to 1913. Cf. as the most reliable source: Soltau, "Statistische Untersuchungen über die Entwicklung und die Konjunkturschwankungen des Aussenhandels," *Vierteljahrshefte zur Konjunkturforschung*, Supplement 2, 1926.

the reciprocal nature of trade, proves that the bulk of world trade must have belonged to economic interchange within the high-capitalistic sphere itself. This deduction is corroborated by a number of calculations of the relative intensity of this "intra-industrial" economic interchange. One of these calculations, made by the Kiel Institut für Weltwirtschaft und Seeverkehr,² shows that the commodity trade between the industrial countries of Europe (Belgium, Germany, France, Great Britain and Ireland, Italy, Austria and Switzerland) amounted in 1913 to 30.2 milliard RM (= \$7.2 milliard), which was equal to about one-third of the total reciprocal trade between all industrial and agricultural countries of the world. The same story is told by the calculation that out of average total exports of industrial Europe (comprising the same countries) during the years 1909-1913 slightly more than one half (51%) constituted an exchange of goods among these countries themselves.³ It is also a well-known fact that such leading countries as England and Germany were practically each other's best customers. In 1913, for example, exports from the United Kingdom to Germany formed 7.74% of the total export trade of the former (higher than the percentage of any other country except British India), while imports from Germany into the United Kingdom as a percentage of the total import trade (11.56%) were surpassed only by those from the United States.⁴ Another very interesting illustration of the same tendency is to be found in the development of reciprocal trade between the two leading industrial countries outside of Europe, i.e. the United States and Japan.⁵

At the same time, the development of world economy has been a process of continuous *extensification* in the sense of a spatial extension of the universal economic system over the non-capitalistic areas of the world. On this point there is even less need of a statistical or historical description. If, however, we try to interpret this side of international economic integration, we are faced with very momentous problems which cannot be solved in passing, i.e., those connected with "*economic imperialism*."

There is no denying the fact that world economy and capitalism have been to a large extent forced upon the "new" countries by political pressure and in some cases—as in the opening-up of China

² *Der deutsche Aussenhandel unter der Einwirkung weltwirtschaftlicher Strukturwandlungen (Enquete-Ausschuss)*, Berlin, 1932, vol. 2, pp. 358-361.

³ H. Liepmann, *Tariff Levels and the Economic Unity of Europe*, London, 1938, p. 112.

⁴ *Survey of Overseas Markets* (Balfour-Committee), London, 1925, pp. 658-661.

⁵ See *Der deutsche Aussenhandel unter der Einwirkung weltwirtschaftlicher Strukturwandlungen*, l.c., pp. 362-363.

—by undisguised war. The problems thus presented are, at the present moment, far from a universally accepted solution;⁶ but it seems clear that no satisfactory study of international economic integration and disintegration could evade them.⁷ This holds especially true for one of the many aspects of the problem of economic imperialism—the difficult question of whether and how far extensification and intensification of world economy were, and perhaps still are, correlated to each other. In other words, was it not just the spatial expansion of capitalism which kept the whole mechanism of dynamic development going, by providing more and more new markets for the surplus production which constantly increased as productive technique improved, by giving the necessary stimulus to entrepreneurial initiative and speculative optimism and by allowing the “play” essential for any working mechanism? Allowance must also be made for the possibility that the existence of an economic “frontier” in world economy may have been instrumental in providing that psychological atmosphere essential for the breadth of outlook, which is the basis of a liberal commercial policy. This refers not only to the exploitation of new markets, but also to the opening of overseas territories to human settlement. Thus the vast problem of international migrations would also have to be studied in this context.

Full treatment of this set of problems must wait till a later occasion. At this juncture let it suffice to emphasize that this is not only important for a full appraisal of the past development, but even more so for a diagnosis of the present situation of world economy and for a prognosis of its future. It is obvious that it would make a tremendous difference if it were really true that spatial expansion (for both goods and men) has been one of the indispensable and irreplaceable springs behind the development of a highly integrated world economy up to 1914. Here, then, is another of those strategic factors we are looking for, though it seems probable, even at the present stage of enquiry, that the result would be a refutation rather than a corroboration of popular views. But, since here as elsewhere popular views are a very important element in shaping actual policies, a convincing refutation amounts in itself to a constructive action. It may be added that, if there is a grain of truth in this theory, the “saving-investment” approach

⁶ The vast literature on this subject has recently been enriched by M. J. Bonn, *The Crumbling of Empire, The Disintegration of World Economy*, London, 1938; and by Lionel Robbins, *The Economic Causes of War*, London, 1939.

⁷ See my own approaches to these problems given in the article: “Kapitalismus und Imperialismus,” *Zeitschrift für schweizerische Statistik und Volkswirtschaft*, 1934, pp. 370-386; and in my book *Crises and Cycles*, pp. 4-6.

made familiar by recent developments in business cycle theory will probably indicate the most promising direction of analysis.⁸ The problem, therefore, will be encountered again in that part of this investigation reserved for the relationship between economic stabilization and economic nationalism.

There is another, though more unusual, sense in which the development of world economy can be conceived as a process of extensification. Spatial extension of capitalism means, in the last resort, not the incorporation of additional square miles, but of additional men living and working on them. The same effect, however, can be achieved by *population increase within* the orbit of the old trading area; and this is, of course, what happened during the nineteenth and early twentieth century on an unprecedented scale. Spatial (horizontal) extension, then, finds its counterpart in demographic (vertical) extension; and the analysis of both can be largely, though not entirely, conducted on similar lines.⁹ Considering the present slackening in the rate of increase of the population of the Western World and the probability that the time is soon coming when this will remain constant, no proof is needed of the importance of an elucidation of this problem for a diagnosis and prognosis of present developments in international capitalism.

A description of the quantitative development of world economy—both in its extensive and intensive sense—is to be followed by the much more difficult task of analysing the *qualitative structure of pre-war world economy*. The most general remark this calls forth is that this structure of pre-war world economy, now that it is disintegrating, appears as something much more complex and conditioned than was formerly supposed. This leads us to a vast field of research which even now has scarcely been touched, and which forms part of the great task of correcting earlier simplified views about the structure and conditions of the competitive market system in general. From this standpoint, of which more will be said on a later occasion, the main points may be summarized as follows:

World economy was an interdependent and intercommunicating system, which means that there was a very close (horizontal and vertical) correlation of national markets, which made the world market *virtually* a unit. Making allowance for all obviously necessary qualifications, it is possible to say that the essential condition

⁸ Cf. Röpke, *Crises and Cycles*, London, 1936, p. 88n.

⁹ In anticipation of a probable objection, it may be noted that if the development caused by population increase is put under the heading "extensification," the "intensification" referred to previously (pp. 11-12) appears inexact. In order to get "net intensification" that part would have to be deducted which is due to "vertical extensification," an operation which is impossible.

of economic integration, viz., unhampered "arbitrage" (buying in the cheapest and selling in the dearest market), was practically fulfilled, at least to such an extent that the difference between regional and international interchange was only gradual. Customs duties, like transportation costs, were merely data in the otherwise free transactions which connected the national markets to "world markets" and reduced national price disparities to a minimum. This achievement was due to a number of conditions which were also essential features of the pre-war structure of world economy, including especially that mentioned below.

World economy as an intercommunicating system was also a multilateral system, and this in a double sense which is not always duly recognized: (1) in the sense that a large part of the world's commodity trade was *actually* carried on in a multilateral way; and (2) in the sense that almost the total world trade was *virtually* multilateral. The latter was at least just as important as the former, since the ever-present latent possibility to change from bilateral to multilateral interchange completed the intercommunicating character of world trade; but, whereas the actual multilateralism can be calculated statistically,¹ the virtual, of course, can not. For this reason the multilateral character of world trade in the combined sense of actual and virtual multilateralism escapes quantitative measurement. All we can say is that it was multilateralism which made world trade possible as an intercommunicating system. It was multilateralism that enabled the industrial countries to procure by roundabout exports via third, fourth and more countries their raw materials and foodstuffs without any difficulties giving rise to a "problem of raw materials," and at uniform world prices. And it was again multilateralism which enabled the countries producing raw materials to sell their products on a uniform world market, to pay interest and amortization on their foreign debts, and to keep up the value of their currencies without chronic difficulties.² It is against this background that a picture of the actual scheme of international division of labour and of the complicated network of international trade relations of that period should be traced, with due emphasis on the basic differentiation between industrial and agricultural countries. At the same time, it should not be forgotten that this multilateral system found support in a number of essential conditions, of which

¹ F. Hilgerdt (*The Approach to Bilateralism—A Change in the Structure of World Trade*, Index, August, 1935) gives about 20% as normal.

² A somewhat fuller description may be found in the *Review of World Trade*, 1934, League of Nations, Geneva, 1935, pp. 69-70.

the existence of an international monetary system (gold standard), the prevalence of equalizing clauses in commercial treaties (most-favoured-nation treatment, open-door policy, and in some cases national treatment), bearable duties, smoothness of the international credit machinery and a reasonable co-ordination of the movements of goods and capital were the outstanding ones.

World economy was, by dint of the prevailing gold standard, virtually a payment community. On the basis of parities fixed within the narrow margin of the gold points and because of the well-known arrangements preserving those parities, the coexistence of different currency systems was neutralized in its effect on trading operations, so that changes in the exchange value of money did not enter as a new element into trade transactions; nor, since there was confidence that those changes would not occur under normal circumstances and that every responsible country would play the game of the gold standard, did even the expectation of possible changes in the exchange value of money, at least not in those countries which formed the bulk of world economy. In monetary security world economy was, for all practical purposes, equal to the national economy; the gold standard was a working fiction of a real "world money." Now that this system has completely gone to pieces, we have again become aware that what is gone depended on more conditions than it was thought to do when it was functioning smoothly. The working of the gold standard was, indeed, both condition and effect of the whole economic system of that time and embedded, together with it, in the same set of political, legal and moral conditions—a point which will be dealt with separately later on. It has become evident that the so-called automatic character of the gold standard had to be kept up by a constant will to preserve the conditions on which it depended and by a good deal of conscious management and control. It needed, moreover, the lubricant of short-term capital movements and the guiding hand of London as the leading financial centre of the world.

World economy, with the free trade area of Great Britain as its nucleus, was untrammelled by prohibitive import duties. Protectionism had been on the increase ever since the 'seventies and was becoming a more and more serious problem, and this increase was sowing the seed of disintegration. It cannot be denied, however, that up to 1914 state interference with foreign trade was kept within limits, which made it compatible with the working of the world economy as a highly integrated and intercommunicating system. Assimilable duties, most-favoured-nation treatment and the relative stabilization of commercial policy by

long-term commercial treaties combined to bring this about. In this respect one must not be misled by the bitterness with which the struggle about protectionism was fought before the Great War. The issue was serious enough to justify some of this fierceness, but in the light of present experiences it must be admitted that pre-war protectionism usually remained within the sphere of "conformable" interventions,³ so that the impression is justified that both liberals and protectionists had overrated the importance of the height of duties as such.⁴ It is a notable fact that world trade expanded by leaps and bounds just during the last period of pre-war capitalism, when protectionism was practically everywhere in the ascendancy. This proves that, up to 1914, in the race between the restrictive influence of protectionism and the expansive forces of world trade, the latter had kept the upper hand, and that if it was the aim of protectionism to hinder the growth of international economic integration it failed more flagrantly than liberalism in its opposite aim. Here is a problem which, in any case, deserves close and special study.

World economy was not only a process of relatively free interchange of commodities, but also of large international movements of the mobile productive agents, capital and labour. The fact that the monetary risk of long-term investments was reduced to a minimum by the gold standard, the small degree of governmental control of the capital markets, and above all by the political and moral integration of the world which gave it peace, contractual loyalty and security, made large-scale international investments a common and important feature of the pre-war world economy. The international mobility of capital was equalled by that of labour, whose movement was practically unhampered by migration restrictions and which made use of this opportunity on an unprecedented scale. This intensive international flow of capital and labour was an essential part of the integrated world system which, also in this respect, became more and more equal to the integrated system of national economies by reducing comparative cost disadvantages and by going a long way toward levelling average unit returns on capital and labour. At the same time, it was one of the main

³ On the distinction between "conformable" and "non-conformable" interventions, see W. Röpke, *Crises and Cycles*, I.c., p. 195. The distinction has been used expressly with regard to protectionism by L. Einaudi, "Delle origini economiche della grande guerra, della crisi e delle diverse specie di piani," *Rivista de Storia Economica*, 1937, No. 3.

⁴ The ominous significance of pre-war protectionism is much more to be sought in its distorting influence on the economic and socio-political structure in general, especially on the growth of monopolies. For the very instructive example of Germany, see W. Röpke, *German Commercial Policy*, London, 1934.

driving forces behind the development of world economy, especially with regard to its growing extensification. The co-ordination between the flow of goods and of capital, the working of the gold standard with its prerequisites and the smooth functioning of the international credit machinery enabled the problem of the transfer of capital to be solved "without tears." International movements of capital generally did not degenerate into spasmodic jerks of vagabond short-term holdings. On the other hand, it was an essential corollary of the large international movements of capital that the great capital markets were in close communication with each other.

Though this enumeration of the most important characteristics is perhaps not complete, such a sketch of the qualitative structure of pre-war world economy seems sufficient for the present purpose. At several points this has already become more a *description of the main driving forces* behind the development of the last century, but to describe this fully is a task which, in the present stage of the enquiry, it would be better to leave for special treatment later on, when contemporary sociological researches will have given us a profounder insight into the historical significance of the expanding period of capitalism—roughly speaking, from 1815 to 1914.

A comparison of the present critical stage of world economy with the preceding period of expanding capitalism is not the only task necessary for the historical orientation of the present. The next step would be to study earlier periods of contraction and disintegration and to find out to what extent they resemble the present period.

In this respect it is of considerable interest to note, first, that even the period of expanding world economy has by no means been a continuous and uninterrupted development toward greater and greater integration and expansion. On the contrary, there have been periods of hesitation and even recession in the development of world trade which, for all their relative insignificance compared with major crises like the present, should not be overlooked. Of greatest interest in this respect is the long wave of depression reaching roughly from 1875 until 1895 during which the value of world trade remained practically stagnant with a slight increase in physical volume, in spite of the fact that some of the most important dynamic factors—especially the increase of population and technological progress—retained all their force. At the same time, it was the period of the steep retrogression in commercial policy from the preceding era of liberalism in Western Europe toward increasing protectionism, and it is no accident that it was

also the period to which modern historians date the beginning of the "Age of Imperialism" (Friedjung). Nor is it insignificant that it was marked by a more than average degree of internal and external political tension, which perhaps reached its climax toward the end of the 'eighties. Moreover, it also resembled the present period of disintegration in that it followed upon a cyclical crisis of an unusually severe character, that of 1873. World economy had to undergo a painful process of adaptation to meet deep structural changes in world production, of which the development of low-cost production of cereals on the virgin soils of America was the most notable. In view of these striking resemblances, it is not difficult to understand that at the beginning of the present period of world economic disintegration it was widely held that these two periods, as long-run recessions of world trade, were of the same order of magnitude and belonged to the same class. This opinion found support in the fact that during the years 1930 and 1931 the decline in the quantum of world trade was less than that in the quantum of the world's industrial production and in 1931 less than both the decline in the quantum of industrial and of raw material production.⁵

However, the more the Great Depression proceeded, the less possible it became to defend this relatively optimistic opinion against the suspicion that this decline of world economy had gone further than its rather harmless predecessor of the end of the last century, both in dimensions and in essential nature. Like its forerunner it was more than a mere cyclical set-back, but, unlike it, it appears to have been more than one of those "long waves of depression" which, according to the recent findings of business cycle research, seem to characterize the growth of capitalism. It is in fact the first case of an absolute and striking decrease in the value and quantum of world trade to occur in one hundred years of capitalistic expansion. For the first time world trade has declined over a number of years more than average national production, and afterwards recovered less than it did. Unlike any earlier period during the last hundred years, this is the first real disintegration of the structure of world economy in the qualitative sense which has already been indicated and which will become still clearer in a later chapter. For the present, it will be sufficient to mention that the long period of world depression between 1875-95 in no way affected the financial mechanism of world economy, its multilateral character or the relative continuity of the channels of

⁵ *World Economic Survey*, 1933-34, League of Nations, Geneva, 1934, p. 45.

world trade resting on a network of long-term commercial treaties. All this agrees with the structural changes working behind the present set-back being much more fundamental and far reaching than anything which has occurred previously, notwithstanding the resemblance between the agricultural depressions of the 'eighties and of the present period and the rather similar effect they both have had on the development of the total world depression. So the plot thickens, and the evidence becomes stronger and stronger that something unique has occurred, which can no longer be measured by the experiences of the economic history of capitalism.

If that is the case, it will give a new significance to the study of earlier periods in economic history. If it should be true that the rifts go down to the very foundation of the economic and social system itself, we would do well to look for *earlier parallels of simultaneous major periods of economic disintegration* and of disintegration of the entire social system. It will be found that there are *three outstanding examples* of this, a fact which is somewhat alarming, but nevertheless highly instructive for true assessment of the criteria to be applied to the present tendencies of disintegration. The first case was that of the crumbling of the economic system of the Roman Empire, a system which, in terms of that time, deserves the name of "world economy" in more than one sense. The second instance, one less familiar and much less studied, was that of the Arabic Empire and its economic and political disintegration, while the third appeared at the end of the medieval "world economy." Very unfortunately, the literature dealing with this special aspect of those periods is meagre and lacks the right perspective, while on many points scholarly research has scarcely begun. Under these circumstances, such research would be a conspicuous case of fruitful co-operation between economics and history.

As far as the disintegration of the economic and social system of the ancient world is concerned, much material for preliminary orientation will be found in M. Rostovtzeff's monumental *Social and Economic History of the Roman Empire*,⁶ while new aspects may be expected from research work which is in progress at the present moment. It seems, however, that it is in the history of

⁶ It is difficult to escape the temptation to quote, even at this early stage of the enquiry, this disquieting sentence with which Rostovtzeff closes his book: "The ultimate problem remains like a ghost, ever present and unalaid; is it possible to extend a higher civilization to the lower classes without debasing its standard and diluting its quality to the vanishing point? Is not every civilization bound to decay as soon as it begins to penetrate the masses?" See also the suggestive passages in Chr. Dawson's *Progress and Religion*, chap. ix.

the rise and decline of the world-wide economic system of the Arabic Empire that our present knowledge most requires to be carried beyond certain generalities.⁷ In the case of the "world economy" of the medieval time, we are much more fortunate, since the problem has recently been successfully attacked by a number of modern historians, though here, too, the last word has still to be said. These historians (Pirenne, Rörig, Espinas, Kuske, Strieder and others) have made it progressively clearer that the older views about the more or less idyllic backwardness of medieval economy, and the continuous economic integration from the "regional economy" of the Middle Ages through the "national economy" of the mercantilist period to the "world economy" of capitalism, are very badly in need of thorough revision.

Though what seems to have been the real situation is certainly too complicated to be described by a simple formula, there is overwhelming evidence to show that toward the end of the Middle Ages, i.e. roughly from 1300 to 1500, there was a highly developed economic system of an international character, in which the urban centres of commercial activity in Europe intercommunicated with each other on a quantitative scale and with a commercial technique which, relative to the general stage of the economic and technological development of that time, were altogether remarkable.⁸ From the material available there is every reason to assume that, in contrast to previous views, this economic system of the "High Middle Ages" was certainly not based on the idea of autarky, at least not in that category of goods where technical reasons made long-distance trade at all possible. Nor is there any lack of proof that the people of that time seem to have been conscious of what they called "*communis omnium nationum mercancia*,"⁹ the true equivalent of the "world economy" of modern terminology, and of its interdependent character.

As in other periods, this international economic system was only made possible by a corresponding political, legal and moral system which gave it the necessary security and continuity, despite the fact that respect for unwritten laws and moral codes had largely

⁷ To the best of the author's knowledge, the first comprehensive treatment of the problem is to be found in a doctoral thesis by A. Lieber accepted by the University of Amsterdam.

⁸ A succinct and well-reasoned account is to be found in F. Rörig's *Mittelalterliche Weltwirtschaft, Blüte und Ende einer Weltwirtschaftsperiode*, Jena, 1933, while for a fuller treatment H. Pirenne's book on *Economic and Social History of Medieval Europe*, New York, 1937, should be consulted.

⁹ So in a letter from the Florentine merchants in Bruges to the Hansa in 1457 (quoted from Rörig).

to take the place of written laws and treaties.¹ Now, the most significant fact is that this international economic system broke down (between 1500 and 1600) contemporaneously with the disintegration of the international political system brought about by the formation of centrally organized national states and the growth of isolationist economic policy (mercantilism). In spite of the discovery of overseas territories, there set in a process of contraction of the economically integrated space down to the area of the new "national economies" in which the forces were slowly accumulating for the rapid development of the later world economy of the capitalist age. The inscription over the Antwerp Stock Exchange, *In usum negotiatorum cujusque nationis ac linguae*, which had been put there in 1531, was not effaced, but it reflected the spirit of an age gone by.

This is, *grosso modo*, the picture which has been made fairly clear in general outline by the recent studies of economic history. All the details and modifications have been left out, since no more than a mere comprehension of the general significance of this period is needed. It is only in collaboration with the specialists in this field that we can penetrate deeper into this phenomenon, by determining more fully not only the parallel features, but also the great number of differences between it and the present age.

¹ Cf. R. F. Wright, *Medieval Internationalism: the Contribution of the Medieval Church to International Law and Peace*, 1930; R. Wallach, *Das abendländische Gemeinschaftsbewusstsein im Mittelalter*, 1930; I. Hashagen, "Internationalismus und Nationalismus im Mittelalter," *Friedenswarte*, 1938, No. 1.

CHAPTER II

THE QUANTITATIVE ASPECT OF INTERNATIONAL ECONOMIC DISINTEGRATION

To give a fairly correct picture of the quantitative development of world economy, even of that part of it which consists in the exchange of commodities, is a task presenting a great number of difficulties which are partly due to the lack of reliable statistical data and partly to inherent methodological problems. These difficulties become still greater if we attempt to assess the relative importance of world trade at different stages by comparing it with the development of national magnitudes of value, especially as expressed in the figures of total production, income or turn-over. For these reasons all calculations of this kind should be judged with the greatest caution, and the best possible result one could expect to obtain would be a fairly correct idea of the order of magnitudes involved.

The continuous upward trend of world trade before the Great War is as well known as it is undisputed, so that no statistical tabulation seems necessary. Even for that peaceful and normal period, however, the measurement of the development of the *relative* importance of world trade presents so many problems and difficulties that it was not only possible for a fiery dispute about the movement of the so-called "export-quota" to arise, but to remain unsettled almost to the present day. Was the importance of foreign trade in comparison with internal production parallel to the absolute rise, was it increasing or, in spite of the absolute increase, decreasing? The question appears so simple, that one would think it could be settled definitely by irrefutable figures, yet closer analysis reveals its great complexity. As is always the case, the interaction of trend, long waves and cyclical movements is very disturbing; it has to be decided whether a quantum or a value index is to be used, and other problems crop up.¹ On the average, however, the evidence seems to support the theory of increasing export quotas before the war, rather than the opposite view. On the whole, we shall be justified in assuming that up to the Great War world trade, as far as it

¹ Cf. the careful analysis by R. Wagenführ, *Die Bedeutung des Aussenmarktes für die deutsche Industriegewirtschaft*, Sonderhefte des Instituts für Konjunkturforschung, No. 41, 1936.

can be measured quantitatively, was increasing not only in absolute figures, but also in relative importance.

In tracing now the post-war development, let us start from the base of the development of world trade in absolute figures. The following table gives an approximate idea of what happened :

*Volume of World Trade*²

1900	-	-	-	62	1929	-	-	-	130
1913	-	-	-	100	1934	-	-	-	86

Without considering the moot question as to whether the development from 1913 to the critical point in 1929 does not, in spite of the further increase, already show some sign of flagging in the rate of increase, we shall proceed to a closer examination of the period of dramatic decline after 1929. This decline is so heavy that it is conspicuous whatever the statistical method adopted, but the difficulties begin when we want to know exactly how far the drop went and what headway has been made by the recovery after the worst years of the Great Depression. It is a matter of general knowledge that very different results are obtained according to whether world trade is measured in gold value or in quantum figures, the first giving an appreciably lower fall and slower recovery than the former, while a measurement in sterling prices gives intermediate values which are somewhat nearer to the quantum than to the gold value figures.

Development of World Trade, 1929-37

(Base : 1929=100)

	1930	1931	1932	1933	1934	1935	1936	1937
Gold value	- 81	57.9	39.1	35.2	33.9	34.7	37.5	46
Quantum	- 93	85.5	74.5	75.5	78	82	86	97
Sterling value	- 81	62	54	52	55	58	61.8	—

Source : League of Nation's *Review of World Trade and World Economic Survey*.

In view of the wide divergence between the measurements in gold value, quantum and sterling value, there arises the question as to which measurement gives the truest picture of the extent of the decline and of the subsequent recovery of world trade. It is difficult

² Source : *Statistisches Jahrbuch für das Deutsche Reich*, 1935, p. 118.* The volume of world trade has been calculated by dividing the actual value figures by a combined price index, so as to eliminate the price changes. Since 1930 this method has been changed by the Statistisches Reichsamt, but the figure given above for 1934 is that calculated after the old method. The difference between the figures obtained by the old and those obtained by the new method is considerable, a fact which proves again the limited usefulness of those indices. They give an idea of the general direction of a movement, but must be used with great caution as far as the actual degree of the movement is concerned, especially over longer periods.

to make a definite decision, since every figure has its special significance which has to be borne in mind. It is evident, however, that every measurement of the decline and recovery of world trade during the last years would give a distorted picture, if that part of the shrinkage in gold value which is due to price declines were not eliminated as far as possible; and that is just what quantum measurement tries to do. It is only by adjusting the common denominator of world trade statistics to the price changes since 1929 that we can keep the development of world trade, together with the national magnitudes of value, within the same system of co-ordinates and make it comparable with the situation in the base year.³ There seems to be little doubt then, that, for the present purpose of finding in world trade statistics an expression of the contraction of world economy, quantum figures are generally to be preferred, despite their highly problematical nature due to the element of arbitrariness in calculating them. Consequently, the picture given by gold value figures appears much too spectacular, though the degree of decline suggested by quantum figures is impressive enough. On the other hand, however, it must not be forgotten that the elimination of price changes from the values of goods entering international trade is far from satisfactory in every respect, not only because of the doubtful statistical procedures involved, but especially for the reason that the *heavy decline in prices is itself largely an expression and an effect of international economic contraction*. Due consideration of this complication, however, may be postponed to the next section, where the functional aspects of international economic disintegration will be examined.

After having considered the movement of world trade in absolute figures, the next step would be to find some measure of the decline relative to the development of national economic activity as expressed especially by production figures. The general trend may be roughly illustrated by the accompanying diagram showing the development of world trade and world production. As will be seen from this, the relative development of world trade since the outbreak of the Great Depression is marked by a rather strong power of resistance during the early years of the depression compared with the development of production, while later on, during the years of recovery after 1933, world trade definitely lagged behind world production. In this respect, however, the difference between food-stuffs, raw materials and manufactured goods should be noted.

³ Cf. A. M. Fox, "Quantitative and Qualitative Changes in International Trade During the Depression," *American Economic Review*, vol. xxvii, No. 1, Supplement, March, 1937, pp. 13-15.

With *foodstuffs* the contraction of the world trade quantum compared with world production has been uninterrupted and indisputable since the beginning of the depression, the former always remaining appreciably below the pre-depression level, while the latter shows even a slight increase. It seems safe to assume that this is a true reflection both of the natural inelasticity of agricultural production and of the effect of the policy of agricultural protection. In the case of *raw materials* we find that at the depth of the depression production contracted equally with world trade, but that, whereas both started the upward movement parallel to

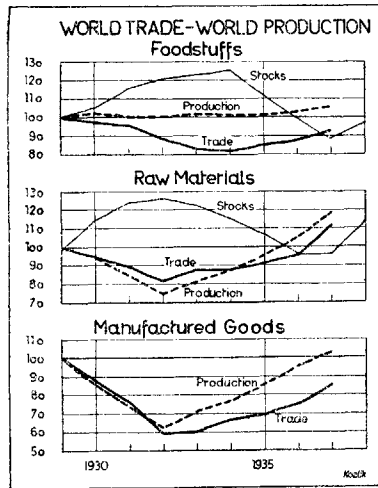


Diagram 1

Source: Statistische Jahrbücher für das Deutsche Reich.

each other, production soon showed a tendency to outrun world trade. An interpretation of this singular movement would have to stress the great elasticity of production in this sector and the function of stocks. With regard to *manufactured goods*, the tendency of world trade to decline more slowly than production during the first years of the depression may reflect not only the greater elasticity of industrial production, especially in monopolized or semi-monopolized industries, and the clearance of stocks, but also the fact that the cyclical decline of production is most marked in the production of capital goods, whose share in world trade is smaller than that in internal trade. The opposite tendency, during recovery, for world industrial production to outrun world trade shows the reverse effect of these factors and, in addition, the consequences of the strictly national policies of business recovery carried through with a good deal of disregard for the development

of international trade and even partly in the shelter of undisguised autarky.

Many other attempts at measuring the relative decline of world trade could be made, though even researches of this kind are subject to the law of diminishing utility and the problems of statistical procedure tend to increase. It would not be difficult, for instance, to calculate time series of per capita quotas of international trade for the most important countries, but the value of the results would seem rather limited, at least for the present purpose of measuring the movement of the relative importance of international trade. The following table showing the changes in export-quotas in a number of countries may also serve to throw some light on the problem :

Changes of Export-Quotas in different Countries

(Base : 1928 = 100)

	1929	1930	1931	1932	1933	1934
France (quantum) - -	92	78	76	75	69	74
Great Britain (quantum) - -	97	87	73	74	72	69
Germany (quantum) - -	114	123	137	113	93	69
Austria (quantum) - -	101	102	100	71	68	69
United States (quantum) - -	102	101	91	77	—	—
Poland (quantum) - -	105	127	152	128	126	118
World total (value) - -	95	91	79	68	55	49

Sources : R. Wagenführ, l.c. and the literature named there. It seems hardly necessary to stress the merely approximate nature of all such calculations.

Bearing in mind that the rise of the export-quota in Germany during the depression up to 1932 reflects the pressure put on her exports by the credit crisis and the fact that these evidently served as an outlet for the stifled home market, the general downward trend is obvious enough. If all these statistical data are amalgamated and the available figures for the contraction in other spheres of world economy added, it is certain to give an impressive confirmation of what everybody knew before : the unprecedented decline of world trade after the break which occurred in the Great Depression.

It is possible, however, that one may still feel that the formidable machinery of economic nationalism built up since that time might have led us to expect a still greater contraction of world trade. Indeed, it is almost amazing how relatively well world economy has stood the terrible strain of sky-high tariffs, quotas, exchange controls, clearing agreements, import monopolies and currency tampering ; and it seems certain that this relative resistance of world economy has a deep significance, revealing both the high adaptability of the trading world and the strength of the inner

forces of world economy. It is very important to stress this point in order to disarm those who, consciously or unconsciously, are helping to prepare the right ideological atmosphere for economic nationalism by spreading the view that the vitality of world economy is giving out. But, at the same time, the actual development of world trade cannot blind us to the extent to which economic nationalism has done its work—in spite of the inner vitality of world economy. Nor is there any reason to regard the recovery which had occurred during the last few years (up to 1938) with anything like definite relief.

First, this recovery was far from being complete and still further from being anything like stable. It is true that the volume of world trade did, in 1937, almost reach the 1929 mark; but, on the other hand, the fact that the gold value of world trade was, even in this year of greatest recovery, still below half of what it was in 1929 must not be ignored, despite the general preference we must give in this respect to the volume figures compared with the value figures. Furthermore, it must be noted that, under normal circumstances, figures surpassing even the 1929 level should be expected, if the former upward trend of the general economic development were to be maintained. How unstable was even such recovery as had been attained, is revealed by the relatively sudden and heavy decline which has occurred since the beginning of 1938.

This brings us to the *second* point: that there is much evidence to support the impression that, in general, world trade has become much more fickle and erratic than before. This point will be dealt with later in more detail. The *third* point is that, even during the last period of recovery, next to nothing has been done to alleviate the formidable pressure of economic nationalism, and until this has been accomplished to at least a noticeable degree, one must view with grave suspicion any temporary recovery in the figures of world trade, let alone those functional disturbances of which more will be said in the following section.

The present machinery of economic nationalism throughout the world, however, is so much tied up with long-run tendencies of general economic and social policy and with structural changes of the widest range, that it is hard to see how any fundamental change in international economic policy can be expected without deep-set structural changes, so that no sensational alteration in the picture seems imminent. As things are at present, there will be a strong tendency for world trade to be driven into temporary outlets, which offer no assurance whatever of putting it on a permanent and stable

level. Such temporary outlets include the trade in war materials, commodities exchanged on pure barter terms and goods that serve no other purpose than to build up autarky in the countries importing them, as in the case of deliveries to Soviet Russia.

This leads us to a *last* but very important point, which can be briefly stated as follows. The last depression, like every other depression, was essentially a period of slackening investments. In some countries, like England or Denmark, the introduction of new protective tariffs or the increase of old ones has been instrumental in helping to turn the tide of the depression by instigating investments, which appeared profitable in the light of the new protection. In many other countries, however, the depression ran its course accompanied throughout by higher and higher protection, which was unable to stimulate the necessary amount of new investments. As long as this was the case, protectionism did restrict international trade, but it did not correspondingly breed new industries under the shelter which it offered. Therefore, when recovery set in, international trade was to expand considerably on account of increased demand, but at the same time the awakening of investment activity, which accompanies recovery, made it inevitable that behind the snug shelter of hyper-protection there should now be growing up the new productive capacities, which are the normal, the most obnoxious and the most durable effect of protection. In other words, the recent recovery of world trade is, to a considerable extent, due to an abnormal "lag" between the immediate effect of protectionism—the restriction of demand for foreign goods—and its secondary effect—the expansion of domestic supply.

This abnormally great lag, in its turn, owes its origin to two facts: the severity of the depression (postponing the expansion of domestic supply) and the retention during recovery of the machinery of protection inherited from the last depression. If this argument is well founded, there is good reason to assume that the world is still far from having reaped all the fruits of economic nationalism and that, because of this lag, much of the recent recovery of world trade can only be temporary. The only way of averting these after-effects would have been to use the breathing-space of the last recovery substantially to diminish protectionism, before it had time to exert its distorting influence on the national structures of production. Besides, this reasoning should help to make it clear that it would be entirely wrong to deduce from the recent recovery of world trade that the new hyper-protectionism, far from having permanent devastating effects, has only redirected world trade. The outcry for a more liberal commercial policy is not based on a sort of false alarm, but entirely justified.

CHAPTER III

THE QUALITATIVE ASPECT OF INTERNATIONAL ECONOMIC DISINTEGRATION (FUNCTIONAL DISTURBANCES)

(a) GENERAL APPRAISAL

THE preceding chapter attempted a quantitative measurement of the extent of international economic disintegration. The resultant picture is disquieting enough, but even this does not tell the whole story. It must be completed by an analysis of the qualitative aspect of international economic disintegration, which essentially escapes quantitative measurement. Such an analysis seems all the more necessary, as the qualitative aspect of world economy is curiously neglected in most treatments of the subject, so much so that it appears to be almost new ground which has to be broken here.¹

Starting from the general problem of the importance of international trade for our economic system as a whole and for a particular country, we realize at once that all measurements of trade volumes and foreign trade quotas for the different countries fail to grasp almost their every qualitative, potential or functional aspect, aspects as elusive as these expressions suggest. It is a very curious fact that those very advocates of economic nationalism, who are generally so ready to claim for the national economy the character of an organism, are trying to minimize the importance of world economy by overlooking its organic functions and reducing it to a mechanical phenomenon of mere numbers. This is, surely, a social philosophy "by double entry," which does more honour to the political zeal of its champions than to their intellectual probity. In point of fact, however, thinking in mere terms of quantitative mechanics instead of "structure" and "functions" is, in the case of the international aspect of economic relations, just as incomplete and misleading as in that of the purely national aspect. Let us make our meaning clearer by becoming more concrete.

If we are being told that, e.g., in the United States the amount of surpluses necessary to export is, in normal times, less than 10% of the total domestic production, the inference is that the importance of foreign trade for that country must be given a corresponding

¹ For an exception in current literature see e.g.: B. Kuske, *Die historischen Grundlagen der Weltwirtschaft*, Jena, 1926, pp. 20-21.

low index, so that the sacrifice of autarky appears equally negligible.² The important point is, however, that this 10% covers functions which are vital even for a country like the United States, to which foreign trade seems to mean less than to any other highly developed country. Thus it has been pointed out by various writers that for many American industries it is just the exported part of their production which forms that marginal quantity which, by making possible the actual extent of mass production, helps to support the whole structure of production and industry. In this way, we understand the full significance of the fact that the export-quota in a number of the most important industries amounts to 20, 30 and more per cent. What is interesting in this, is not so much the commonplace fact that the dependence of certain industries on foreign trade is above the average, as rather the function of this higher percentage for the whole economic structure of a country; but it is hard to see how the importance of this function can be measured statistically.

Just as important as the functional analysis of exports is that of imports, if we are to gain a better understanding of them than that provided by tables of import-quotas and similar statistics. In this connexion, an interesting study has been made for the United States showing the different functions of the various kinds of imports for the year 1927. It reaches the rather arresting conclusion that almost 90% of the total imports into that country were strictly non-competitive.³ But even such a study, much as it assists

² See S. Crowther, *America Self-Contained*, New York, 1933, a book which a central organization of the American chemical industry has had the remarkable frankness to mark as its own product of propaganda. It is interesting *à titre de document*, though the record in this sort of literature is held by a German book (Ferdinand Fried, *Autarkie*, Jena, 1932).

³ A. Rühl, *Vierteljahrshefte für Konjunkturforschung, Sonderheft 25*, Berlin, 1932, where the following tabulation is given :

	% of total imports
A. Commodities which supplement rather than compete with domestic production—	
1. Imports arising from the impossibility of domestic production	13.1
2. Imports arising from lacking, though possible, domestic production	21.5
3. Imports arising from lacking production of a certain variety	4.9
4. Imports arising from lacking production of a certain quality	10.3
5. Imports arising from peculiar consumption habits of immigrants	0.8
6. Imports arising from seasonal differences between foreign and domestic production	0.2
7. Imports arising from different technological developments abroad and at home	4.2
8. Imports arising from the quantitative insufficiency of domestic production	34.3
	89.3

a better understanding of the functions of imports into the country in question and to dispel purely quantitative notions, does not go to the bottom of the matter, as it does not—and cannot—show the real significance of those imports for the working of the economic process of that country. In order to see this, one has to ask first, what part regular imports play in providing industry with indispensable raw materials, semi-finished and production goods, in establishing competitive conditions on the home market and in giving domestic production the incentive of foreign competition, and then the further question as to what this, in turn, means for national economic equilibrium. The present position of Germany, where it is clearly realized that foreign trade has a key position quite out of proportion to its relative quantity, considerably helps to elucidate this question. In that country the provision of raw materials by foreign trade has long been recognized as the prime condition of regular industrial activity.⁴

But even all this does not exhaust the subject of the qualitative aspects of international trade. What has been said so far goes to show that international trade is an essential part of a highly complex structure, in which it serves functions which cannot be measured quantitatively on the basis of the actual trade figures. In other words, the actual amount of international trade is not a sufficient measure of its functional importance. But still it is the actual trade which has this importance. What has to be shown now is that equal importance attaches to that international trade which is not actually taking place but which, at every moment, is on the verge of taking place and will take place at the slightest tipping of the scales.

The mere existence of a world economy, whatever the use being made of it in the concrete case, and the ever-present *possibility of switching trade* from internal to external markets (and vice versa)

	% of total imports
B. Commodities being imported in spite of their competitive character—	
1. Because of unfavourable transport conditions for domestic production	3.5
2. Because of unfavourable cost situation of domestic production	7.2
	10.7

100.0

See also: U.S. Tariff Commission, *Economic Analysis of Foreign Trade of the United States in Relation to the Tariff*, Senate Document, No. 180, Washington D.C., 1933.

⁴ Cf. W. Röpke, "Trends in German Business Cycle Policy," *The Economic Journal*, September, 1933; W. Lautenbach, "Die Kreditausweitung im Aufschwung," *Wirtschaftskurve (Frankfurter Zeitung)*, October, 1936, pp. 247-249.

or from one external market to another, has a value for the rational functioning of national economies which no juggling of statistical figures could possibly gauge. Whereas the *actual* world trade considered previously works like a hormone or a vitamin, the biological value of which is quite out of proportion to the active quantity, the *potential* world trade considered here may be compared to a catalyst in a chemical process which does not enter into the compound at all, but is yet essential for the process itself. It is acting, like the British fleet, "in being," and what this means will be discovered only when it can act no more.

The *morphological importance of potential world trade*, it must be admitted, is a rather vaporous subject, and one very difficult to handle without drifting into empty speculation; but that it is there and that it deserves the greatest emphasis cannot be denied. It would be easy, moreover, to show that it is really nothing more than a special case of a general phenomenon pervading the whole economic process, and to name examples in other fields where it has been much better recognized than in this special one of economic theory. It seems certain that a careful and sober analysis of this subject would yield a number of interesting results, and it is also to be hoped that it would help to bring some fresh air into the somewhat stuffy atmosphere of the traditional theory of international trade, which is still too much centred around the hoary quantitative-mechanical notions of the classical school. In such an analysis much stress would have to be laid on the fact that the term "potential world trade" also covers all those concepts like "confidence," "expectation," "elasticity," "continuity" and "security," which are so much to the fore in present-day economics. In this connexion, it seems particularly worth while considering the question of what the potentialities of world trade mean for the incentives to that private investment activity, both at home and abroad, which plays such a conspicuous and well-deserved rôle in contemporary economic thought as the prime condition of the optimum equilibrium of economic life.

Having thus considered the qualitative aspects both of actual and of potential world trade, we can now draw a *twofold conclusion* regarding the economic importance of world economy. *First* that, for the world as a whole and even more so for a single country like the United States, relatively low figures of international trade may well go together with a high morphological importance quite out of proportion to the actual quantities involved. The *second* conclusion is that relatively high figures of international trade may well go together with a loss in functional value and a diminution in quality

out of proportion to a possible diminution in quantity, if and in so far as there is a disintegration in the structure of world economy which prevents it from fulfilling its normal functions.

It is this second conclusion which is so important for a proper judgment of the present situation of world economy. As has been shown, the quantitative development of actual world trade at the present time is far from being reassuring, but the sum total does not seem to suggest a real catastrophe. The important point, however, is that these figures do not reveal the great qualitative disturbances which have occurred. Therefore, the real extent of the present disintegration of world economy cannot be properly judged without a special study of at least the more important of those qualitative disturbances.

(b) THE BREAK IN THE INTERCOMMUNICATING CHARACTER OF WORLD ECONOMY (BILATERALISM AND FORMATION OF ECONOMIC BLOCS)

In describing the qualitative structure of pre-war world economy in an earlier chapter (pp. 14-18), the first point mentioned was the interdependent and intercommunicating character of the world economy as it existed then. It was further stated that, as an intercommunicating system, world economy was necessarily also a multilateral system in the sense, now made familiar, of actual and potential (virtual) multilateralism. It should be obvious that a world economy worthy of the name cannot exist and exert its functions without this constant and practically unhampered intercommunication, which is the essential feature of every economic integration national or international. Inasmuch as this intercommunication is being broken up by bilateralism and the formation of blocs, so is world economy being split up into fragments. To the same extent world trade figures cease to be the total quantitative expression of world economy; they become the mere addition of sales on disconnected markets, the significance of which is not appreciably greater than that of sales on the wheat exchanges at Winnipeg, Chicago and Liverpool. World economy abdicates from reality to become a mere and rather misleading name; its disintegration as a real international economy appears, then, as complete, and what we get instead will be a series of separate international relations.

Now it is common knowledge that this disintegration through diminishing intercommunication of world economy has been one of the most outstanding features of the development of world trade during the last ten years. Differential tariffs, import and export

quotas, the growing insignificance of the most-favoured-nation clause, the alliance of exchange controls and clearing agreements, barter trade, import and export monopolies—they have all had the combined effect of forcing international trade more and more into disconnected and strictly controlled channels, and thus impeding the intercommunication between them to the same extent. The complicated wiring system of world economy has been, as it were, “short-circuited.”

In measuring the extent to which international trade has been put into the strait-jacket of bilateralism, one has to proceed very carefully.⁵ The calculations of the total bilateral trade of to-day compared with that of ten years ago, made by the Secretariat of the League of Nations,⁶ represent only a first approximation, though the notable increase they show clearly indicates the trend of development. Besides not being free from statistical defects, they fail to show that the trend toward bilateralism is more accentuated in one group of countries than in another; whereas the share of a country, like the United States in the increase of bilateralism is below the average, it is extremely high in Germany, Switzerland and other countries which have to a large extent resorted to the kind of commercial and monetary policy conducive to bilateral balancing of trade, especially the combination of exchange control and clearing agreements or the policy of import quotas. Furthermore, the importance of multilateral trade does not lie so much in its actual volume, as in the extent to which it can be resorted to whenever this is thought to be expedient. It is theoretically possible that some increase of bilateral trade might have happened in the natural course of things, although, in point of fact, it is unlikely that it would have. In other words, only that part of the increase of bilateralism should be counted which has been forced upon trade. On the other hand, it should not be forgotten that the devastating effects of this part can be discovered only by a far-reaching study of the deep-set changes in the structure of world economy brought about by compulsory bilateralism, even if the measured increase in actual bilateralism is far from sensational.

In general, it should be quite obvious that, if the word “disintegration” is to have any meaning at all, international economic disintegration can hardly be better defined than by the present trend toward compulsory bilateralism, which really means that

⁵ Cf. especially the studies made by F. Hilgerdt in *The Approach to Bilateralism—A Change in the Structure of World Trade*, Index, August, 1935, and in *Review of World Trade*, League of Nations (annually).

⁶ See *Review of World Trade* (League of Nations).

the world economy is tending to disintegrate into a number of more or less independent "international economies" which have but little intercommunication. Whether this is a change for the better or for the worse is another matter, and one on which opinions may differ, but no disagreement seems possible on the fact itself that the world economy as a coherent reality is crumbling to pieces.

In reality, however, it must be borne in mind that, while an important group of countries has already travelled far along the road to that logical end, the rest have still preserved the essential liberty of multilateralism, so that the whole world economy appears to be composed to-day of two main sectors: the "free" sector, made up by the countries with no exchange control and not hedged in on all sides by clearing agreements, and the "blocked" sector, made up of those compressed into the bilateral blocs (see diagram 2 showing the development and the extent of both sectors). While the free sector is, by implication, still largely a coherent and intercommunicating system, the blocked sector is, by the same implication, hardly more than a mere name for a series of as many blocs as there are bilateral systems, which latter have generally as little communication with each other as with the free sector. Consequently, the international trade of the blocked sector not only loses mobility, but also contact with the price and cost system of the free sector.⁷

The free and the blocked sector in world trade

By "blocked sector" is understood all countries with exchange control proper. Because the number of countries with exchange control has risen, the importance of the blocked sector has likewise grown. This is shown by the upper part of this diagram. It shows the percentage of the blocked and the free sectors in world trade. That means that each year there is added the external trade of each country with exchange control during that year. The proportion of the blocked sector reached 29.5% in 1937. A country was counted as on exchange control if such control was in existence the greater part of the year. Since Germany did not adopt exchange control until July, 1931, the sudden increase in the blocked sector is shown on the diagram in 1932.

In the lower half of the diagram is shown the development of the external trade of all countries which had exchange control at the end of 1938. The proportion of their trade to that of world trade in 1929 is taken as 100. Till the year 1931—the beginning of exchange control—the relative position of these countries in world trade was practically

⁷ On the great price disparities between different countries to-day, as one of the results of the international economic disintegration, see diagram 3.

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unchanged. Since that year there has been evident a diminution of their portion of world trade, and it is probable that this is a consequence of their exchange control. This conclusion becomes still more probable if one considers the following facts: the effectiveness and extent of the exchange control in the different countries varies considerably. There are countries which only have control as far as certain other countries with exchange control are concerned. If one considers only those countries which have very strict and complete exchange control, the restriction of their share in world trade is all the greater. With 1931 taken as 100 their proportion in 1936 was only 82, while that of all countries with exchange control was 91.

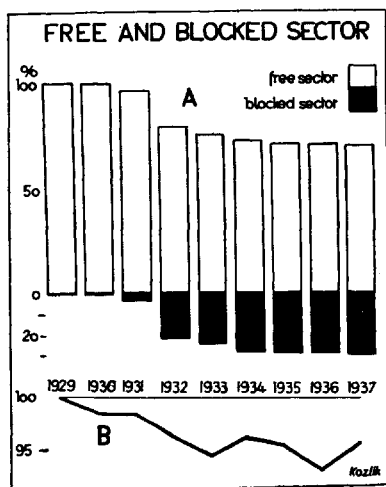


Diagram 2

The diagram shows on the one hand that the proportion of the blocked sector has increased sharply, and on the other that the foreign trade of the blocked countries has been more restricted than world trade.

Another fact, not shown in the diagram, is that the trade of the blocked countries has shifted away from the free countries to the other blocked countries. For this reason the external trade of all countries with exchange control with free countries has decreased more than their total foreign trade.

It might be objected that the diagram is deficient in that some of the free exchange countries also have clearing agreements (with exchange control countries). It should be borne in mind, however, that the only purpose of the diagram is to show the share in world trade of the countries which preserved the essential liberty of multilateralism and of those which did not.

Price-disparities

To demonstrate the price-disparities in different countries, the whole-

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sale prices of paper, sheet metal, iron bars and steel girders were chosen. The following countries have been considered :

Sheet metal—

Germany : 4.76 m.m. and more, Kessel. S.M. Güte, Bas. Essen.

Belgium : toles fortes :

(a) 5 m.m. and more, free committer's station.

(b) $\frac{1}{4}$ inch, f.o.b. Antwerp.

France : toles fortes, 5 m.m. and more; base : eastern plant.

England : Middlesbrough, ship plates :

(a) free committer's station.

(b) f.o.b. export.

U.S.A. : Pittsburgh, tank plates; base : plant.

Girder—

Germany : Grundpreise, Bahn Oberhausen.

Belgium : poutre norm :

(a) free committer's station.

(b) f.o.b. Antwerp.

France : grosses pontrelles; base : eastern plant.

England : Middlesbrough, joists, free committer's station.

U.S.A. : Pittsburgh, beams; base : plant.

Iron bars—

Germany : Grundpreise, Bahn Oberhausen.

Belgium : barres :

(a) free committer's station.

(b) f.o.b. Antwerp.

France : aciers march.; base : eastern plant.

England : Middlesbrough, rounds and squares; $\frac{3}{8}$ -3 ins., free committer's station.

U.S.A. : Pittsburgh, steel bars; base : plant.

Paper : Printing paper for newspapers—

Germany : free committer's station.

Canada : Quebec; base : plant.

Sweden : base : plant.

The sheet-steel, iron bars and girders in Germany, Belgium and France are fabricated by the Thomas-process, in Great Britain by the Siemens-Martin-process, and in the United States by the Bessemer-process. The price-disparities here considered have to do with the countries with the highest and lowest prices. The absolute amount of disparity has diminished since 1929. But this does not give an adequate

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picture of the real development. It is not the absolute disparity which is important, but the disparity in relation to the price of the goods. Therefore the diagram shows the disparity in per cent. of the lowest price. To make comparable the disparities in these four goods, their proportion to the lowest price in 1929 is considered as 100.

This proportion rose between 1929 and 1932 because the prices of iron and steel products in Belgium, the country with the lowest prices, declined very sharply.

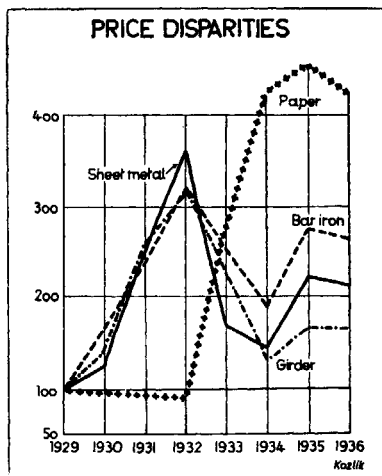


Diagram 3

As bilateralism extends, the economic space of each of the participating countries is shrinking, and in these watertight compartments the price level of traded commodities will tend to be driven above that of the free sector, which represents the real world market. The competitive strength of the blocked countries in the free sector will be diminished accordingly, and this, in its turn, leads them to try to keep it up artificially by systems of organized dumping, so as to preserve some access to the free sector, which they need if they are to maintain a minimum of mobility and procure those commodities which must be bought outside the bilateral bloc. Since these consequences affect both partners in bilateral relations, the gain in selling goods above the price level of the free sector is largely illusory, as it will tend to be balanced by the disadvantage of buying, in exchange, the imported commodities at an equally enhanced level. Yet it would be unwarranted to exclude the possibility of a net gain to one or the other partner. One also has to consider that, within the country concerned, it will more often than not be a different part of the

population which enjoys the enhanced export prices to that which bears the burden of the increased import prices.⁸

It goes without saying that the strong mutual dependence of countries bound by bilateral trading may easily develop into a one-sided dependence, which starts by being economic and ends as political. This latter would be the fate of small countries tied bilaterally to greater nations, so that the disintegration of world economy by bilateralism would endanger the *economic* independence of the small countries more or less to the same extent as the disintegration of the political world will endanger their *political* independence. In both spheres, the economic as well as the political, bilateralism—whatever its advantages in other directions—means disintegration, lack of intercommunication and balance, and thus growing advantage of the greater political units over the smaller ones. It should be clear enough by now that the trend toward bilateralism is bound to have a far-reaching and disquieting effect on international political relations, in which connexion more will be said in due course. It is only by looking at these larger issues that the effects of the present disintegration of world economy by bilateralism and its concomitant developments (preferentialism, regional blocs, decay of the most-favoured-nation clause) can be seen in the right perspective. On the other hand, however, it should not be overlooked that these trends owe their origin to a very complicated set of causes in which the monetary-financial disturbances of world economy rank equal with the recent excesses of agrarian and industrial protectionism.

Having stressed the general significance of the present trend toward bilateralism, the next task is to go into the detail. In this respect, the tendency of bilateralism to reduce the volume of world trade is particularly conspicuous. Since it is the main feature and the declared purpose of bilateral trade agreements to equalize trade balances and to put international trade on a base of strict reciprocity of selling and buying, it is obvious that any attempt at bilateral equalization, at any point in the multilateral chain connecting a whole series of countries, will have far-reaching repercussions, which will force one country after another to adjust its commercial relations in the direction of equalizing trade balances. It is more than likely, however, that these all-round adjustments will be made by cutting down imports to the level of lower exports, rather than

⁸ Bilateral trade as it has been developed between Germany and the countries of South-eastern Europe during the last years has temporarily benefited the agricultural population of those countries, while the burden of higher import prices for industrial commodities is largely being borne by the urban population.

by raising them to the level of higher exports.⁹ A modification of this commonly accepted view has recently been advanced, that trade relations based on strict bilateralism may withstand the impact of a world depression better than multilateral trade relations; and in proof of this it is pointed out that, during the recession of world trade since the beginning of 1938, the trade volume of countries having bilateral agreements with Germany showed a particularly strong resistance.¹ It is indeed remarkable that, e.g., Roumania lost, during the first quarter of 1938, 65.5% of its exports to Great Britain and 42.6% of its exports to France, but only 20% of its exports to Germany, as compared with the same period in 1937. The fact itself, therefore, cannot be denied, but it seems hardly possible to attribute it to the influence of bilateralism, instead of to the fact that Germany, by dint of its particular economic policy, was able temporarily to maintain full employment more or less independently of the depressive tendencies abroad.

To these quantitative effects of bilateralism must be added the qualitative one which, just because it is qualitative, cannot be adequately described except by a minute and detailed study in particular fields of international trade. In general, it is clear that every "short-circuiting" of economic interchange is bound to interfere with the process of orderly and economical exchange of goods and to lead to the acceptance of commodities which, in the case of multilateral interchange, would not have been taken at all or only in smaller quantity.² The recent history of clearing agreements is full of instances of deliveries which, though not satisfying real

⁹ Cf. Bertil G. Ohlin, *International Economic Reconstruction*, Joint Committee of Carnegie Endowment and International Chamber of Commerce, Paris, 1936, pp. 93-96; *Enquiry into Clearing Agreements* (League of Nations), Geneva, 1935.

¹ Report of the Reichs-Kredit-Gesellschaft for the first semester of 1938 (*Deutschlands wirtschaftliche Entwicklung im ersten Halbjahr, 1938*), pp. 86-87.

² See W. Röpke, *Die Lehre von der Wirtschaft*, Vienna, 1937, p. 44-45.

Curiously enough, the clearing system is sometimes defended on the ground that it raises the price of exports, and we sometimes hear people ask, in feigned innocence, what more could be wanted than that the highest possible prices be obtained for products sold. It is hardly necessary to reply: (1) that the higher export prices will in all probability be balanced by higher import prices or by a lowering of the quality of the imported products; (2) that the higher export prices are furthermore an illusion for the country as a whole, since the range of commodities that can be bought with the money receipts from the sale of such exports is restricted to those commodities which the other country is able or willing to deliver; (3) that the higher export prices may be exactly the price for which the country is selling its economic and political independence; (4) that the growing dependence on the other country will gradually lower export prices, increase import prices and impair the quality and the freedom of choice of the imported products. It is a significant fact that to-day Germany stands almost alone in the world in her defence of the bad case of the clearing system, while her smaller partners, especially the Balkan countries, which in the beginning were equally in favour of the system, are now beginning to perceive that they have fallen into a trap.

demands, had to be accepted by one partner or another in order to "clear" the clearing account of an embarrassing surplus, so that the term "clearing agreement" seems rather an ironical misnomer for what might more appropriately be called a "choking agreement." It is within this general framework that all specific disturbances of international trade caused by bilateralism are to be understood, especially the difficulties in the supply of raw materials to those countries which are most afflicted with this serious disease of world economy.³

That bilateralism—especially in the form of clearing agreements—amounts to an intolerable strait-jacket for the countries concerned by depriving them of that minimum of free manœuvring which is indispensable even for the most autarkic of economic systems, is a fact amply proved by the example of *Germany*. In that country, a sequence of two disappointing harvests, especially in cereals, together with miscalculations as to the necessary imports of fats and meat, was sufficient to upset very seriously, in 1937 and 1938, her foreign trade plan, which was largely based on bilateral trade relations. The problem of providing Germany with her food during this recent period could not be solved without drawing heavily on the "free sector" of the world market—by making use of her reserves of freely negotiable *devisen*, i.e. by going back to the principle of multilateralism. As has been frankly stated by a semi-official German publication, the principle of bilateralism was put out of action by the force of events, since it became impossible to increase exports to those countries to which she would have had to have recourse for the additional imports, to the necessary extent and within the required time.⁴

A situation like this is especially dangerous, because additional import requirements of this kind will be concentrated on a few staple products, while additional exports, being those of finished goods in the greatest variety, will always be composed of a very large number of different and separate transactions, which will take longer where the countries importing them are less developed, and that is just the case under the conditions of bilateral trading. Consequently, the additional imports have to be scraped together in a very cumbersome way, wherever small lots can be squeezed out of bilateral trade relations, and usually at enhanced prices, while the remainder has to be bought with free *devisen*

³ Cf. particularly Folke Hilgerdt, op. cit., and his studies in the successive memoranda on "World Trade," League of Nations.

⁴ Lothar Mischke, "Der Nahrungsmittelbedarf in der Einfuhrplanung," *Deutscher Volkswirt*, No. 2, 14th October, 1938.

obtained from what multilateralism is left in the world. In spite of the great efforts made by Germany in the first direction, it is admitted that the amount of additional imports which she had to buy with free *devisen* in those years (1937-1938) was rather large. Hungary and Yugoslavia were practically the only countries where a compensation of larger imports by a corresponding increase of exports proved possible, while, on the other hand, the enormous increase of imports of cereals and fodder from a country like Argentina (from 17.5 millions RM in 1935-36 to 69.6 in 1936-37 and to 168.8 in 1937-38) evidently entailed a heavy sacrifice of free *devisen*.

It goes without saying that, at the other end of the bilateral trade relations, the raw material countries are by no means in a better position. None of them has gone so far as to rely entirely on bilateral trade relations, because none of them ignores the immense danger of losing, by such a policy, not only economic but also political independence and that minimum of play indispensable for the working of their national economy. All endeavour to find opportunities of extending that part of their foreign trade, which is not canalized by clearing treaties, by accepting lower export prices, admitting some liberty in exchange transactions (private clearing, tolerance of black markets for free *devisen*, &c.), or by soliciting credits from the countries belonging to the free sector of world economy.

The foregoing conclusions, which are based equally on experience and reasoning, form a striking contrast to the efforts made to present the principle of bilateralism as the last word in modern commercial policy and to claim for it superiority to the principle of multilateralism under present conditions. The simple truth is, that even those countries where these efforts are most conspicuous and which have made the most of the principle of bilateralism, would find themselves in a catastrophical position if their boasts were taken so seriously by the rest of the world that every country introduced watertight systems of exchange control and clearing payments. In other words, the free sector of world economy is not only holding up what is left of a proper world economy, but also supporting the blocked sector. Bilateralism is like a good number of other devices in international economic policy, in that its universal application deprives it of all the possible advantages it may have had for a single country. So all those countries which have sold themselves to it must combine with their public praise of it the silent wish that there will still be left some important

countries which do not adopt it.⁵ The resemblance of this case to that of gold as an international standard of value is particularly striking, for here, too, there must be at least one country left with a fixed gold value, if the value of gold is to have any anchor at all.

In order to understand more fully the present trend toward compulsory bilateralism we should, before going on, consider two further facts. The first is, that the principle and the working of bilateralism ("buy where you sell!") is clear to the simplest mind while the working of multilateralism is much less easily understood. Consequently, the present predilection of so many people and governments for bilateralism appears to be largely a matter of resentment against something they do not understand, i.e. multilateralism. The second fact is that bilateralism is the kind of foreign trade regulation toward which a totalitarian régime quite naturally inclines. Totalitarianism demands that foreign trade be regimented like internal economic activity, but the only way in which this can be effectively done is by exchange control and compulsory bilateralism, since it is practically impossible to regiment multilateralism.

As has been suggested at several points, bilateralism, in the strict technical sense of compulsory suppression of multilateral trade by clearing agreements, represents only a special and very striking case of a more general tendency, i.e. that to destroy the unity and the intercommunicating character of world economy by breaking it up into different compartments. This tendency also finds expression in the increasing importance of regional groups and economic blocs, in so far, at least, as this is not a natural, but an artificial development brought about by measures of preferential commercial policy. Though it can be admitted that there are other factors, beside governmental measures, working towards intensifying international trade within regional groups and economic "empires," the advance of a conscious policy directed toward this end is so obvious that the development as a whole may safely be regarded as more the result of commercial policy than of natural forces. To this extent, however, regionalism appears to be compulsory (contrived) and, from what has been said above, detrimental to the normal structure of world economy. The general

⁵ "The totalitarian methods of foreign trade are not precedents to be imitated by other countries. On the contrary, it has been possible to pursue them so far only because the other countries have not followed the totalitarian example, and they have been pursued at the expense of these other countries, with the result that there have been increased disturbances and a further disintegration of world economies." A Feiler, "International Trade under Totalitarian Governments," *Social Research*, November, 1938, p. 441.

effect of this development can be summed up by saying that great politically united or otherwise affiliated areas tend to be hedged-off economically from the rest of the world.

(c) THE ERRATIC CHARACTER OF WORLD TRADE

Our study of the qualitative aspects of international economic disintegration, as distinct from the mere quantitative shrinkage, leads us from the dissolution of the intercommunicating character of world economy to another feature which is closely connected with the foregoing. It is what might be conveniently called the *erratic character of world trade to-day*.

The significance of a given volume of world trade will be very different, according to whether it is the result of stable and continuous international trade relations or is rather the sum total of laborious transactions based on fickle conditions. Anybody even faintly familiar with the present state of the world knows that the latter type of trade is exactly that with which we have to do to-day. The volume of total world trade may compare not too unfavourably with that of ten years ago, but this is only a façade behind which we must look in order to get a right estimate of the damage being done. What we see then is the hand-to-mouth character of world trade; the nervous endeavours to find, now here, now there, gaps in the commercial hedges of the nations; the abrupt closing or opening of trade channels by changing political enmities or friendships; the continuous mending of short-term trade agreements; the choking of clearing accounts; the hasty advantage taken of temporary outlets for profitable exports; the sudden change brought about in market conditions by exchange depreciation, export subsidies or purely political measures. And the result of all this is that world trade becomes more and more hazardous and erratic, a rough-and-tumble of nations vying with each other in their efforts to scrape together by any means whatever exports they can find and hampered by the general tendency to look on imports as a matter of good luck, political benevolence or, at best, as a passing necessity. That most of this is in some way or another connected with "planning" and glorified as such, is an example of that kind of involuntary humour in which our times are so rich.⁶ As everybody knows, the bitter truth is that the main effect of this entire development is to deprive world economy of stability, reliability and continuity. If we live now in a world where it has hardly become possible to plan more than a week ahead let us remember

⁶ Cf. L. Robbins, *Economic Planning and International Order*, London, 1937; W. Röpke, *Crises and Cycles*, London, 1936, pp. 11-12.

that this is what some people call with involuntary sarcasm "the age of planning." But once the deep significance of the general crisis of our time is understood, there is hardly any room for surprise that this is so.⁷

The more erratic character in world economy

There are two groups of causes for the changes in trade between two countries: first, those causes which change the total external trade of these countries; and second, those that bring about a shifting in the trade between the countries. Since we shall consider only the second group of causes, we must eliminate the effects of the first.

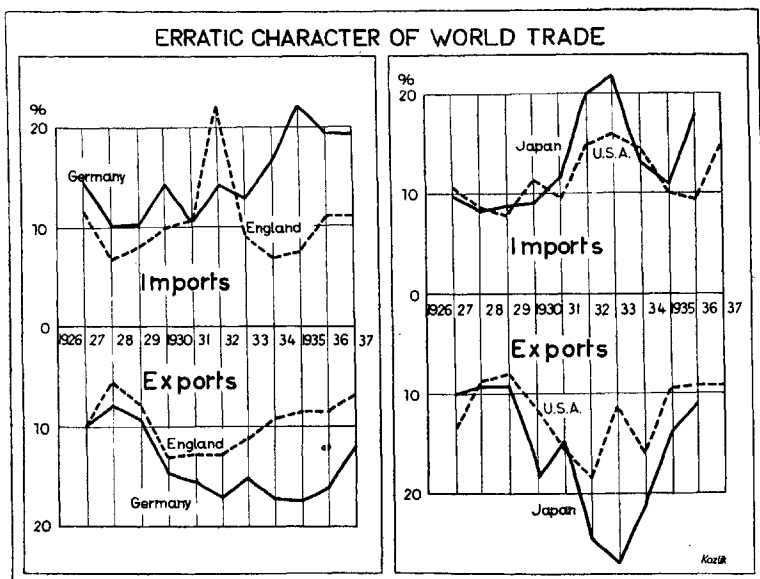


Diagram 4

We may suppose that the external trade of a country A with countries B and C would alter in the same proportion if only the first group of causes are operating, so that the percentage of both B and C of the trade of A would be unchanged. If there is a change in the percentage of B and C of the trade of A, then we can say that it is an effect of the second group of causes. The greater the shifting in the external trade of A, the greater the change in the percentage of B and C on its trade. The addition of the change of the percentage of B and C thus gives a measure of the shifting of A's external trade. If a_1 and a_2 are the foreign trade of country A in two successive

⁷ On diagram 4 an attempt has been made to give some graphical picture of the more erratic character of world trade to-day.

QUALITATIVE ASPECT

years and e_1 and e_2 the foreign trade of A with a country E (any of the n countries with which A has relations), then the shifting of

the foreign trade of A is
$$\sum_{n=0}^{e=n} \begin{pmatrix} e_1 & e_2 \\ - & - \\ a_1 & a_2 \end{pmatrix}$$

In this way there was shown the shifting in the foreign trade of Germany, Japan, the United States and England. There were compared Germany and England on the one hand and Japan and the United States on the other. The upper part shows the shifting of imports and the lower part the shifting of exports. Both diagrams show that the shifting of external trade in the two blocked countries (Germany and Japan) is in almost each year greater than the shifting of external trade of the two free countries.

It is easy to see that this erratic character of world economy is closely connected with every development, which tends to make it less and less a thoroughly competitive and intercommunicating market. As has been shown by other authors, it is especially bilateralism which is working in this direction. "It makes what trade is permitted a pure business of horse trading. And since, bilateralism or no bilateralism, the conditions of production and demand are continually changing, there is no reason to suppose that this business can reach any sort of stable conclusion. The trade connexions of one country with another may be ruthlessly set aside overnight in order that the second country may be in a better position to bargain with a third. The execution of bargains which have been made involves the imposition of controls which themselves react on the volume of trade and in turn necessitate further bargains. Far from establishing a tendency toward greater stability and equilibrium, bilateralism seems to tend toward cumulative instability."⁸ To this may be added that there is another explanation of the thoroughly unstable equilibrium of trade relations based on bilateral clearing agreements in the fact that the market situation created in this way is, with certain reservations, to be conceived as a bi-monopolistic one with its well-known range of indeterminateness. More generally, it can be stated that world trade becomes more and more erratic the more the law of great numbers is rendered (by bilateralism and similar developments) unable to exert its smoothing and equilibrating influence.

World trade is becoming less and less an affair of countless traders of all nations doing their business on well-established and relatively stable conditions, within a price-cost structure determined

⁸ L. Robbins, *Economic Planning and International Order*, London, 1937, pp. 109-110.

by the competitive mechanism and in an "open" market, where sudden changes may be evenly distributed over a large space. The open and intercommunicating market is being broken up into different compartments; conditions are getting more and more precarious and fickle; and trade is carried on by ever larger and fewer units, either governments or monopoly organizations, growing in the shadow of the state.⁹ Thus world economy is getting lumpy and jerky at the same time, like the rest of the economic and social system of our times.

The new methods of commercial policy and the increased share of governments in handling or regulating international trade mean growing "politicalization" of international economic relations. This, in turn, means less dependence on the laws of competitive supply and demand, which are largely calculable and (in a wide market) little subject to jerky movements, and more dependence on governmental whims, which are incalculable—especially in the absence of any well-defined principles of economic policy limiting the state's field of action—and given to sudden changes at any moment. This is what politicalization of the economic process invariably means wherever it occurs, but it is nowhere more pronounced than in the field of international economic relations, which is where the dissolution of norms and principles, the anarchy and arbitrariness, the discontinuity and hand-to-mouth character of modern life are most conspicuous to-day, and where everybody without reluctance or consideration follows the fashionable motto: "Do what you will."

But there is even more in the problem than this. The larger the units are which stand behind international trade—the private business units pampered by the state and finally, in more or less disguised form, the state itself—the more varied are the possibilities of making export prices independent of the unit cost of production by using the different national economies as large business pools and by allotting to export prices that share of the cost of production which, at any given moment, is thought useful. Goods are exported, then, for whatever they may bring, the domestic consumer or taxpayer paying the difference. The national economies tend to resemble *gigantic department stores*, where the total cost is distributed among the different articles according to the principle of "what the traffic can bear." By monopolistic price differentiation,

⁹ This is exemplified by the fact that, before the present war, in Germany about twenty firms were doing roughly one third of the German export business (M. Ilgner, *Exportsteigerung durch Einschaltung in die Industrialisierung der Welt*, Jena, 1938, p. 25).

export subsidies of every description, governmental foreign trade monopolies, special favours granted by bilateral agreements, and by highly elaborate schemes of currency and debt manipulation, the world market becomes a vast dumping-ground where trade is carried on according to the rules of "catch-as-catch-can" and all firm foundations are lost. The result of this hectic activity is that, when the total volume of trade is added at the end of the month or the year, though the figure may be far from negligible, its significance has changed entirely.

By looking at the recent development of world trade in this way, it becomes immediately clear that one must be most sceptical of all attempts to present the new commercial policy responsible for it as rational. There are not wanting authors who seem to believe that it would only benefit world trade if every national economy were insulated from the rest of the world in such a way that imports would have to go through a "sluice" (according to recent terminology in Germany) before reaching the home market, while exports of typical goods of national production should be stimulated by all possible means.¹ At the same time, there are ardent defenders of bilateralism and clearing agreements.² It is rather difficult to understand what is meant by these advocates of a development which, after what has been said above, can only be regarded as highly pathological. They seem, however, to be led by the more or less vague idea that it is essential to organize and equilibrate national economies, and that world economy will then take care of itself and fare better than it did before when national economies were unstable. In this way, it is widely held, it seems to be possible to combine the highest degree of foreign trade regulation with a working world economy.

In the light of what has been put forward here, this whole trend of thought appears as a rather strange confusion or, at best, as an unsuccessful attempt at rationalizing an irrational and unprincipled practice. This practice is one of the main factors in disintegrating world economy and depriving it of its most useful functions. On the other hand, it should be noted that it is at the same time both effect and condition of that policy, so popular all over the world, which aims at stabilizing national economies with a minimum of regard to what such policies mean for the stability of external

¹ Since this is the official opinion held in Germany, it is especially the current literature in this country which best reflects the philosophy mentioned in the text.

² Cf. for example: Paul Einzig, *The Exchange Clearing System*, London, 1935; John Donaldson, review of "World Economic Survey, 1932-33," *Weltwirtschaftliches Archiv*, September, 1934, pp. 142-143.*

economic conditions ("autonomous business cycle policy"). This kind of stabilization policy is being carried through with the express purpose of gaining in internal stability what, if necessary, may be lost in external stability—a philosophy which can be most clearly observed in the policy of deliberate exchange instability and in its underlying "Doctrine of alternative stability."³

World economy, then, becomes little more than a vast playground open to every sort of economic vivisection and unrestraint, *pari passu* with the increased restraint put upon national economic activity by policies of planning. While a closer analysis of these policies and their international implications will be reserved for a later occasion (Part VII), mention should be made here of the one fact that world economy is nothing else than the sum total of the external economic relations of all nations, while no single nation has an exclusive patent right to the policies referred to. Consequently, it is hard to see how these policies can be pursued without the most serious and damaging repercussions on the different national economies. It may well be that efforts will then be made to cope with those repercussions by still more radical measures of national economic isolation and disregard for international economic relations until, by a particularly vicious circle, we arrive at the national economic dictatorships, the dynamics of which will be studied separately later on (Part VII).

In connexion with these effects of the new trend of economic policy on the erratic character of world trade, special attention should be paid to the discontinuities brought about by the late increase of agricultural protectionism. Agricultural production, being subject to the caprices of nature, is in general an erratic factor of the first magnitude in economic life, and this probably is all the more true the more intensively the soil is cultivated.⁴ The yearly crop fluctuations, therefore, are apt to give international trade a certain erratic character in any case. Now, present conditions differ from previous ones in two respects. In the first place, statistics seem to bear out the presumption that, in important parts of the world, agricultural production has been made more erratic in yield than before by over-intensification of soil cultivation, which, in its turn, is due either to agricultural protectionism (as in some European countries) or to short-sighted speculation (as in the semi-arid areas of the United States, the present "Dust Bowl").

³ Cf. W. Röpke, *Crises and Cycles*, London, 1936, pp. 164-173.

⁴ Cf. H. W. Graf Finckenstein, *130 Jahre Strukturwandel und Krisen der intensiven europäischen Landwirtschaft*, Berlin, 1937, pp. 27-30.

In the second place, the effect of these tendencies has been much strengthened by the present policies of food autarky.

In order to understand this, one has to remember that formerly it was one of the main functions of a well-integrated world economy to level out as far as possible the crop fluctuations of the different parts of the world, which rarely coincide with each other, and thus to make the world trade of agricultural products more steady both in volume and prices. The new system of agricultural protectionism, however, means that agricultural imports are being reduced to a mere safety valve to be applied in the event of an emergency arising from internal crop failures. In the industrial countries agricultural production is being pushed to the utmost limit of intensity by keeping out imports and enhancing prices as far as possible, and it is only when nature intervenes, by sending a bad harvest, that the sluice will be cautiously opened and the necessary additional supply sought in the markets of the world. This applies especially to cereals, whereas in other agricultural products the tendency is much less marked. It is obvious that all this adds appreciably to the present jerkiness of world trade, especially as all-round dumping in agricultural products has become almost an accepted rule of the game.

It has to be remarked, of course, that it would be wrong to attribute the more erratic character of world trade, as we observe it to-day, entirely to the immediate effects of economic policy or to structural changes brought about by such a policy. On the contrary, it should be carefully studied how far international trade to-day is reflecting, in this respect, certain tendencies toward greater "bumpiness" of economic life, which are to be observed in every sphere and which grow out of more general conditions. It is impossible not to mention, in this context, the effects on world economy of the present jerky movements of international short-term capital, which, while being one of the major problems of the international economic relations of the present time, represent a much too complex phenomenon to be treated as the mere outcome of political measures. This is still more true of other factors of unsteadiness which are now making themselves felt in international economic relations and which are likely to become more important in the future. In this connexion, much stress should be laid on the fact that the growing importance of products having a high degree of demand elasticity is bound to make international trade also much more sensitive to changes in incomes and tastes. This applies particularly to producer's goods and durable consumption goods like automobiles, electric appliances, &c. At the same time, there

appears to be ample evidence that the rapidity of technological changes has increased rather than slackened.⁵

It would be easy to complete this list of the factors of growing unsteadiness and make this account rather impressive. On the other hand, however, it is equally easy to overrate their real importance. There is no denying the fact that the general policy of economic nationalism, while to some extent being engendered by these factors of economic unsteadiness, is at the same time enhancing them and making the whole world much less bump-proof, so that the shocks they administer seem to be magnified. In other words: if the world economy of to-day had preserved more of its former normal aspect, if it were more intercommunicating and less erratic on account of present commercial and monetary policy, and if it provided larger and therefore more stable markets, it is to be presumed that the shocks coming from other sources—cyclical oscillations, changes in tastes, or the progress of the technique of production—would be absorbed more easily.

(d) THE BREAK IN THE INTERNATIONAL MONETARY AND FINANCIAL SYSTEM

What has happened during the last decade to the international monetary and financial system of the world is generally so well known that it would be quite sufficient here to reduce the confused events in this field to their essentials, and to point out their fundamental significance for the disintegration of the international economic system. Since, however, this monetary aspect of international economic disintegration will be dealt with separately later (Part VI), it will be enough at this point just to mention it for the sake of completeness and to ask the reader to keep the monetary aspect firmly in mind as one of paramount importance.

(e) THE INCREASED INTERNATIONAL IMMOBILITY (NATIONALIZATION) OF PRODUCTION FACTORS

An enumeration of the functional disturbances of world economy at the present time would be incomplete without due reference to the well-known fact that the gap between the economic integration existing within the borders of the various countries and that of the world economy has been considerably widened by a process which can be called the growing nationalization of production

⁵ For a fuller discussion of the problems of economic change, Allan G. B. Fisher's book, *The Clash of Progress and Security*, London, 1935, should be consulted. Cf. also his paper on "International Problems of Economic Change," *International Affairs*, March-April, 1938.

factors or, to be more specific, of capital and labour. In other words, the international mobility of capital and labour has decreased during the last ten years, that of labour much earlier, whereas it is only recently, after an outburst in the 'twenties, that the international flow of capital has become stickier. This means that there has been an absolute decrease, and that the relative share of factor movements in international transactions has diminished, while the share of commodity movements, whatever their absolute amounts, has increased. In this connexion, there are two points to be considered for the purpose of the present chapter. The first is the order of magnitude in the decrease of the international mobility of production factors, and the second its significance for the process of international economic disintegration.

If certain precautions are taken, it is possible to make statistical measurements to ascertain the order of magnitude of factor nationalization, but the danger of rashly accepting such figures must again be stressed, as it has been in earlier sections. What we want to emphasize is the distinction to be drawn between *actual* and *potential* factor mobility and the fact that the latter is even more important than the former. But the statistics only show the decrease of the former and not that of the latter, at least not explicitly and accurately. What we want to know is not only to what extent international movements of capital and labour have decreased, but also the possibilities of their taking place in case they should appear economically rational. But the only way of drawing conclusions about this from the statistics of actual movements is by inference. The full truth, therefore, will only be known if the statistical picture is completed by an account of the growing obstacles put in the path of economically rational factor movements by (a) legislation and other state interference, and (b) by a perverse state of psychology leading to irrational movements. As far as the first group of obstacles is concerned, it is sufficient to point to restrictive migration policies, exchange control, capital embargoes and other measures, which have been applied the world over and which have become one of the most striking features of the present state of world economy. With regard to the second, it is a matter of common knowledge that the factors making for irrational movements of capital and labour have become numerous and very active, from which it may be inferred that the effect has been to decrease rational movements correspondingly. That refers especially to international capital movements, which are being directed more and more by nervous considerations of safety rather than by interest differentials.

Turning now to the significance of the increased immobility of production factors for the process of international economic disintegration, we may safely assume that this can hardly be contested, though it must, at the same time, be admitted that it is a rather intricate task to analyse the full economic meaning of this development.⁶ That the growth of international immobility of capital and labour is a factor of international economic disintegration can be shown in different ways. To begin with, it is a process which makes the localization of production on the international plane less rational than it would otherwise be. The rational distribution of productive forces over the entire world—a process which, under normal circumstances, is already being hindered by powerful counterforces—is bound to suffer, if there is less mobility of production factors, and no differences of opinion as to its desirability can do away with the fact that it is a correct measure of economic integration. Approaching the subject from a different angle, we arrive at the same result by showing that the less the international mobility of production factors, the wider will be the gap between the different national scales of factor prices (wages and rates of interest) and the less efficient the ways of equalizing those differences. Thus, with distinctly national price systems not only for commodity but also for factor prices, the different national economies come to live more and more on separate economic planets.

It should be noted, however, that all this would be substantially different if the decrease in the international mobility of production factors were compensated by an increase in international commodity trade. Even this would be a situation where the international economic integration would be inferior to that prevailing under conditions of an all-round mobility. According to the law of comparative costs (however formulated), it would, however, also be a situation where a flourishing international trade would be possible and profitable to all parties, with only this modification: that the disadvantages of an irrational distribution of productive forces between the countries concerned would make themselves felt in a difference of factor prices, which would be mitigated, but not eliminated, by commodity trade. But the point is that a brisk international commodity trade is no longer a compensating factor, since the international mobility of commodities has decreased to the same extent as the mobility of production factors. Thus, the disintegrating effect of the nationalization of capital and labour is to-day unmitigated and complete.

⁶ See on this point especially: B. Ohlin, *Interregional and International Trade*, Cambridge, Mass., 1933.

There are *two special points* to be mentioned. The *first* is the paradoxical fact that international economic disintegration has to some extent led to an increase of international capital and labour movements. That is happening in so far as the restriction of commodity trade is reaching such a degree that it becomes profitable to establish branch factories in the protectionist country, the reason being that what is saved on duties overcompensates the loss caused by the partial transfer of production to the protectionist import country. How high the duty must be in order to make this transfer profitable depends, of course, on the degree in which the new localization of production is less rational than the old one. It would seem advisable to make further investigations into these relationships, investigations which would be interesting from several points of view. In particular, it should be noted that this is a problem closely connected with that of the industrialization of new countries, which will be considered in a later chapter. One thing, however, should be already clear at the present juncture, i.e. that, because of its special nature, this increase of international movements of capital and labour does not lead to more, but to less international economic integration. A further conclusion would be that it can hardly be other than temporary and that it will flourish only at a certain degree of protectionism. In order to elicit the transfer of foreign capital and labour, protectionism, for the reason mentioned above, must not be too low, but, on the other hand, it must also not be too high or take on any autarkic flavour lest it deter foreign capital and, perhaps, also foreign labour. If a severe exchange control makes it next to impossible to send home profits and wage savings, the country in question is likely to lose its power of attraction. It is very likely, however, that it is just the inflow of foreign entrepreneurial capital which, sooner or later, will make it appear desirable to increase economic nationalism to a point where it ceases to attract capital from abroad. The foreign capital will be welcome, but not the controlling influence which it entails. So, as far as the attraction of foreign capital is concerned, there is a self-defeating tendency in economic nationalism.

There is one *last point*; whether the decrease of international factor mobility applies equally to the factor of "entrepreneurial ability." In general, one would be inclined to assert that it does, though perhaps in a minor degree, but until this point has been further investigated, we must confine ourselves to mentioning it and thus completing the picture of the disintegrating influence of the nationalization of production factors.

(f) THE INFLUENCE OF THE NEW CHARACTER OF PROTECTIONISM

In a previous chapter in which the pre-war structure of world economy was characterized (I, 1), the statement was made that the world economy of that time was practically untrammelled by prohibitive import duties, having the free-trade area of Great Britain as its nucleus. There was, to be sure, enough protectionism in the world at that time, and the general tendency was for it to increase rather than decrease, but neither was the height of the customs tariffs prohibitive nor were the instruments of protectionism non-conformable, i.e. of such a character as to interfere with the pricing process itself and to be incompatible with the principle of market economy. Looking back on that period, we are certainly justified in regarding its commercial policy as essentially liberal, which we are the more inclined to do when we compare it with the present era of economic nationalism. To characterize this new era and to assess its significance for the structure of world economy is the purpose of this section which, by describing the framework of world economy set up by commercial policy, completes our analysis of the qualitative (structural) aspect of the present state of world trade. This new commercial policy is largely the source from which the structural changes discussed originate.

To begin with, *protectionism* of whatever kind has *risen quantitatively* to such a height that quantity is turning into quality. World trade is able to assimilate an astonishingly large amount of protective measures, until suddenly the breaking-point is reached. Customs duties may be, in general, a conformable measure of protectionism, but when they are raised to the point of becoming prohibitive, they change into a non-conformable measure. On the other hand, even so-called prohibitive duties are rarely so absolutely prohibitive and so prompt in accomplishing the effect of prohibition that, if this effect is ardently desired, there is not a strong temptation to resort to more drastic measures belonging, in spirit and technique, to another category of state intervention, viz., to that of planning and "non-conformability." The fact that tariffs as an instrument of commercial policy have become the accompanying bass, while the leading melody has been taken up by other measures (quotas, exchange control and clearing agreements, administrative protectionism, foreign trade monopolies, &c.), amply testifies not only to the limits of using tariffs for the more ambitious purposes of present-day commercial policy, but also to the qualitative distinction between these two groups of instruments.

Turning now from the merely quantitative aspect of the new commercial policy as it can be seen in the formidable rise of customs duties, to the *new trends, directions and instruments of modern economic nationalism*, we find that the most striking feature of the new measures is that they aim, directly and consciously, at a *planned quantitative regulation of international economic transactions*. Taken together, they represent what may be called a planned commercial policy, in contrast to the former liberal one, meaning a commercial policy consisting largely of non-conformable measures⁷ which interfere with the market process itself and correspond to an internal economic system which becomes more and more a generally controlled and directed economy ("command economy"). Instead of leaving it to the reactions of the market itself to give foreign trade more or less the desired volume and shape, these reactions are being anticipated by governmental decree; it is the law and the administrative office which, by taking over some of the functions of the market, give to foreign trade the desired shape directly, consciously and by central action. And the shape desired is that of a foreign trade which is left as little as possible to the regulative forces of competition—of a foreign trade which is reduced to the dimensions and diverted into the directions demanded by an economic nationalism that is more pronounced than ever and in some cases amounts to "autarky." It is, further, a foreign trade which fulfils two conditions: that it rigidly corresponds at any moment to what the government thinks it should be in volume and composition; and that this rigid structure can be swiftly and efficiently changed into another. And, finally, it is a foreign trade which is so controlled that it becomes part of a national economy based entirely or partially on the principle of planning, while at the same time it does not exert any seriously disturbing influence on the home market or create new conditions for internal economic equilibrium. Whereas commercial policy was formerly dominated by customs duties, which were fixed or bound over long periods by commercial treaties for the sole purpose of protecting or fostering certain industries, the new protectionism tends to become an instrument for a general market and price protection and the counterpart of an elaborate system of internal interventionism. More and more it develops into one of the most important pieces of the formidable machinery of "managed capitalism." All that is true of the quota system as well as of the other devices of modern economic nationalism like exchange control, clearing treaties, embargoes,

⁷ See on this terminology p. 17.

trade monopolies and similar measures, though, of course, there are important distinctions between the countries with a more conventional type of foreign trade policy and those which gave themselves up whole-heartedly to the new idea.

It should be quite obvious that the present policy of economic nationalism must not be regarded as a mere accentuation of former trends, but as something new both in spirit and technique, in means and in ends. It is not so easy, however, to give a satisfactory and exhaustive definition of this new era. Therefore, no effort must be spared in trying every means of interpreting it. One way is to regard the old era as one of a liberal commercial policy and the new as the age of planned commercial policy, while another is offered by the distinction between mere "protectionism" of the past and "autarky" of the present. It was on these distinctions that the preceding considerations were based. It goes without saying that the contours given by these terms to the new trend of foreign trade policy are far from being sharply outlined and distinct. On the contrary, there is plenty of room for a more precise definition of these terms, especially of "planning" and "autarky," despite the efforts that have already been made in current literature.⁸ At the present juncture, it is not possible to fill this want, nor is it, perhaps, entirely necessary for an understanding of the essentials. But it seems useful to look at it another way. The completeness of the change of scenery in present-day foreign trade policy may also be understood by contrasting the world trade conditioned by the former policy, as "*individual trade*," with that conditioned by the new policy, as "*controlled*" or "*collective trade*." Because the old commercial policy was content to introduce only a new datum into the mechanism of international trade, it left the individual nature of international economic transactions essentially untouched; and only the general conditions of trade, not its concrete quantity, direction and composition, were made the subject of commercial treaties. But now we are more and more encountering a new type of commercial policy in which the subject of commercial agreements is no longer only the general framework, but also the real contents of foreign trade, which, while still being conducted by individual firms, become a matter of mutual arrangement between governments. The new devices of trade policy allow

⁸ For an elucidation of the meaning of "planning" see my own book *Crises and Cycles*, pp. 193-196, and G. Haberler, *Liberale und planwirtschaftliche Handelspolitik*, Berlin, 1934. For the clarification of the proper meaning of "autarky" cf. especially the "Rapport préliminaire sur la réorientation économique de la Belgique," *Revue du Travail*, September, 1936, for which Professor Dupriez is mainly responsible.

them to force international trade into the desired channels, and to conclude agreements which look as if they were barter contracts between individual firms: so many tons of coal against so many tons of butter (England-Denmark) or even so many tourists (Germany-Switzerland). Thus a hybrid form of international trade has come into existence which is still individual and competitive in form, but in its real contents, is collective and monopolistic. The curious theoretical problems arising out of this new situation are still largely unexplored, while the enormous practical difficulties engendered by it are also far from being solved, especially by those countries which are not yet equipped with the new devices and are, therefore, still unable to take part in this new game. The latter is well illustrated by the rather helpless attitude of the Western countries before the present war towards Germany's conquest of the Southern-European markets. The extreme case of this collectivization of foreign trade is, of course, reached by Russia, in whose system of foreign trade policy customs duties have naturally become rather meaningless. Looked at properly, the whole development shows only a new facet of that general trend characterized earlier by the terms planning and autarky.

However we may define the essential character of the new era of protectionist policy, it is clear that its effects are visible in these structural changes of world economy which have been discussed in the preceding paragraphs; and we shall remember that these changes are all in the direction of the disintegration of world economy. *The new era of protectionist policy means especially three things. First*, it means less international trade in general and greater distortion of that distribution of productive forces over the whole world which, measured by the standards of market economy and of material wealth, can reasonably be described as rational.

Secondly, the new era means that there is going to be greater *differentiation in space* as to the conditions set by commercial policy. That is to say, that the new devices of commercial policy are, by their very nature or by intention, highly discriminatory and liable to foster bilateralism. Thus it is not to be wondered at that the new development goes hand in hand with a process of undermining the working of the most-favoured-nation clause, which latter, as has been stressed on several previous occasions, is essential for an integrated system of world economy as an interdependent, unified and intercommunicating system of international trade relations. It is, indeed, due to the influence of the new commercial policy that the most-favoured-nation clause has become largely a

sham. The simultaneous development on an unprecedented scale of the old device of preferential treatment in customs tariffs, of which the Ottawa treaties between the members of the British Empire are the outstanding example, is all in accordance with this trend.

The *third* point is that the new commercial policy is also characterized by a greater *discontinuity in time*, which means that changes in the conditions of international trade brought about by commercial policy are, on the whole, much more frequent to-day than before. This is due both to the greater changeability of the autonomous commercial policy of the different governments and to the shorter average duration of commercial treaties. Both correspond to the more erratic character of world trade to-day, which has been treated in a special section.

CHAPTER IV

CONCLUSIONS

IF this picture of the international economic disintegration be accepted as fairly clear and reasonably correct, it only remains to round it off and balance it with a number of general *qualifications and precisions*, which may meet some obvious objections.

In the first place, there is the obvious fact that the different countries and parts of the world are involved in these disintegrating tendencies to a different degree, some playing an active and others a more passive part, some leading and others following more or less reluctantly, some joyously forging ahead and others bravely or even successfully fighting against the general trend. At one end of the scale there is Russia, entrenched in its economic and political isolation, and at the other a country like the United States, which sticks to its traditional commercial policy and is making great efforts to restore the old liberal foundations of world economy. Between these two extremes there is every shade and variety. Here is the "free sector" and there the "blocked sector" of world economy, both of which have been mentioned in connexion with the trend toward bilateralism. And what has become a conspicuous part of the commercial system of the one country, is a mere tendency or a thing bitterly combated in the other, like the quota system or the clearing machinery. In view of these differences, it is sometimes very difficult to arrive at a general appraisal by striking a balance and weighing up the general significance of this or that tendency.

There is another qualification suggested by the very uncertainty involved in any tendency. Judgments may be divided between the one view that this or that tendency is exceptional or temporary, and the other that it is significant for the whole direction in which the world will go for an appreciable time. At this stage of the enquiry it is much too early to express any definite opinion, because the final judgment must depend on a deeper diagnosis and etiology of the tendencies in question. It is obvious that the tendencies will be the more lasting or, at least, the more difficult to check, the more deep-rooted are their causes.

Leaving this problem aside for the time being, it is nevertheless possible to make two observations. The one is that the tendencies described contain a certain *cumulative* and *self-inflammatory*

element, with the result that they are, to some extent, being strengthened by their own momentum. Inside the countries they create vested interests which add to or replace the original forces, and, between them, they are apt to lead to retaliation and imitation. The beginning of such policies may also prove the last straw in a situation where everything was prepared for a lasting and permanent change in the new direction. To understand this, we may well remember that most of the changes described here took shape in the international crisis of 1931, and were conceived as merely temporary emergency measures in the whirlpool of upset balances of payment. Finally, it should be noted that an essential feature of these new devices of commercial policy is that, being non-conformable measures, they are apt to start a chain of repercussions which necessitate more and more radical acts of intervention, with the result that the country in question sinks deeper into the quagmire of nationalist planning,¹ unless there is a complete restoration of the status quo. The deeper it has sunk, however, the more difficult this restoration is, so that the existence of the new state of things becomes an additional reason for its continuance. There are some social processes that are nearly or practically irreversible: the way in is easy, but the way out extremely difficult.

That is the first consideration. The other takes quite the opposite direction. The tendencies toward international economic disintegration, which have been described, contain not only cumulative but also *compensatory and self-adjusting elements*. They are provoking certain reactions which tend to nullify their effect to a certain extent and to restore equilibrium as far as can reasonably be expected, in accordance with the adage *naturam expellas furca tamen usque recurret*. This point is so important, and also generally so much neglected, that it deserves some elaboration.

It is a well-known experience that no economic intervention can be made without a certain discount. Its effectiveness is never 100% since there is always some leakage and some evasion *intra, praeter* and *contra legem*. For this there are some very deeply rooted reasons connected with the fact that there exists a certain natural gravitation towards the competitive price-system.² The more state intervention is directed against this natural gravitation, the more formidable is the pressure that has to be exerted, but the greater, also, the tendency for the reaction to become strong, and it is by no means easy to predict the final outcome of this tug-of-war between

¹ W. Röpke, *Crises and Cycles*, p. 195.

² The point has been elaborated by the author on several occasions. See e.g. his book *Die Lehre von der Wirtschaft*, Vienna, 1937, pp. 27-38.

CONCLUSIONS

the state and the competitive price-system. As has already been stated, it is a peculiar feature of that group of non-conformable interventions to which most of the new measures of commercial policy belong, that it sets in motion a series of reactions which forces the government to cope with them by ever more drastic measures. A good example of this is exchange control. Here one usually has only to choose between having no exchange control at all and going the whole length toward an hermetically sealed economic system. It is a case of *aut Caesar aut nihil*.

Now, there is a special reason why the present tendencies in foreign trade policy appear particularly forced and artificial, and that the greatest pressure has to be exerted to achieve the desired object in spite of the strong counterforces. The disintegration and contraction of world economy means that retrogression of economic development occurs only at *one* arbitrarily chosen point, i.e. at the national frontiers, whereas, inside the countries, the line of development toward greater integration remains unbroken. In spite of certain ideologies, autarky does not and cannot mean a romantic retreat of the *whole* economic system to the idyllic stage of economic development of a century ago; it is only the international sector which is forced to go in this direction.

The world economy of the recent past is certainly something altogether abnormal in economic history, but so is the whole economic and social system connected with it. Yet, autarky may be a more or less normal stage in economic history, but it was never connected with an economic system which, in its entirety, was so integrated, rationalized and technically advanced as the present one. Consequently, it is altogether unconvincing to present the world economy of the recent past as something transient and extraordinary, which is bound to wither like a very short-lived flower, and to make autarky out as being the normal state of affairs. That is why highly advanced countries are to-day having to move heaven and earth in order to achieve even a relative degree of autarky, and why the gigantic efforts they have to make are leading the countries in question into the severest economic, social and political upheavals and spasms, and, above all, into internal collectivism with all its paraphernalia. That is also why the sacrifice made to romanticism by autarky is apt to find its compensation in the utmost increase of highly unromantic regimentation and rationalization within the national economies. That is the reason, too, why this policy has a dynamics of its own, which leads to repercussions that are for ever presenting new problems and new disequilibria which have to be coped with. And that is, finally,

why there is good reason to expect that somehow, in the present situation of world trade, that which has been suppressed will develop a strong tendency to re-establish itself as far as possible. It is, indeed, difficult to dam up the forces of world trade: in some way or another the river will carve itself out a new bed—with all the damaging consequences such a process involves.

It is beyond the scope of this chapter to give a detailed idea of the ways in which we can observe this process going on to-day, though to do so would surely be a very interesting study. To illustrate it, however, we may mention the fact that even multilateralism, after being suppressed by clearing treaties, is being restored in some of its functions by re-exports to third countries (so that, e.g., Persian carpets brought into Switzerland under the Swiss-Persian clearing treaty may be re-exported to the United States), or that, when imports are replaced by home production, the imports of other commodities used as raw materials for that production increase (e.g., timber in Germany or casein in Italy), or that the competition of synthetic products has proved an effective spur in decreasing the cost of production of the natural raw materials whose place they were to take (e.g., the recent restoration of the competitive strength of Chilean saltpetre compared with synthetic nitrates, which to-day could probably not withstand the competition of the natural product without strong protection). Finally, it is not without interest to observe that the reduction of international trade to mere barter, by strict bilateralism (especially by clearing treaties), has had the somewhat paradoxical effect of making everybody realize the truth of the old maxim of the theory of international trade, that imports foster exports, and of thus changing the psychological climate favourably for the development of foreign trade.

If, however, the reader were left under the impression of the last paragraph, it is not altogether unlikely that he might take it in a too optimistic sense. Therefore, it seems advisable to emphasize that, in drawing attention to some self-adjusting and compensating factors in the situation, it is by no means our intention to pretend that they are important enough to change the situation essentially. We must not neglect them; but, on the other hand, we are bound to face the disquieting truth that, in the net result, international economic disintegration is liable to go on, unless something is done to deal with its fundamental causes. This brings us to the problems dealt with in the following chapters.

PART II

ECONOMIC AND SOCIO-POLITICAL INTEGRATION AND
DISINTEGRATION

(THE EXTRA-ECONOMIC FRAMEWORK OF WORLD ECONOMY)

CHAPTER V

THE IMPORTANCE OF THE EXTRA-ECONOMIC FRAME- WORK FOR THE WORKING OF THE ECONOMIC PROCESS

THE problem to be discussed here is deemed so important, that it should be used as the starting point of any causal analysis of the present disintegration of world economy worthy of the name. At the same time, however, it is, one must be afraid, one of those numerous problems which to many people appear startlingly new and rather incomprehensible. Even to regard it as a problem worthy and capable of analysis is so contrary to the traditional spirit of economic science, as created by the classical school, that some words of introduction seem indispensable.

As has been remarked earlier, no one will seriously dispute that this traditional spirit of economic science was, and still is, largely coloured by belief in not only the sociological autonomy, but also the sociologically regulating influence of the market economy. Implicitly and explicitly, it was and still is held that a market economy based on competition and essentially unhampered by any agency outside the competitive market is an *ordre naturel* which, once freed from all impediments, is able to stand indefinitely on its own feet, steered by that "invisible hand" which Adam Smith made famous and which, looked at closely, is nothing else than the "logos" of Heraclitus or the "divine reason" of deistic philosophy. Thus the competitive market appeared to be a "philosopher's stone," which turned the base metal of callous business sentiments into the pure gold of common welfare and solidarity; social wisdom and morality were the surprising products of countless individual actions not primarily commanded by either; and private vices were turned into public virtues.

So far the competitive market economy was considered sociologically autonomous: it needed no special laws, no special state or special society, required neither a special morality nor any other irrational and extra-economic forces and sentiments. Rarely or never was this belief stated so crudely, but surely few will to-day deny that the general tendency of the liberal philosophy ran—and in some quarters still runs—in this direction.¹ It was supplemented,

¹ Cf., among others, the study by Arthur Salz, "Die irrationale Grundlage der kapitalistischen Wirtschafts- und Gesellschaftsordnung," *Festschrift für Alfred Weber, Soziologische Studien*, Potsdam, 1930, pp. 34-79.

however, by the other belief that the competitive market economy, while standing on its own feet sociologically and obeying its own laws, exerted a strong regulating, integrating and educating influence on society as a whole, and worked for peace, good will, solidarity and a mild, but general morality with its motto "honesty is the best policy." Far from consuming and being dependent on socio-political integration from outside the economic sphere, the competitive market economy produces it—or so runs the argument. When Cobden coined his famous slogan: "free trade, good will and peace among nations," he may have meant that all three condition each other, but there is a strong suspicion that the main emphasis was on "free trade" as the agent, which brought peace and good will in its wake.

If views like these were ever held at all, it has become obviously impossible to continue to hold them to-day. We are not going to dispute the all-important discovery made by the pioneer economists of the eighteenth century that the competitive system with its unconscious tendency toward equilibrium follows its own well-established laws. But we are forced emphatically to deny that this order is anything like an *ordre naturel* independent of the extra-economic framework of moral, political, legal and institutional conditions, without which the competitive market system can no more work than any other economic system characterized by a high degree of economic integration. Under the system of the competitive market economy, as well as under any other economic system, economic integration cannot, in the end, go further than the socio-political integration based on laws, institutions and psycho-moral forces. The latter is the indispensable condition of the former, whereas it is highly doubtful, as will be seen, that economic integration can be sufficiently relied upon to produce automatically the degree of socio-political integration it requires.

It is certainly true that the competitive market system—the "business economy"—keeps itself at an equal distance from both the ethically negative system of violence or ruse and the ethically positive one of altruism and charity. It reduces both to the common level of a mild standard of commercial good behaviour, but it would be a great mistake to think that that would make the market system an ethically neutral sphere. On the contrary, it is a highly sensitive artefact of occidental civilization, with all the latter's ingredients of Christian and pre-Christian morality and its secularized forms; and it should not be forgotten that the "economic man" of the classics was really an English gentleman of the

eighteenth or nineteenth century, whose normal code was fixed by the church and by tradition. In fact, the market economy is an economic system which cannot exist without a minimum of mutual trust, confidence in the stability of the legal-institutional framework of the economic process (including money), contractual loyalty, honesty, fair play, professional honour, and that pride which considers it beneath one to cheat, bribe, or misuse the authority of the state for one's own egoistic purposes. Above all, there must be a "creed" in the most general sense of the term, a belief in a definite scale of ultimate values giving sense and purpose to the ordinary doings of all participating in the economic process, and, finally, at least a provisional understanding of the meaning and working of this economic process.²

Thus the market economy is living on certain psycho-moral reserves, which are taken for granted when everything is going well, and only reveal their supreme importance when they are giving out. From this we see at once that the ultimate conditions for the working of the economic process lie outside the strictly economic sphere. Where there is a slight ailment of the body, a local treatment is enough, but modern medicine has learned that major troubles are usually bound up with the ultimate somatic and mental conditions of our existence, conditions which must be changed if there is to be any definite cure.

To abandon as unfounded the tenacious idea of the economic sphere as an autonomous sphere of rational behaviour, is to conform to the general trend of modern sociology. Whether it is Max Scheler showing that the contractual co-operation of men (*Gesellschaftliche Verbände*) cannot work without genuine communities (*Gemeinschafts-Verbände*), like the family, the moral bonds of neighbourhood, the church, &c.,³ the conservative philosopher Friedrich Julius Stahl telling us that society as a whole must be surrounded by a penumbra of reverence for genuine authority, C. G. Jung suspecting the existence of a "collective subconsciousness," Ch. Blondel speaking of the "*représentations collectives*" regulating

² See, on this point, especially: L. Romier, *Si le capitalisme disparaissait*, Paris, 1933, pp. 171-183. It is important to note that all this has a special bearing on private investment activity, the pivotal rôle of which has been duly stressed by the modern business cycle theory, though most workers in this field still ignore its extra-economic roots.

³ Max Scheler, *Der Formalismus in der Ethik und die materiale Wertethik*, Halle, 1916; C. Bouglé, *Bilan de la sociologie française contemporaine*, Paris, 1938; R. Behrendt, "Psychologie et sociologie du radicalisme politique," *Revue des Sciences Politiques*, October-December, 1933. In the sociological writings referred to, there is a certain tendency to exaggerate the collective and to neglect the individual component of social integration. This question cannot be discussed at this juncture.

individual consciences, or M. Halbwache pointing out the necessity of social "encadrement" for the mental balance of the individual—it all comes down to the same thing, that even in the most ordinary aspects of life, for the correct balance of his volitions and actions, man must consciously or subconsciously be embedded in a vitally satisfying milieu and be integrated into a stable and well-balanced community which is based on social sentiments and institutions.

It is difficult to imagine how the leading thinkers of former generations could have been more or less blind to this fundamental truth, which seems so obvious and even trivial to us to-day. The reason why it was so, is perhaps to be sought in the fact that an important part of this same social philosophy of the past was its strong belief in the sociologically positive effects of the business economy—a belief which has already been mentioned and which found its most glaring expression in the social philosophy of Herbert Spencer. If the business economy was educating and domesticating mankind—slowly and with occasional relapses into a more primitive behaviour—if the mutual dependence of individuals and nations brought about by division of labour and exchange could be relied upon to lead men to peace, confidence, order and honesty, then all was well with the world. If reactionary philosophers made themselves unpleasant by insisting on the dominant importance of forces and sentiments outside the economic sphere—why, the business economy was providing itself with just this lubricant of morals, sentiments and institutions! Here is a sociological problem of the first order, which is still far from being generally understood. Impossible as it is to go into it more thoroughly on this occasion, the least that can be said is that the Spencerian Optimism—which is closely akin to the Economic Determinism of Karl Marx—would appear to be shaken to the core; and after what has been said on the character of the extra-economic framework of the market economy, it is easy to understand why that must be so. True, there is no gainsaying the fact that the mutual dependence engendered by an intensive division of labour is, to a certain extent, moulding the mind toward a more civilized behaviour, so much so that the division of labour can be conceived as one of the most potent civilizing factors.⁴ But in granting this we must not overlook the fact that it is only one of other civilizing

⁴ Especially illuminating in this respect is the linguistic and ethnological analysis of words like "hospes," "Gast" and others. Cf. O. Schrader, *Linguistisch-historische Forschungen zur Handelsgeschichte und Warenkunde*, Part I, Jena, 1886, pp. 1-159. The development of Roman law from the narrow code of a peasant tribe to the *jus gentium* points in the same direction.

factors, which are even more important because they are ones without which a high degree of division of labour would be altogether impossible. Were it otherwise, it would be rather puzzling why world history fails so conspicuously to offer us the gratifying spectacle of a steady upward movement of civilization, and, above all, the present situation of the world would be utterly incomprehensible.⁵ More important even for the present, is the fact that a clear distinction must be made between the sociological effect of mutual economic dependence as such, and that of competition. It is hard to see how competition, much as it is indispensable and beneficial from the point of view of the production of material wealth, can be capable of breeding social integration. It should be obvious that, morally, it is a highly dangerous arrangement, and one which must be balanced by the strongest of counter-forces from outside the economic sphere.⁶ It is, indeed, no principle on which society as a whole can safely be based in the long run. It assumes that there is enough integration outside the competitive market to keep society in general and competition in particular from collapsing, and this is more or less what we are witnessing to-day.

We may conclude, then, that it is social integration on which economic integration depends, and not the other way round. The latter supposes the former as a largely independent condition, and the reversal of causation due to Spencerism seems, to-day, no more than a very significant symptom of an age which was in the habit of overstressing the dominating and determining rôle of the economic side of society.

⁵ Or has it been the lack of education in the principles of Spencerism? That seems to have been the idea of the young J. B. Say, who tells us in his juvenile work on a Liberal Utopia (*Olbie ou Essai sur les moyens de réformer les mœurs d'une nation*, Paris, 1800, p. 25): "Aussi le premier livre de morale fut-il, pour les Olbiens, un bon traité d'économie politique."

⁶ Cf. F. H. Knight, *The Ethics of Competition*, London, 1935, pp. 41-75.

CHAPTER VI

ECONOMIC AND SOCIO-POLITICAL INTEGRATION AND DISINTEGRATION IN THE INTERNATIONAL FIELD

WE saw that an intensive economic intercourse, which involves a wide scale of division of labour and a high degree of mutual dependence of individuals, is possible only under a number of conditions, which all fall under the head of "socio-political" integration. It is this latter which, in the last resort, sets the limits to the extent and degree of economic integration. There must be a framework of institutions and of a strong legal order, and behind them, there must be a generally observed and undisputed code of moral norms and principles of behaviour. In this way, it is possible to have a society in which all its members may feel sheltered in an atmosphere of mutual confidence, security and continuity. Only in this way is it possible to reduce and make bearable the enormous risks involved in the high degree of dependence, which is inevitably connected with the division of labour. Every page of economic history proclaims the truth of this statement, which is, indeed, the ultimate principle explaining the rise and decay, the expansion and contraction of economic organization.¹

In the course of history, it has as a rule proved possible to provide a minimum of socio-political integration within the borders of a well-organized community or state, which would last long periods without serious interruptions. The great problem, however, has always been to provide this necessary minimum of socio-political integration beyond the borders of the sovereign state, and thus make stable international economic relations possible. Where the sovereignty of the state ends, there also ends the law-community, in the strict sense of a community bound by a common legal order which is enforced by an undisputed authority and its sanctions. Though, in its economic substance, international trade is not essentially different from national trade, it is clear that it has always been handicapped by the greater frailty and precarious-

¹ This has been well expressed by A. Salz (op. cit., p. 57): "Die grossen Krisen der Wirtschaftsgesellschaft sind allgemeine Krisen des Vertrauens, die das ganze kunstvolle Gefüge erschüttern und auch den Staat ergreifen. Es handelt sich dabei nicht um eine Erschütterung des Vertrauens in den Einzelnen, dessen Leistungsfähigkeit, Solidität, Ehrlichkeit usw., diese sind ganz nebensächlich, sondern um die Erschütterung des Vertrauens im ganzen, in die ganze Ordnung unserer gesellschaftlichen Existenz."

ness of its socio-political framework. Consequently, international economic integration has, in the course of history, normally lagged behind national economic integration. Since there is no world state, world economy lacks the strict legal order provided by the sovereignty, which sets the norms and enforces them immediately and indisputably.

The problem is to a certain extent solved by the existence of some sort of a super-state like the empires of Alexander the Great, Rome, and the Han dynasty, or those of the Carolingians and Stauffen, the Arabs and the great Mongol rulers. The Pax Romana, Arabica or Mongolica made possible an economic integration far beyond the territorial extent of the individual states, and the rise and decay of this integration invariably coincided with the rise and decay of an international economy. A similar effect was had by such strong political affiliations as that of the Pope and the Mongol Empire² and other power combinations, which were usually the result of an alliance against a common adversary.

How, then, can we explain the fact that during the last centuries international economic integration was able to develop in such a stupendous fashion? The political predominance of the British Empire since her historical struggle with France during the middle of the eighteenth century was never a negligible factor in the situation. It is, indeed, doubtful whether the development of modern world economy can be satisfactorily explained without due reference to the Pax Britannica; and there is much scope for speculation on the importance of the British rule of the seas for the rise of world-wide capitalism. But parallel to the rise of the British Empire went a much more important development, which really explains why the international economic integration of our time has been possible in spite of the absence of a world state and its powerful socio-political framework. This was the spread of a commonly accepted *ordre public international*, based on international standards of conduct in peace and war, and on a network of international treaties or unwritten rules of international law, which were respected because there was an undisputed moral code behind them.

It was an unique feature of the development of the last 200 years that economic integration could pass national frontiers as never before, because the world had succeeded in finding a working substitute for the non-existent world state or world-wide empire. Just as the universal gold standard was, to all intents and purposes,

² B. Kuske, *Die historischen Grundlagen der Weltwirtschaft*, Jena, 1926, pp. 26-27.

equivalent to a world money, so the high degree of moral and legal community of the different nations, which united the civilized world, was the nearest approach to an international super-state, despite all its glaring shortcomings and relapses, which it is, perhaps, easy to underrate at the present moment, when distance is beginning to lend its proverbial enchantment. It is a fact that the nations were held together by a system of long-term treaties based on a generally accepted international law and on a far-reaching community of fundamental legal conceptions. This system was possible because it was embedded in an atmosphere of a minimum of loyalty, fairness and chivalry.

This is a very sweeping and generous description of the socio-political framework of international economic integration during the last centuries, as may be seen from the perspective of the present Iron Age, from which we look back on that period as the Golden Age. It would need a more competent pen than mine to fill in all the details of this picture, and employ all the available material of diplomatic history and contemporary literature in making it vivid and convincing. Nor does it lie within the scope of this book to show the origin and laborious development of the socio-political integration of the civilized world during the eighteenth and nineteenth centuries and its working in the different fields of international contact. Only a few points ought to be mentioned. There is first the well-known fact that nationalism was no red-hot passion³ as it is to-day: one's own nation was not the highest value, nor was the state a god-like authority. People were so little jealous of the absolute sovereignty of their nation, that even a great patriot like the Baron von Stein found no real harm in the idea of putting the German Bund under the guarantee of the

³ When, in 1778, France joined the Americans in their war with England, the French government instructed all commanders that if they should meet the English captain, James Cook, on the high seas, they should treat him with all due distinction and further his scientific expedition (J. Huizinga, *Nederland's Geestesmerk*, Leiden, 1935, p. 18). In 1810, in the middle of a fierce war between the two countries, the great English scientist, Humphry Davy, together with his disciple Faraday, was invited by French scientific societies; he not only made his lecturing tour through France, but was received everywhere with distinction (Aldous Huxley, *L'avenir de l'esprit européen*, Entretiens, ed. by the Institut International de Coopération Intellectuelle, Paris, 1934, p. 282). It would be too cruel to compare this with the experiences of the Great War. It goes without saying that the catastrophe of the Great War, with all its consequences, was prepared in the pre-war atmosphere. It seems that the gradual change for the worse brought about by moral dissolution, the development of aggressive nationalism and that general attitude, which can be called Activism or Dynamism, started at about 1870. Cf. Benedetto Croce, *Storia d'Europa nel secolo decimonono*, 3rd edn., Bari, 1932, pp. 349-350; Friedrich Hertz, *Nationalgeist und Politik, Beiträge zur Erforschung der tieferen Ursachen des Weltkrieges*, vol. 1, Zürich, 1937.

Great Powers after the Napoleonic wars.⁴ The character of war during this period and the neat distinction between peace and war, which became customary in the eighteenth century, were in accordance with this spirit. That is to say, that in war itself certain fixed rules and norms were obeyed, which it was unchivalrous to break. It is, indeed, a far cry from the days when the French and British commanders, before the battle of Fontenoy in 1745, urged each other to shoot first—"Messieurs les Anglais, tirez les premiers!"⁵—to the Christmas offensive of General Franco or to the Italian aggression on Albania on Good Friday of 1939. In general, wars were waged for well-defined and limited objectives; they were limited, not total, and the peace that followed was bearable and therefore durable; war indemnities were rare and moderate.⁶ Soldiering was nowhere in great esteem and in several countries openly despised; while war itself was an undisputed abomination, and armies were something apart from the rest of society. With the exception of the Napoleonic period, there was no imperialistic struggle for world hegemony, and after the battle of Waterloo the European state-system, based on the balance of power, was restored.⁷ The principle of the balance of power, misused as it was like every other principle, was a foundation of the international order, which not even a man like Bismarck could disturb. In all these respects the career of Napoleon I constituted a bloody, but short episode of international anarchy and disorder, which, because it was relatively short, did not change the general character of the period.

This spirit was reflected in the various institutions which regulated the international economic relations of that time, especially the international monetary order, which finally culminated in the universal *gold standard*. This international monetary system was possible on the basis of the *ordre public international* described above, because it is a system which presupposes just that spirit of playing the game, which was characteristic of the period; and this system, in its turn, provided that necessary condition of economic integration, the stability of money. As we have seen, the gold standard made the world practically a payment

⁴ Fr. Meinecke, *Weltbürgertum und Nationalstaat*, 4th edn., Munich, 1917, p. 185, who severely censures Stein for this attitude.

⁵ O. Guerlac, *Les citations francaises*, 2nd edn., Paris, 1933, pp. 263-264. Even during the Great War traces of chivalry have been preserved.

⁶ G. Ferrero, "Forms of War and International Anarchy," *World Crisis*, ed. by the Geneva Graduate Institute of International Studies, London, 1938, pp. 85-97; W. Lippmann, *The Good Society*, Boston, 1937, pp. 131-155; Hans Speier, "Militarism in the Eighteenth Century," *Social Research*, August, 1936.

⁷ See now: G. Ferrero, *Reconstruction, Talleyrand à Vienne (1814-1815)*, Paris, 1940.

community, and in doing so it established a universal confidence in the solidity of the basis of international economic transactions. It was also in this atmosphere that flourished the great financial centres of the world, without which the development of world economy can hardly be imagined.⁸ Last, but not least, we find the same spirit in the commercial policy of the nations, which was characterized by long-term treaties, an unusual degree of loyalty in keeping them and, above all, by the predominance of the most-favoured-nation treatment. This latter was perhaps the most characteristic symbol of an international order which, in creating security, continuity, confidence and fairness, assimilated as far as possible the conditions of international trade to those of national trade. Most-favoured-nation treatment and the gold standard were, indeed, the main pillars of world economy; but both were equally rooted in the general international order of that period and in the spirit which gave it life. In the last resort, both were more than technical arrangements: they were moral institutions and could only subsist as such.

Enough has been said to show how international economic integration and international socio-political integration have grown up together during the last two centuries. There was a close correspondence between the growth of world economy on the one hand and such facts as the balance of power, chivalry in peace and war, or the belief in the sanctity of written or unwritten international obligations on the other. Those facts, and the spirit behind them, were much more important for international economic relations than all the technical arrangements and strictly economic conditions, whose description fills the text-books on international trade. Here was the source of the vital force which moved the whole complex system. Here was the electric battery that supplied the current.

The fact we have to face to-day is that, during the last fifty years or so and especially since 1914, this battery has been allowed to run down and the current has become more and more feeble. We have long since entered a phase of international socio-political disintegration, which international economic disintegration has not hesitated to follow. Just as the international socio-political integration lay at the bottom of the international economic integration, so is the contemporary disintegration in the socio-political sphere the ultimate reason for the disintegration in the *economic*

⁸ Cf. R. Nathan, *Le rôle international des grands marchés financiers*, Paris, 1938, who particularly stresses the dependence of international finance on the socio-political framework of international relations.

sphere of international relations. "Goodwill and peace among nations" are gone, and so not only "free trade," but even the international economic order had to go too. That is the whole story in a nut-shell. In the international sphere, everything is in a state of dissolution: unpunished and even without loss of honour a country may nowadays do almost anything it likes; disregard treaties and conventions with frank cynicism or ingenious cunning, monkey with currencies, seize foreign balances, stop payments, practise dumping of every description, direct imports and exports here or there according to its almost daily change of friendship, and manage duties, quotas or embargoes as it pleases.

Nationalism, in the sense of intolerant and emotional insistence on the pre-eminent rightness and value of one's own nation, has gradually become the dominating passion and sentiment, sometimes even to the extent of taking the place of the worn-out religious creeds. The "interest of the nation," however defined and conceived, tends to become the ultimate measure of what is right or wrong, and this means the end of international law and the beginning of international anarchy.⁹ The old international system of states, based on the balance of power, is tumbling, and the world has entered again a period of desperate struggle for supremacy and hegemony.¹⁰ There are no ultimate and general principles governing the relations of nations; there is no relying on pacts, promises and pledges and no knowledge where the moral dissolution will stop. Foreign property is no more sacred than anything else and is an easy target for enflamed nationalism. To avoid paying interest and amortizations to foreigners has become almost a noble sport, the world champions of which are even enjoying some popularity. How can we expect that, under these conditions, world economy should be in any other state than that described in the preceding chapter, i.e., a state of disintegration and dissolution? The theory of international trade tells us that world economy rests on the law of comparative costs, but recent experience suggests that it would be truer to say that it ultimately rests on the maxim "pacta sunt servanda."

In the economic field, the socio-political disintegration of the world finds its most immediate and important expression in the *dissolution of the old monetary-financial mechanism*, which was

⁹ A good account of how the scientists in "dynamic" countries are doing their best to rationalize the dissolution of international law may be found in Édouard Bristler, *Die Völkerrechtslehre des Nationalsozialismus*, Zürich, 1938.

¹⁰ Cf. M. J. Bonn, *The Crumbling of Empire, the Disintegration of World Economy*, London, 1938.

based on the gold standard and the elaborate machinery of international credit connected with it. The international legal and moral order, as it existed before, was a working substitute for a world state, and the gold standard based on this order similarly functioned as a world money. Now, when the one went by the board, the other had to go too. It is only logical that, in this field too, order and the sense of international community should have been replaced by disorder, arbitrariness and a more or less frank disregard for international relations, though only a few of the advocates of the new monetary trends seem to realize that what they are recommending is part of the general process of international dissolution. The cold-bloodedness and almost rollicking spirit with which leading countries have thrown off the uncomfortable burden of the gold standard is, indeed, in complete accordance with the spirit of our times. If they have any excuse, it is the fact that they pushed over the table when already more than one partner had ceased to play the game. The gold standard, as cannot be repeated too often, assumes that the rules of the game are being strictly observed by the leading countries. It can well be asked what would have been the reaction if, in 1910, a country with an inflow of gold had prevented the gold from engendering the slight increase of the price level, which was necessary to restore the international balance, or vice versa in the case of an outflow of gold.¹ To-day, under the régime of paper standards and exchange equalization funds, international gold movements, which formerly were an indispensable agent of international economic integration, have become a factor of disequilibrium rather than of equilibrium; instead of being a link joining the different national economies, they are driving them still further apart; instead of working for international integration, they are working for international disintegration. The mechanism of the exchange equalization funds tends to work in a direction inverse to the gold standard by turning gold inflows into a contraction and gold outflows into an expansion of credit.² It is not to be wondered at that, under these conditions, the tendency to look on the gold reserve as a war chest, which under no circumstances must be allowed to fall below a certain minimum, is spreading everywhere, now that the old gold mechanism which had given sense to international gold movements has been destroyed.

¹ H. Rittershausen, *Die Valorisierung des Goldes als Währungs- und Aussenhandelsproblem*, Weltwirtschaftliches Archiv, January, 1938, p. 32.

² Cf. H. Rittershausen, l.c., p. 34; F. Lutz, "A Note on Gold Movements in the Present International Monetary System," *Review of Economic Studies*, October, 1937.

In whatever direction we look, dissolution and anarchy is everywhere; and the most dangerous thing about it is that it is a highly contagious disease. *Crescit eundo*. In international relations, too, the "marginal morals" tend to become the average morals. Once great countries have set the example by showing that a country can get away with almost anything, it is natural that the others should begin to ask themselves why they should play the part of the dupe. In any case, it takes an increasing amount of heroism to withstand the temptation of the bad example and stick to the old, unfashionable moral code, the more so since following the bad example usually brings immediate advantages. It is, however, not only a matter of contagion, but also one of sober practical policy. With the increasing insecurity and anarchy of international relations, one country after another may legitimately ask itself whether its relation to world economy must not be thoroughly revised. Since there is no world state, international division of labour, as we know, always has a more unstable and precarious character than its national division. If a country allows its national economy to become closely connected with the network of international division of labour, its economic life comes under the influence of factors which are outside its control and which, for that reason, may lead to unpleasant surprises. A country can only follow this course without danger if the specific risks involved in international economy have been reduced to the minimum in the manner indicated above. This condition had been fulfilled in the immediate past by the international moral and legal order and by the special economic institutions, like the gold standard and the most-favoured-nation treatment, which were based on that order. Now, however, that all that has changed, it has become evident that international economy, with all its immense material advantages, is based on conditions which formerly were so much a matter of course that they were rarely spoken of, and whose enormous importance come to light the moment we notice that they are no longer there.

No wonder that every country, which is not important enough to be able to turn the tide, will tend to revise its position in international economy and pay more attention to the risks involved. Thus, in this sense too, international disintegration is spreading. Moreover, it has to be remembered that international disintegration is likely to be a cumulative process, because present conditions make it imperative that, in spite of the trend toward autarky, international trade must go on somehow, however crippled its form and however reduced its volume. International trade as conducted in this age of economic nationalism, however, will inevitably become

an additional source of political conflicts, frictions and jealousies, so that a *particularly vicious circle* ensues: socio-political disintegration—economic disintegration—more socio-political disintegration and so on. The utmost minimum of international friction is to be expected at the two opposite extremes of complete free trade and of complete autarky. If every nation gave up intercourse with the wicked world and retired into unmitigated autarky, as Japan did during the Tokugawa Period (up to 1868), economics would offer no occasion for friction. But, such is the present state of the world, that the different nations are almost as far from the one extreme of complete autarky as from the other of complete economic freedom, and for the reasons explained earlier³ it cannot be otherwise. The present combination of economic nationalism and the need for a rather large amount of international trade—a necessity brought about by production technique, the enormous growth of population and the wants of this population—is giving international trade just that character, which makes for a maximum of international friction.

There is one final question to be settled, the significance of the present *formation of political and economic blocs* for the process of international socio-political disintegration. The impression that this is a counteractive development is obviously misleading. On the contrary, it is intimately connected to-day with the process of disintegration, being both its consequence and a cause of still further disintegration. It is just because of the decadence of real international community that, wherever political affinities make it possible, blocs are being formed which alleviate economic nationalism inside, while accentuating it against the rest of the world. The international spirit of to-day does not allow more. Moreover, not a few of the blocs are held together by little more than hatred of other countries and other blocs, so that the moral force behind these affiliations is largely negative, with corresponding consequences for international economic relations in general. Genuine social integration, in this case, is being replaced by propaganda and coercion, just as it happens inside a group of countries.

This interpretation of the formation of economic blocs will be sufficient to shake the widespread belief that, under this form, a new organization of world economy is under way. It cannot be stressed too forcefully that any real reorganization and reconstruction of world economy is impossible without a socio-political reinte-

³ pp. 62-64.

gration of the world. That applies especially to the idea that some sort of *international economic planning* is the easiest and most recommendable way toward international economic reconstruction. It should be obvious that a planned world economy is equivalent to a dense network of commercial treaties dealing with the minutiae of international economic relations. Therefore, it is dependent on a high degree of international socio-political integration, even more so than a liberal world economy. In a world like the present, a planned world economy is *a fortiori* an absolute impossibility, which is irony enough, at this time, when the idea of international planning is reaching the peak of popularity. Still more ironically, the same forces which are undermining the old liberal world economy, are not only at the same time destroying the legal and moral foundations on which a planned world economy must be based, but also not a few of the advocates of planning are the very ones who are doing their utmost to lend their support to those destructive forces.⁴ That is not to say that there is not wide scope for some real world planning, especially with regard to natural resources.

If it is true, then, that, whichever course we take, everything depends on international socio-political reintegration, it is obvious that the first thing to do is to find the right answer to the question of the ultimate causes of to-day's disintegration. This answer, however, is not possible before a thorough analysis has been made of our present mass society, which is breeding the seed of disintegration. An attempt to outline such a really Herculean task will be made in the last chapter of the present enquiry.

⁴ W. Röpke, *Crises and Cycles*, London, 1936, pp. 11-12.

PART III

THE MILITARY ASPECT OF ECONOMIC NATIONALISM

CHAPTER VII

THE NON-ECONOMIC AIMS OF ECONOMIC NATIONALISM

IN the preceding chapter international economic disintegration has been interpreted as part of the international disintegration of society in general, which, in its turn, must be understood as the ultimate outcome of highly complex and deep-set forces, which will be studied at the end of this enquiry. Now, in this chapter, another approach will be made in order to demarcate the field of study in the widest and most general terms.

It is obvious that present economic nationalism cannot be understood without proper regard to what is happening to the socio-political framework of international economic relations. But it is also common knowledge that it cannot be correctly interpreted either, unless proper weight is given to the fact that, perhaps, the greater part of economic nationalism to-day must be traced to reasoning of a so-called non-economic character. What is meant by this has been rather well expressed in a semi-official German publication, in which the author says:

"During the period when the free profit economy and the international division of labour were apparently developed to greatest perfection, the scientific discussion on the possibilities, aims, and methods of a general system of protection started from the assumption that the exploitation of mineral wealth, the use of raw materials, the development of national industries, &c., follow the principles of the private profit motive, i.e. with due regard to cost-revenue conditions. . . . The situation is entirely different if the question of what system of economic policy should be chosen is more or less pre-determined by new fundamental conceptions of the relation between the state and economic life, by political fiat and also by necessity imposed from outside. In such a situation as to-day already exists in a number of countries, the factor of profitability, though it has not lost all its validity, must share its dominating influence with other principles lying outside the economic sphere."¹

While the old debate on free trade and protection has been

¹ R. Regul, "Zollschutz, Preisschutz und Subventionen als Mittel der staatlichen Wirtschaftspolitik," *Vierteljahrshefte zur Wirtschaftsforschung* (Schriften des Instituts für Konjunkturforschung), 1938-39, No. 1, pp. 71-72.

conducted predominantly in terms of material marketable wealth, of prices and costs, the new economic nationalism largely prefers to dodge this inconvenient issue by turning frankly to a "*sic volo, sic jubeo*." Its exponents say in substance: "Economic isolation may or may not be uneconomic, in the sense that it diminishes the national wealth in terms of things which can be bought on the market under the price system, or that it increases the labour effort necessary to produce a given amount of those things. We do not care. What we want is to get something which cannot be bought on the market: national security; military preparedness; freedom from outside disturbances; preservation of classes and professions desirable for the sound structure of society as we conceive it; the fostering of a definite line of external and internal politics; enhancement of the power of the state, no matter what happens to the individual in his private capacity as consumer or producer—if he says that he must live, we are prepared to tell him in the famous words of the Comte d'Argenson: "*Je n'en vois pas la nécessité*." We proclaim the primacy of politics over economics. It is in this sphere, outside of market, costs, profits and material well-being, that the ends of our economic policy are to be sought."²

How is it possible to understand this attitude scientifically? As far as it goes, we see that it is no longer a question of whether a nation derives "economic" advantages from protection and autarky—now or later. Indeed, none of the more respectable arguments for protection can be stretched so far as to prove that a nation gets richer by autarky; and any attempt to do so becomes intolerable from the very beginning. But, if we are told that we simply must have autarky—for military or other reasons—in spite of and in full consciousness of the cost involved, it is hard to see how the discussion can be pursued within the sphere of Social Science. In view of the extreme importance of the "non-economic" aims of present economic nationalism, this impression that Social Science is being tricked out of any part in the discussion is very discouraging; and not a few of those struggling with the subject of present economic nationalism seem to believe that there is nothing left but to stop here, and regretfully leave the recovery of world economy to a possible change in the political climate.³ It is, however, part and parcel of the philosophy of the present enquiry, that Social

² Those who, from considerations of methodological nicety, rightly criticize the distinction of economic and non-economic aims as being a rather loose one, will observe that the text above is so worded that their possible objections are substantially met. To say more would lead us, in this context, to sheer pedantry.

³ For this very comprehensible and intellectually honest attitude, Mr. Van Zeeland's well-known report, delivered in January, 1938, is a good example.

Science can and must go beyond this stage of helpless resignation, for it is just here that the really interesting and promising field of study begins.

There are four possible ways in which Social Science can take part in the scientific discussion of the non-economic aims of present economic nationalism. The *first* is that of mere *descriptive analysis* of the non-economic objectives and of the reasoning behind them. The *second*, that which may be called the “*ideological*” *interpretation*, an interpretation which does not take the reasons given for the non-economic aims at their face value, but which applies to them the treatment, which German sociologists call *ideologiekritisch*, a procedure which brings to light the hidden and often muddled or conflicting desires, interests and irrational elements behind them. A *third* possibility is offered by *instrumental analysis*, which takes the aim of economic policy for granted and simply examines the usefulness of the proposed measures as instruments for attaining that aim. While this procedure does not need any further explanation, the *fourth* possibility—though it is perhaps the most important of all—will not be so easily understood. For want of a better term we shall, for the time being, call it the *socio-economic interpretation* and propose to leave its rather lengthy explanation till later.

Let us consider all these possibilities in more detail. As regards the first, that of *descriptive analysis*, we can be rather brief. After defining the “non-economic” aims of economic nationalism, we would have to ask the question, what are the openly declared and advertised reasons for a policy of autarky and excessive protectionism in the different countries? We would have to bring some order into them, find out the most important and most popular ones, group them according to nations, forms of government, political creeds and classes of population, connect them with the general situation in internal and external policies and with the general currents of thought and the spiritual environment of our times, observe their migrations from one country or from one class to another, and examine reciprocal influences, follow up their historical genesis, and make comparisons with earlier periods of economic and spiritual history.⁴ It is an immense task, and to accomplish it in a really comprehensive manner is beyond the scope of the present enquiry. Nevertheless, we shall have occasion to come back to this problem in later chapters dealing with the outstanding forms of present economic nationalism, viz. the

⁴ What can be done along this line has been demonstrated, e.g., by Professor Fritz Neumark in his book *Neue Ideologien der Wirtschaftspolitik*, Vienna, 1936.

industrialization of agrarian countries and the agrarianization of the old industrial countries.

Descriptive analysis, however, cannot take us very far. There is, indeed, even a real danger of being misled by this sort of work. It is a fact that we would, more often than not, miss the real significance of the "non-economic" reasons of economic isolationism if we were to take them at their face value and pompously philosophize about them, without first asking ourselves to what extent they are nothing but "ideologies"—in the sociological sense—which serve quite different and often far less respectable purposes. With the recent development of the art of playing on mass emotions, the whole world has become a gigantic fancy-dress ball of masquerading ideologies, which leaves to the economist and the sociologist the unpleasant task of unmasking the beauties and exposing the usually disappointing reality behind. All too often the alluring veil of high-sounding phrases is only a covering for the reality of political aims or sectional interests, which have every reason to fear nakedness. By thus going behind the advertised "non-economic" reasons, we are getting to the second possible method of dealing scientifically with our problem: that of *ideological interpretation*.

On entering the underworld of ideologies, we find ourselves in a curious twilight between appearance and reality.⁵ We hear catchwords cleverly worded to evoke desired mental associations; but by studying them more closely, by examining their background, their origins and their contexts, by comparing them with other proclaimed ideas and with actual practice, our eyes are opened and we cannot help seeing that the label does not belong to the bottle.

⁵ The sociology of ideologies with its disillusionizing work is almost as old as society itself, since there have always been a few who take an almost cynical delight in exposing the contrast between conventional ideals and social reality. Thus we have, after the Sophists of the ancient world, the great iconoclasts from Machiavelli and the Abbé Galiani to Schopenhauer, Marx, Nietzsche, Georges Sorel and Vilfredo Pareto. Largely influenced by Marx is the modern sociology of knowledge (Max Scheler, *Die Wissensformen und die Gesellschaft*; Karl Mannheim, *Ideologie und Utopie*). Also the contributions made by S. Freud and C. G. Jung must be mentioned in this respect. Out of the vast current literature on the subject only a few references can be given: V. Pareto, *Manuel d'économie politique*, 2nd edn., Paris, 1927, pp. 129 *et seq.*, and *Traité de sociologie générale*, Paris, 1916; K. Mannheim, *Ideologie und Utopie*, 1929; L. Rougier, *Les mystiques politiques contemporaines et leurs incidences internationales*, Paris, 1935, and *Les mystiques économiques*, Paris, 1938; R. Behrendt, *Politischer Aktivismus*, Leipzig, 1932; L. Romier, *L'explication de notre temps*, Paris, 1935; Th. Maulnier, *Mythes socialistes*, Paris, 1936; F. H. Knight, "Economic Theory and Nationalism," in *The Ethics of Competition*, London, 1935; W. H. Hutt, *Economics and the Public*, London, 1936; Allan G. B. Fisher, *The Clash of Progress and Security*, London, 1935. The present author himself tried to contribute to an elucidation of the problem on several occasions. Cf. especially his papers on "Fascist Economics," *Economica*, February, 1935, and "Tendances actuelles de l'économie politique," *Revue d'Economie Politique*, July-August, 1936.

We sense the pseudological or, to say the least, the irrational element in them and end by discovering a curious lack of sincerity and consistency. In the end, we realize the truth of William Blake's saying:

"Do what you will, this world's a fiction

And is made up of contradiction."

To put it crudely, society has its "conventional lies"; but in this twilight of ideologies it is extremely difficult to discern who is fooling and who being fooled. What deception there is is at the same time also largely self-deception, if only for the reason that it is, in the end, very uncomfortable to go on telling lies deliberately and consciously. Thus even those, who may be reasonably said to be pulling the strings, may be justified in claiming a certain amount of good faith. An ideology usually starts life as an absolutely sincere theory, developed by one of those "freely floating intellectuals" who have no axe to grind. True to their social function, they experiment with new ideas, and these ideas are then quickly utilized for the benefit of economic interests or political creeds, but still without entirely losing the quality of good faith with which they were born. If circumstances are propitious, they finally become the object of mass emotions and mass instincts, which makes it appear a rather hopeless task to analyse them rationally. Thus, in the 'nineties, a German professor of Economics at the University of Göttingen, following Fichte's notion of the "*Geschlossener Handelsstaat*," launched the idea that—for some rational, though very debatable, reasons which had already been developed by Malthus—the highly industrialized countries, like Germany, should strive for Economic Independence.⁶ Thirty years later this idea, strangely labelled "autarky," became the shibboleth of a formidable ideological wave, which it is extremely difficult to analyse rationally because of the process just explained.⁷ The original idea became covered with all kinds of interests and sentiments, like barnacles on a ship's bottom, but, of course, there

⁶ Karl Oldenberg, *Deutschland als Industriestaat*, Göttingen, 1897.

⁷ As an illustration, let us quote Mussolini (in a speech in November, 1937): "Italian autarky corresponds to necessity, logic and justice. . . . Producers and consumers must make every conceivable effort in order to attain the highest degree of autarky. Moreover, the Italians must acquire an autarkistic mentality and even live, incessantly and intensively, in the *mysticism of autarky*." Or Conte Volpi (on the same occasion): "Of course, one must not mechanically compare the cost of the autarkic product with the cost of the product to be replaced. One must keep in mind the indirect wealth created by autarkic measures: the creation of work on national soil and the general national power to be gained, if a nation frees itself from the slave chains of international trade." A titre de document, see also: Ferdinand Fried, *Autarkie*, Jena, 1932; B. Laum, *Die geschlossene Wirtschaft, Soziologische Grundlegung des Autarkieproblems*, Tübingen, 1933.

is no means of telling how far it had already been influenced by some ideology when the "intellectual" conceived it, i.e., how far he had been driven to it for reasons not clear to himself. "Le cœur a ses raisons que la raison ne connaît point" (Pascal). The same story could be told of a host of other ideologies, e.g. the "class struggle" and the "historical mission of the proletariat" of Karl Marx (the arch-type of the "floating intellectual"), the "Planwirtschaft" of Walther Rathenau or Georges Sorel's "general strike."

In some cases, the pseudological element of a catch-phrase covering an ideology is so glaring that it is hard to believe that anybody could be deceived by it. The naked reality is, as it were, hastily covered by a rag for the sake of a minimum of decency, and no further trouble taken to make the deception convincing. This is especially the case when the deceptive phrase is backed by sufficient brute force to take care of the rest, and make it unnecessary to expend too much effort on framing it. This may happen in regard to internal politics with a totalitarian régime, while with external policy imperialism is the favourite field of this sort of catch-phrase and ideology. Nobody will take "protectorates" or "leases of ninety-nine years" seriously, and it is also very doubtful whether some of the traditional catch-phrases of imperialism—like the "white man's burden" and other phrases which deck it in the garb of unselfish missionary work—have not by now lost any deceptive value they may have had for preceding generations. It seems, indeed, that to-day imperialists have rather a hard task to present their policy in an ideological covering which will not be taken ironically, provided they care to make such an effort instead of speaking frankly of "living space."

On the other hand, there are ideological catch-phrases which are by no means as transparent as that. The man who launched the idea of "Empire Free Trade," must have meant it as pure propaganda, designed to enlist the associations going with "free trade" for the very opposite of such a commercial policy, but the deceptive value of this phrase is so great, that even the inventor may have believed it to some extent. In other cases, the situation is even much more complex. This may be illustrated by the ideological coverings of monopoly which—like "co-ordination," "rationalization," "orderly marketing," "ending wasteful competition," "Planning," &c.—are as numerous as they are attractive, and deceptive to the degree of being highly self-deceptive. An early example of pro-monopolistic ideology is the decree which, in 1525, the Emperor Charles V issued in order to whitewash the Fuggers (published by Jacob Strieder, *Studien Zur Geschichte*

Kapitalistischer Organisationsformen, 2nd edn., Munich, 1925, Appendix). The arguments have not been much varied since.

In this connexion, it is extremely interesting to observe the influence of the mere magic of a suggestive word and to follow the sometimes stupendous career it has, thanks to this magic, the vagueness and ambiguity of the catch-phrase and its usefulness for different purposes. After a while, however, the glory wanes, until it may become almost a word of opprobrium. These different phases have been run through, for example, by "Liberalism," which was coined one hundred years ago in Spain to denote the opposite of "Servilism." Even at the beginning of the present century Lord Rosebery called it "the most beautiful word of the English language"; but to-day it seems to have lost, at least in Continental Europe, most of its attractive sound, so that the majority of people find it difficult to imagine the irresistible attraction it had for previous generations. To-day we can observe the rapid ascent of words like "Planning" or "Stabilization," which are so characteristic of the ideological climate of our times. The seductive sound of "Corporativism" should also be noted, though it may already have passed its zenith.

In general, then, it is highly characteristic of ideological catch-phrases that they serve as an attractive and deceptive cloak for entirely different aims of economic policy. It is also, however, quite common for them to serve merely as a means of presenting as the realization of a preconceived idea what, as a matter of cold fact, was the less imposing result of a development which was partly a simple drift, partly an unsystematic and haphazard series of makeshifts, emergency measures and piecemeal policies. Hand-to-mouth economic policy, then, is being turned *ex post* into the bold execution of a long-term programme. In other words, the original lack of rational cohesion is being remedied by an ideological after-thought. One cannot altogether suppress the suspicion that this is largely what happened recently in the case of "Autarky." Not a few countries resemble in this respect a man who, having inadvertently started a motor-car and not knowing how to stop it, is compelled to drive round and round and pretend that he is doing it of his own free will and enjoying it immensely. Indeed, economic policy confirms what is a common experience in every field of human activity, that there is a strong inclination to rationalize actions *after the event*. On the other hand, it also happens quite often that there is only the ideological terminology with little or no reality behind it, in which case we have to do with that curious category, a *terminological* economic policy—if

this somewhat caustic expression be allowed. "Potemkin villages" of this kind are, of course, a time-honoured part of the art of governing. There is a strong suspicion that, at the present time, the ideological catch-phrase "Corporativism" comes largely under this head. Finally, ideologies claiming "non-economic" objectives of economic policy can often be interpreted as a mere flight from the realities of economic life, as a fear of clearly expressing the issue involved in terms of price and cost, a fact which explains why the science of economics is so bitterly hated in some quarters.

It is a special feature of the "anti-capitalist" ideologies used by the collectivist-totalitarian governments of to-day, that they quite often provide them with an alibi when their efforts in the field of economic well-being have failed. In this way economic policy is running on two tracks: either there is an increase of economic prosperity, which is claimed as the result of the energy and foresight of the government, or else the contrary is only too obvious, in which case the philosophy of the priority of non-economic aims to banal economic ones will be promptly applied, or—as in Russia—the blame will be put on the population.^s So far as this interpretation is true, the lack of consistency and sincerity in putting non-economic aims above economic ones should be obvious.

While it is impossible to do more here than indicate the problems awaiting us in the field of ideological interpretation of the non-economic aims of economic policy, and to suggest a few of the conceivable answers, our survey would be utterly incomplete without mention of a final problem, which is of the widest scope and the greatest importance. It is the problem of the exploitation of ideologies by strong *sectional interests*. The fact itself has already been stressed several times, but this seems the appropriate place to point out its great complexity. This should not be overlooked, if we wish to avoid getting an exaggerated and distorted view, which might lead us dangerously astray.

To play the game of the free competitive market is, indeed,

^s "While in capitalism all good things grow by themselves and the state is called to responsibility only when things go wrong, the state is here made the fountain of all benefits and the population itself is execrated for all failures. State economy fills daily work with public emotion; dictatorship so directs this emotion as to secure loyalty to the state even in the midst of a catastrophe. Under the Soviet system the capitalist relation between private and public motives is turned inside out. Whereas the avowed task of the private owner is self-seeking, and his implied social functions are out of sight, the Soviet ruler is overtly working for the public good only, and his personal ambitions remain behind the scenes. For these reasons the system in the U.S.S.R. is felt to be purposeful considered as social, though its inequalities are striking." (M. Polanyi, *U.S.S.R. Economics, Fundamental Data, System and Spirit*, Manchester, 1936, p. 23.)

such an inconvenient strain and the temptation to get a privileged economic position so strong, that it is almost always safe to surmise that some of the sentiments and passions aroused by a certain ideology owe their origin to private interests, that there is somebody with an axe to grind, and some individual or group appetite to be satisfied.⁹ This tendency is greatly helped by the popularity of economic sophisms of all kinds, and by the utter ignorance of the public about economics. That this is especially true of all questions concerning foreign trade is so striking as to prompt Alfred Marshall to coin his famous phrase, that it is extremely difficult for an economist to be a patriot and at the same time to have the reputation of being one.¹

It does not make a great difference whether ideologies are exploited for private ends, by interest groups in a market economy, or by political leaders in a collectivist or semi-collectivist economy. The two cases are more closely akin than is commonly supposed, for, as one astute observer remarked, "these questions of advantage arise out of the variety of life itself. They spring up in any society, capitalist or communist. But since a communist society is politically administered, and highly centralized in all vital matters, the social conflict is concentrated in the field of politics. Because everything is decided politically, all conflict becomes political, and the possession of power becomes the key to all other possessions. . . . Thus the struggle for wealth is transmuted into a struggle for power."²

There is an important and undeniable truth in all this, but there are two considerations to be set against it. First of all, it would be a great mistake and altogether bad psychology to overrate the influence of purely economic interests on the contents of ideologies and the belief extended to them. Man does not live by bread alone, and the materialistic conception of human convictions and ideas is certainly no longer in accordance with the opinion held by present-day sociologists. It is true that there is exploitation of ideologies. It is still more true, however, that the deepest strata in the human soul do not consist of economic interests, which set individuals, groups and classes against each other, but of all sorts

⁹ On this aspect see especially Professor Allan G. B. Fisher's *The Clash of Progress and Security*, London, 1935; and his inaugural address on "International Problems of Economic Change," *International Affairs*, March-April, 1938.

¹ Cf. on this point: W. H. Hutt, *Economics and the Public*, London, 1936; Walter Sulzbach, *Nationales Gemeinschaftsgefühl und wirtschaftliches Interesse*, Leipzig, 1929; and P. H. Wicksteed, *The Common Sense of Political Economy*, new edn., London, 1933, vol. i, pp. 186-190.

² Walter Lippmann, *An Inquiry into the Principles of the Good Society*, Boston, 1937, p. 83.

of sentiments, passions, fundamental desires and creeds, which, as anthropological constants, are common to all groups and classes, and more likely than not to prevail over economic interests and motives should they come into conflict with them. These are the instincts of social integration, patriotism, sense of solidarity and hatred, hunger for power and self-assertion, desire of "vital satisfaction," longing for the natural milieu, preference for peace and order, elementary sense for common justice, &c. Man is a crystal of which these sentiments, instincts and passions are the innumerable facets, some positive, some negative, some making for social integration and others for social disintegration, and which will sparkle depends on which sentiment is appealed to by the circumstances.

It is only owing to these non-economic sentiments, and not to economic interests and competition, that any fairly integrated society is possible at all. It was the common and fatal error of the dominant social philosophies of the recent past, of the old-time Liberalism and of Marxism, that they were rather blind to this essential truth and laid too much emphasis on economic interests. On the other hand, it is one of the decisive reasons for the stupendous success of fascism and its kindred movements that they have been able to make the widest use of this very error, a fact which it is well to remember, if wrong interpretations of the non-economic aims of economic nationalism are to be avoided.

That is *one* consideration. The *other* is that it would be wrong, whenever interest groups make use of ideological pretexts, invariably to heap all the blame on them, instead of studying the possible legitimacy of their claims and complaints. It would seem unconstructive always to dismiss the self-assertion of "vested interests" as illegitimate and to leave the matter there. Not all interest groups are greedy conspirators against the commonweal. Some of them are the victims of the cruel and crude working of competition, and to leave them to their fate would serve no purpose. Some are really weak; they need guidance and possibly other help during a period of painful transition from one equilibrium to another ("liberal interventionism"). If that is denied to them, they are driven to exasperation and out of exasperation they may turn to the more or less conscious exploitation of ideologies. This, at least, is a possibility which should not be ignored.

So much for the general lines on which the ideological interpretation of the non-economic aims of economic nationalism might be usefully conducted. On the assumption that the third possible way of scientifically approaching this subject, i.e. that of *instru-*

mental analysis, does not need any further explanation, we turn to the fourth, the so-called *socio-economic interpretation*, which is all the more in need of elucidation. It is the direct continuation of the ideological interpretation, its aim being to explore the fundamental social and economic conditions which give rise to the proclamation of the non-economic ends of an isolationist economic policy.

The military argument may well illustrate this point. According to the possibilities of scientific approach mentioned so far, we may deal with this argument by a mere descriptive analysis, or we may try to bring to light the ideologies behind it, or we may take it for granted and examine autarky merely as a useful instrument for attaining a maximum war potential. Lastly, however, we may legitimately ask what are social and economic reasons for the present situation becoming such, that the danger of war appears imminent and general. In this way, we would study the social and economic elements of the peace problem in the light of the present situation, and arrive at what can be called an applied sociology of war and peace.³ There should be no doubt that, if our present diagnosis of our time in its international aspect is to make any progress and if the attempts at remedying the situation are to loose any of their present hopelessness, such a study is extremely desirable and within the range of legitimate scientific activity. Special attention must be given in this respect to the economic aspects of political tensions to-day, so that the theory of economic imperialism would have to be re-examined in the light of the present situation, along with the problem of raw materials and colonies, which has recently given rise to a number of studies.⁴ It has become quite clear, among other things, that it is just this growth of economic nationalism which is so enormously enhancing the economic importance of political boundaries and, therefore, of the extent of the space states dominate politically. If the different nations not only have political control of parts of the earth, which differ tremendously in size, but also block them up economically, there is, with the highly differentiated character of modern economy

³ The literature on the sociology of war is large, but far from being satisfactory. The standard book is still to be written. Among the most recent publications, see the symposium on *War and Democracy, Essays on the Causes and Prevention of War* (ed. by E. F. M. Durbin, &c.), London, 1938 (cf. my own review of this book, "Krieg und Demokratie," *Friedenswarte*, 1938, No. 6), and Alexander Rüstow, "Zur soziologischen Ortsbestimmung des Krieges," *Friedenswarte*, 1939, No. 3.

⁴ Cf. L. Robbins, *The Economic Causes of War*, London, 1939; W. Röpke, "Die wirtschaftlichen Elemente des Friedensproblems," *Friedenswarte*, 1937, Nos. 1, 2, 3-4.

and the unequal pressure of population, every chance that the grievances of the "have-nots" might seem justifiable as a legitimate desire for justice. Thus, in the end, an intolerable situation will arise, which will lead to an endless struggle for the political control of the earth's surface—unless the hedges are torn down again. This, then, is the alternative: either a never-ending fight among the nations for the largest possible extent of hedged-in space they can obtain, or a return to the old-fashioned principles of a liberal world economy with bearable duties, most-favoured-nation treatment, an open-door policy and no economic empires. If the latter seems utopian, the situation must appear nothing short of hopeless. In other words, the present progress of economic nationalism, which is fostered so much by the growth of political tension and, therefore, largely based on the argument of military "defence," is itself a powerful agent in increasing that very tension, since it goes far towards justifying the belief, absurd in a liberal world, that political domination (*imperium*) is necessary for economic exploitation (*dominium*).

Imperium and *dominium* are indeed two separate things, but only in a liberal world. In such a world political boundaries are of little economic significance, the world market being more or less a uniform one with practically equal buying and selling opportunities for everybody, regardless of boundaries and nationality. Otherwise, it would not have been possible for some of the smallest countries like Switzerland or Sweden to gain top rank in wealth and economic activity. In this liberal world, a problem of raw materials would also be decidedly more of a pretext or a hallucination than it is to-day. The problem of raw materials and colonies, as we know it, is only part of that larger problem of the growing "politicalization" of world economy resulting from an illiberal economic policy, which increases the economic significance of political boundaries, and so of the size of the space a state controls.

The foregoing is no more than an example of the sort of research to which the socio-economic interpretation of one of the most important non-economic arguments for economic nationalism, i.e. the military argument, will lead us; and even this is only a first approximation, which only analyses one of many elements of the present situation with regard to armaments and war. It would be, to say the least, entirely wrong to suppose that what has been said represents the definitive explanation of the present growth of political tension in the world. It only gives some explanation of the cumulative element in a situation brought about by the mutual reinforcement of economic, national, and political tensions. It

leaves unanswered, however, the question of the ultimate causes and also that of how far the economic argument of the political claims—which we found not entirely unjustified—is, in its turn, only the pseudological pretext, the “rationalization” of purely political schemes and tendencies, which cannot be explained except by a more particular sociological analysis of the general state of society which gives rise to them. That would be the deepest layer of our research, but, at the present stage, it must still be left unexplored. For the moment, it should be enough to have made clear what is meant by this fourth possibility, the socio-economic interpretation.

CHAPTER VIII

INSTRUMENTAL ANALYSIS OF THE MILITARY ARGUMENT¹

No example has been given so far of the kind of scientific approach to non-economic nationalism, which we called instrumental analysis. This was deemed unnecessary for an explanation of the meaning of the method, but now it seems advisable to give a particular one, in order to clear up as far as possible that most important argument which is always cropping up: the military argument.

This is an argument which rarely fails to make a deep impression, even on those who are generally reluctant to bow to the reasoning of economic nationalism and collectivism. Not only has war once more become such an ever-present possibility, as to make the utmost preparedness for it a matter of life and death for every nation, but at the same time its nature has changed to such an extent that it threatens to become a monster whose appetite is boundless. The "limited war" (Lippmann) of the nineteenth century is giving way to total war. Total war has no well-defined and limited issue like the wars of the last century; it is a merciless war for supremacy or extinction.² It is a war which will defy norms, principles and all other bounds; and it is the war which corresponds to the close interdependence characteristic of our world-wide civilization in all its spheres, to the dissolution of norms and principles, and to the wholesale democratization of our society, which makes war the affair of the whole nation.³

It is a war which claims everything that constitutes, directly or indirectly, the military force of the nation. At the same time,

¹ The reader should bear in mind that this chapter, like the greater part of the whole book, was written before the present war. In some respects, it may now appear a good example for some errors held until very recently, but the essentials are still believed to be correct. It is possible to misinterpret the late experiences of the war in Norway, Holland, Belgium and France and to give too little weight to the fact that gross negligence on the one side will always add to the forces of the other side. As Demosthenes told the Athenians: they were doomed in their happy-go-luckiness and corruption whether there was a Philip of Macedonia or not.

² Cf. Walter Lippmann, *The Good Society*, pp. 146-150; G. Ferrero, "Forms of War and International Anarchy," *The World Crisis* (ed. by the Graduate Institute of International Studies, Geneva), London, 1938, pp. 85-97.

³ German literature has been particularly prolific in developing the idea of the total war (whose name itself seems to go back to Ernst Jünger's book, *Die totale Mobilmachung*, Berlin, 1931, which, for the first time, made the term "totalitarian" popular). Cf. Hermann Rauschning, *The Revolution of Destruction*, London, 1939.

modern warfare and its technique have become more and more elaborate, more expensive, and subject to innovations. Whether we like it or not, we are mercilessly drifting in the direction of a war that has ceased to be the affair of armies alone and has become a matter of gigantic masses of men and goods, making the military machine an up-to-date capitalistically rationalized enterprise, with the officers as engineers. The full significance of the monstrous consumption of goods and man-power, which a total war would involve, seems to beggar imagination, as various calculations based on the experience of the Great War demonstrate. Let us illustrate this by a few figures.⁴ Towards the end of the Great War the British army took 90% of the total production of wool in England; Austria-Hungary lost, during the war, more rifles than the total production of rifles during the same period; and the army demand for iron and steel in Germany amounted, in 1918, to $\frac{1}{3}$ metric ton per man and month. These experiences, together with the development since the end of the Great War, are being reflected in the enormous increase of the total expenditure of the world on armaments, which to-day may be safely assumed to be five times the total of 1913. Armaments have become so elaborate and expensive that the production of a simple 10 cm. field howitzer requires double the amount of total working time necessary for a locomotive engine (110 man-years), while the production of a submarine takes 4000 man-years, that of a destroyer 5400 and a cruiser 18,000. American sources indicate that, on the average, 17 workers are necessary to equip and maintain a soldier at the front. In addition to the "round-about" (capitalistic) character of modern armament, the speed of progress in armament technique is enormous, and in time of war the rate of loss appalling.⁵

In consequence of all this, it is widely held that even the *preparation* for a war must, under present conditions, inevitably lead to autarky and planned economy under military aspects. Only in this way, it is thought, can the maximum of the war potential be reached. Economic liberalism, consequently, would come into bitter conflict with the demands of national defence, and be compelled to

⁴ Sources: F. Friedensburg, *Die mineralischen Bodenschätze als weltpolitische und militärische Machtfaktoren*, Stuttgart, 1936; Emeny, *The Strategy of Raw Materials*, New York, 1937; S. Possony, *To-morrow's War*, Hodge, London, 1938; Kurt Hesse, *Industrielle Mobilmachung*, Hamburg, 1937.

⁵ The rate of loss is greatest in the case of airplanes and tanks. According to Russian sources, the monthly replacement demand for airplanes is to be assessed at 40-50%, for tanks at 30-40%. The loss of specialized man-power is correspondingly great. It has been estimated that the yearly war demand for airplanes of an army having 3500 airplanes of the first line may reach 50,000 (R. Wagenführ, *Die Flugzeugindustrie der anderen*, Sonderheft des Instituts für Konjunkturforschung, No. 46, Hamburg, 1939, p. 10).

submit—honourably, but irrevocably. If this view had to be accepted, the case of international trade would be hopeless. It is obvious, therefore, how important it is to examine the question carefully.

It is neither possible nor necessary, on this occasion, to enter into a thorough discussion of all the consequences of modern war requirements on economic policy.⁶ That they are far reaching and that there is much scope for a wide divergence of views goes without saying. We propose to follow up the problem only so far as the immediate consequences for foreign trade are concerned, and even this as briefly as possible, confining ourselves to the fundamental points which are generally only too liable to be overlooked.⁷

From a narrow military point of view, it would be natural to apply military principles to the organization of national economy, so that a maximum of economic regimentation and autarky would seem to be just the right thing for maximizing the war potential. About this the economist will have two remarks to make: *first*, that the principles of maximizing material wealth hold good for war—as well as for peace-time economics and, *second*, that cost is nothing else than an indicator of the limits of material wealth. Considering the first point, it is clear that a maximum of material wealth is the prime condition for obtaining a maximum of war potential. It is hard to see, however, why we should abandon the conviction, equally established by experience and reasoning, that the “market economy” tends to give maximum satisfaction of all wants presenting themselves on the market, including those of a military character represented on the market by the state as a consumer equipping himself, by taxes, loans or inflation, with the necessary amount of purchasing power. The structures of an army and of a national economy, after all, are entirely different; and to copy the hierarchical regimentation necessary for the efficiency of the former, is a sure way seriously to impair the efficiency of the latter. This is in itself already a very serious objection to the military usefulness of autarky which, necessarily, goes together with planning and

⁶ It is a telling symptom of our times that the literature on this subject of Defence Economics has become so abundant that only the specialist can keep abreast of it. It is, however, of deep significance that, especially in those countries where most is made of this topic, the intellectual level of this literature is rather low, because it is here that it is most thickly wrapped up in ideology. Cf. W. Röpke, “Fascist Economics,” *Economica*, February, 1935.

⁷ Let us note that war economics involves two principal problems: (1) the problem of having a maximum quantity of the right things, and (2) the problem of the maximum security of supply in time of war. The first problem leads to the question of military planning, while the second entails the question of autarky. It cannot be denied that the first problem suggests some recourse to measures of planning and state control, since a strictly liberal structure of economy will, from the military viewpoint, suffer from a number of defects.

regimentation. Equally serious is the second point. In war-economics as well as in peace-time economics, there is no getting away from the fact that, in view of the eternal shortage of economic means, the use of means in one direction precludes their use in another. This is reflected by "cost." If a country wants to have a maximum of men for the purpose of war, it is bound in the end to come up against the problem of feeding them, and this can only be solved by industrialization and imports of foodstuffs. If it wants to remove this dependence on agricultural imports and achieve "Nahrungsfreiheit," it will be forced by the law of diminishing returns to spend more labour and capital on agriculture, and to do so will have to divert them from industry and the army itself. This will be particularly inevitable where artificial aid from the state is needed to bring about the desired increase in agricultural production. The same holds true in the case of an artificial development of industries, let us say, in order to replace by synthetic production raw materials which had previously been imported. After all, it is impossible for a country to have at the same time the largest possible and the qualitatively best population, the largest possible industry and the greatest possible independence in respect of food and raw materials, brought about by all kinds of governmental intervention. Too much doctoring of a country's economic structure is the surest way to make it less fit even for military purposes—just as a wholesale militarization of society is apt to dull exactly the qualities most needed for successful warfare.⁸ The very total character of modern warfare leaves hardly any sector of the community unimportant from a military point of view. There is, therefore, hardly anyone left who can be made to pay the cost of military autarky and planning without seriously weakening the war potential. Consequently, by calculating the cost of military autarky and planning, we are forced to the conclusion that such a policy is very likely to defeat its own purpose, by grasping at immediate military advantages at the cost of a serious indirect weakening of the war potential, including the physical and moral reserves of the population, which are such a decisive factor in war.

Those who recommend autarky as a useful policy for the purpose of war, seem to be impressed by the idea that the dependence of a country on regular imports of raw materials, foodstuffs or other products may most dangerously impair its war chances if it can easily be blockaded. There is no denying the fact that

⁸ Cf. W. Röpke, "Wehrsystem und Wirtschaftssystem," *Friedenswarte*, No. 12, 1935; W. Röpke, "Fascist Economics," *op. cit.*, pp. 92-94.

this is so. On the other hand, however, it must not be overlooked that we are facing here a *real and insoluble antinomy*. For the very fact that autarky can be carried through only by force and regimentation, proves irrefutably that the domestic production, which takes the place of imports, involves costs which make the domestic production impossible without those coercive methods. The productive forces of the country are rearranged in a sense contrary to the optimum arrangement, and this is tantamount to an enormous diminution of the national dividend or to an enormous increase in the amount of labour needed for the production of the previous national dividend. In the latter case, autarky invariably means, as an anonymous author of more than 200 years ago has said, "that the work which is done by few may rather be done by many."⁹ That this may be called "full employment" does not alter the fact itself, which is, of course, of the gravest consequence for the war potential, as it means that more workers will be needed at home and so not be available for the trenches. The numerical relation between the army and the amount of labour necessary to provide it with everything it needs—a relation which, as we saw, has already been changed greatly to the disadvantage of the army by the special character of modern warfare—would become still more unfavourable. So we get the result that the gain of greater independence with regard to imports of important commodities would, in the military balance-sheet, be offset on the other side by a loss in the quantity and quality of goods available and/or a loss in the number of men available for the army.

Moreover, the greater the degree of dependence previously, the more gigantic the loss will be. An economic policy which aims at replacing one raw material after another by home production—synthetic or otherwise—may mean, then, that long before the outbreak of the war the whole population will suffer the shortage

⁹ *Considerations on the East India Trade*, London, 1701, where we find the remark referred to above in the following significant passage (pp. 56-57) :

"We are very fond of being restrain'd to the consumption of English Manufactures, and therefore contrive Laws either directly or by high Customs, to prohibit all that come from India : By this time, 'tis easy to see some of the natural Consequences of this Prohibition.

It is to oblige the things to be provided by the Labour of many, which might as well be done by few; 'tis to oblige many to labour to no purpose, to no profit of the Kingdom, nay, to throw away their Labour, which otherwise might be profitable . . . To provide the conveniences of Life at the dearest and most expensive Rates, to labour for things that might be had without. 'Tis all one as to bid us refuse Bread or cloaths, tho' the Providence of God or Bounty of our Neighbours wou'd bestow them on us; 'tis all one as to destroy an Engine or a Navigable River, that the work which is done by few may rather be done by many. Or, all these things may be comprehended in this, to prohibit the consumption of Indian Manufactures, is by Law to establish vain and unprofitable Labour."

and bad quality of war time, that it will be put under the slowly exhausting strain of regimentation, militarization, undernourishment, strenuous work and long working hours, and, in addition to all this, that whole army corps will be needed for the additional labour engendered by autarky. If synthetic petrol and rubber cost several times as much as the natural products, if the iron ore found within the country is of the lowest possible quality, and if the most expensive investments have to be made on the widest scale in order to develop home production of every kind, it would be an inadmissible naïveté to believe that there is some fourth dimension or some large civilian sector to which the consequences of such a policy can be shifted. They have to be borne by the national economy as a whole in the manner indicated.¹

The more total modern war becomes, the greater will be the military significance of every part of economic life and of every section of the community; the smaller also will be the "civilian" sector to which the burden of cost can be shifted without danger for the war potential. This will be seen in the right perspective if it is remembered how gigantic are the quantities of iron, steel, petrol, rubber and all other commodities which are needed for a modern war. These quantities are such that it is doubtful in any case whether any country, be it the richest and best equipped, can in the long run stand the terrible strain involved; to multiply this strain by autarky appears altogether unreasonable from the military point of view.² Such a policy will be all the more unreasonable, the fewer are the chances of achieving even approximately the desired aim of all-round independence, for this will mean an even smaller gain on the assets side of the military balance-sheet, i.e. the chance of avoiding the danger of a successful

¹ In viewing the economic significance of synthetic production, two sorts of fallacy seem to be rather popular. The one is the common one of mixing the technical and the economic aspect of the problem (cf. W. Röpke, "German Commercial Policy," op. cit., pp. 37-38), the other lies in the emotional stress laid on the cheap or—in the case of the synthetic production of nitrogen—even gratuitous material used in the process, while the fact is obscured that the fixed capital needed is all the more expensive. The latter is the same fallacy which underlies the popular enthusiasm for water-power plants. On the whole, it is rather difficult to get reliable data on the cost of synthetic production. On the synthetic production of petrol see especially the report of the British Falmouth Committee (Committee of Imperial Defence, Sub-Committee on Oil from Coal, Cmd. 5665, 1938). Regarding the case of synthetic rubber, a German official source (*Vierteljahrshefte zur Wirtschaftsforschung*, Schriften des Instituts für Konjunkturforschung, 1938-39, No. 1, p. 84) states that it costs about 260 Reichsmark to produce 100 kg. of synthetic rubber ("Buna") while the price of imported rubber c.i.f. Hamburg moves around 100 Reichsmark. Cf. also W. Silbermann, *Chemie-Industrie und Aussenhandel*, Hamburg, 1938.

² See on this point the interesting calculations made by S. Possony, op. cit., ch. vii.

blockade. Any important holes left in the armour of autarky may make every effort vain, and, in the last resort, it is more or less immaterial whether the country in question succumbs from a shortage of food, molybdenum or whatever it may be. Military autarky must, indeed, reduce dependence on non-essential imports, if there is to be any substantial gain to offset the obvious weakening of the war potential. All too often, however, it is a clear case of "parturiunt montes, nascetur ridiculus mus." More often than not it is an optical illusion, where sight is lost of the fact that to replace one imported commodity by home production may only mean that the imports of another have been increased, as in the case of the synthetic production of textile fibres, which makes it necessary to import more casein (for the Italian "Lanital") or timber (for the German "Zellwolle") or to increase domestic timber production to the point of rapid deforestation of the country. If the blanket is too short, no nervous tugging and tossing will prevent it leaving some part of the body exposed.

We see, then, that military autarky for the purposes of "total war" is on the horns of an *insoluble dilemma*: dependence upon continued imports of essential commodities is dangerous in case of war, but so is autarky. It could not be otherwise, for it is not without deep significance that we are living in a society which owes its enormous resources in material wealth to a highly differentiated system of national and international division of labour. It is just the richest, the most populous and the most advanced nations which are the most insolubly bound up with this world-wide system. The dilemma in which they find themselves is not dissimilar to the position of a big city in relation to the rest of the country.³ The dilemma is insoluble, because a war, which has to be waged against world economy, is tantamount to a war against one of the principle pillars on which the wealth-providing system of the country rests. It is by division of labour that society has become what it is to-day (including the unprecedented possibilities of modern warfare offered by our present economic system), but division of labour means, after all, the mutual dependence of all participating in the system. If a country wants to shake off the "shackles" of mutual dependence by means of autarky, it is shutting itself off from the source of wealth and power which international division of labour is. If it insists on making war under these circumstances, it will be forced to do so on a level of economic

³ L. v. Mises, "The Disintegration of the International Division of Labour," *The World Crisis*, London, 1938, p. 254.

development, which, in an essential aspect, is centuries behind that of the other countries which remain faithful to world economy. It would, so to speak, combine the military technique of to-day with the social technique of 1700. The situation of an isolated country engaged in a war against the powers standing for world economy is next to hopeless, and it would be a serious error to believe that anything will be gained by anticipating that situation through the self-inflicted peace-time blockade called autarky. The only solution is to avoid that situation by a corresponding external policy.

This is the argument against military autarky in its bare essentials, and these must be grasped before we can go on to any further analysis of particular problems and qualifications. It also gives the direction in which a positive programme for an economic policy of war-preparation should be developed, a subject which cannot be pursued within the limits of the present enquiry.⁴ Attention, however, must be given here to a number of *important qualifications* of the main argument.⁵

The *first point* is that autarky, besides the negative effects mentioned above, has the further consequence that it must inevitably lead to planning and to a more or less rigid regimentation of the whole national economy. The whole economic life of the nation is bound to be canalized according to a definite plan based on the assumed character of the future war. This, however, is another element of great danger from a strictly military point of view, quite apart from the general objections against planning as a useful economic policy. For, on the one hand, military planning means that there is only one plan to the exclusion of all other possibilities and that it is extremely difficult to change this plan of production for another, if the whole economic life has become rigid and moulded to a definite strategic and technical conception of the future war. On the other hand, however, it seems that, in spite of the recent experiences in Abyssinia, in Spain and in

⁴ Important elements of such a positive programme would probably be the accumulation of stocks of strategic raw materials and of liquid international assets (gold, exchange and gilt edged securities), the careful preservation of international trade and a number of international measures in the field of the production of armaments. The useful literature on such a "liberal" *Wehrwirtschaft* is limited. Cf. besides Possony's book: L. Einaudi, *La condotta e gli effetti sociali della guerra italiana*, Bari, 1933; S. Streiff, *Schweizerische Wehrwirtschaft*, Frauenfeld, 1938. It should be noted that there is a strong tendency for autarky to diminish the amount of stocks available in time of war, and further that the desire to accumulate gold as a war treasure will, on the other hand, add fuel to monetary nationalism.

⁵ For what follows in the text it appears particularly interesting to leave everything as it was written just before the present war.

China, experts are to-day more than ever divided in their opinions on the character of a future war. Prince Andrej's remark in Tolstoy's *War and Peace* that "in war even the most minutely elaborated plans are of no importance," seems to contain a momentous element of truth. The experiences of the Great War have already proved that too minutious military plans are apt to make politics and warfare their slaves; and it may well be that, in the future, this danger will be even greater. This makes obvious the advantage of the greater elasticity of a national economy which, in peace time, has been spared the strait-jacket of military planning.

A further important point to be considered is the special problem of *food autarky*. Prima facie, there seems to be a strong case for the great industrial countries striving for the utmost independence of food imports, particularly by fostering their national production of cereals, i.e. by pursuing the policy of agricultural hyper-protection, which is surely one of the main reasons for the present dislocation of world economy. To keep the population from starvation during the war seems, after all, to be the *conditio sine qua non* for avoiding a defeat like Germany's in the Great War. And is not this case of Germany a great lesson for that country and any other of a similar character? The general objections to this argument need not to be repeated here, but there are a number of special considerations which still further weaken the argument in favour of food autarky.

There is, first, the fact that the very case of Germany itself shows that the aim of food autarky is positively unattainable, for, in spite of the most energetic efforts made in that country during the last decade, the goal is not yet in sight and will hardly be so even in time of peace. In time of war, moreover, there is every likelihood that the degree of food autarky will fall appreciably below that reached in peace time, for then there will be even a greater shortage of man-power in agriculture, and, if the present efforts are pursued, the danger of soil exhaustion will have to be seriously reckoned with. All the greater, then, appear the advantages of a policy which consists of letting agriculture in the industrial countries follow its natural course toward a system of mixed farming, based largely on live-stock farming, and of accumulating large stocks of non-perishable foodstuffs. This would be the policy which would give the maximum insurance against the risk of war famine with a minimum of deviation from what is economically rational. Live stock itself represents an important war

reserve which, in the case of England, is said to enable that country to do without meat imports for a whole year.⁶ "Furthermore, grass-land farming, under certain conditions, affords a substantial reserve of fertility which is lacking in land that has been under the plough and which has been used to the utmost for any length of time."⁷ As for the second part of this rational programme for securing food supplies in time of war, it must be stressed that, by a happy coincidence, it is just those foodstuffs which it is more reasonable to import, because of the well-known laws governing the localization of the different types of agriculture, that are non-perishable (cereals, sugar and kindred foodstuffs).⁸ Against this we have, of course, to set the cost of storage, but this is incommensurably lower than that of correspondingly raising the home production of cereals by artificial means.⁹

Finally, it must be said that a final judgment of the military argument for autarky is possible only in connexion with considerations concerning the *strategic character of a future war*. Of importance in this respect is the question whether it is more likely that it will be a short fierce war, crushing the adversary like lightning ("Blitzkrieg"), taking him by surprise ("Überfallskrieg"), and perhaps having been cold-bloodedly prepared for a fixed date ("guerre à échéance"), or that it will be a long war of exhaustion like the last one. The answer to be given to this question has an obvious bearing on the question of the right kind of military economy. Much as it seems certain that an essentially liberal economy will, in the long run, possess the greater war potential, there is no gainsaying the fact that a country, which had already entirely militarized its society and economy in peace time, may have an advantage in a short "Blitzkrieg." The longer, however, the war lasts, the more this advantage will turn into a clear disadvantage, as the decision will more and more pass from the "*actuel de guerre*" to the "*potentiel de guerre*," or to what may be called the "structural reserves" of a country, and nobody can be in doubt as to which system will develop the greater strength of endurance then. The country which completely adopts the

⁶ Keith A. H. Murray, "Food Supplies in Peace and War," *Lloyds Bank Limited Monthly Review*, October, 1938, p. 491.

⁷ *Ibid.*, p. 491.

⁸ Cereals will, generally, keep about two years in the silos or 4-5 years in the well-supervised granaries of the farmer, while sugar can be stored indefinitely.

⁹ For England it has been calculated that, if the money spent on silos is regarded as capital expenditure, the cost of storing a year's wheat requirements (about 120 million cwt.) estimated at about £4 million would be less than is spent each year on increasing the home output by only ten million cwt. (Murray, *op. cit.*, p. 491).

philosophy of military autarky and planning and, therefore, lives under conditions of permanent mobilization, would be in the position of a sprinter who, after excessive training, reaches the track exhausted and tired but in his sports clothes, while his rivals are still taking their breakfast in their ordinary clothes. In a 100 m. sprint they will lose, but in a 50 km. marathon they are bound to win.

Finally, it may well be asked, how it is possible that military autarky has to-day become a practical issue despite all the plausible arguments against it. In point of fact, the evidence is not wanting that military leaders share the view which has been presented here.¹ It must not be forgotten, however, that the military argument for autarky might, like any other argument, be used as an ideological coulisse for quite different aims and that, even in the military sphere, decisions are not always the result of rational considerations.²

¹ Especially revealing in this respect is a lecture given on 21st June, 1938, by the leader of war economy in Germany, Major General Thomas, where he said (according to the *Frankfurter Zeitung* of the same day): "It must be borne in mind that autarky often has to have recourse to procedures of production involving increasing costs and decreasing returns, that it makes necessary large investments and finally, that in many cases much more workers are needed than is necessary if the commodities are bought on the world market. . . . The World War proved that the countries most active in world economy possessed the greatest economic force of resistance in contrast to countries more orientated toward autarky. The great economic force of Germany was the result of the growing international economic integration of this country. . . . Whether a country is on the gold standard or not, it is necessary to have a reserve of gold and devisen, which will play a great rôle also in modern war, as the Italo-Abyssinian and the Chinese-Japanese war proved. This reserve, however, cannot be earned but by a continuous development of foreign trade. Therefore Germany must, by necessity, join world economy. Summing up, it must be said that, from the soldier's point of view, the necessity and the advantages of the international division of labour are recognized."

² Cf. Hermann Rauschning, op. cit., Part II; W. Röpke, *Die neue Wirtschaftsstruktur Deutschlands als Grundlage seiner künftigen Handelspolitik*, Schriften des Vereins für Sozialpolitik, vol. 171/I, München, 1925, p. 19.

PART IV
THE AGRARIANIZATION OF THE INDUSTRIAL
COUNTRIES

CHAPTER IX

ACCOUNT OF THE POST-WAR DEVELOPMENT

BEFORE starting to discuss the all-important question of present-day agricultural nationalism in industrial countries, it will be best to define our position in regard to the whole enquiry. It is the purpose of this enquiry to give a morphological and causal interpretation of the total process of international economic disintegration and to derive from it some indications for a constructive programme of alternative policies. The preceding chapters gave first a description and definition of what is meant by international economic disintegration (Part I), and then an attempt was made to explain one after another the working of the principal causes of that process; in Part II, the socio-political disintegration of world economy; in Part III, the non-economic aims of economic nationalism, with special reference to the military aspect of economic nationalism. We have now reached the point where we must determine the part played by the agricultural nationalism of industrial countries, and thus analyse a cause of international economic disintegration which, many think, eclipses all others in importance.

Agriculture in general is so much a special sector of economic life that we very often have the highly unsatisfactory situation that the general economist deals with agricultural questions in an off-hand manner and without due regard to the special nature of agriculture as distinguished from the more familiar sphere of industry and commerce, while the agricultural economist tends to view all problems more or less exclusively from the angle of agriculture, without paying sufficient regard to the broader aspects of economic life. The one, very often, knows too little about agriculture; the other too little of general economics. Therefore it seems advisable to open this part with a short survey of the special position of agriculture in the modern market and money economy, a position determined by the peculiar features of agriculture as a branch of production and a mode of life.

The *first* point to be stressed is the singular character of *agricultural production*, in that it is, throughout, an organic process in which nature plays the predominant part. However important

the part played by man in applying labour and capital, he cannot get away from the decisive influence of such natural factors as climate, the physical-chemical conditions of the soil and the peculiarities of organic life in general. It is this salient point which determines a number of peculiarities distinguishing agriculture from industrial production; the limits set to mechanization, division of labour and use of machinery; the constant need of soil preservation by a complex combination of measures; the ever-present tendency toward diminishing returns; the irregularity and precariousness of its output; the unchangeable rhythm of seasonal or longer production periods; the difficulties of storage; the usefulness of combining different lines of agricultural production horizontally or vertically; and the tendency toward a lower optimum size of the unit of production than exists generally in industry. All this also explains the well-known fact that there are very narrow limits to the specialization of agriculture, and that, where those are ignored, there ensue serious consequences which force such excessive specialization to be abandoned. In this respect, it is particularly instructive to contrast the development of the *European* and the *colonial* type of agriculture. Whereas the European type, especially as represented by the traditional peasant farm,¹ developed out of the historical type of the primarily self-sufficient farm which comprised all kinds of production and for this reason only gradually came to lay stress on specialized money crops, the colonial type was based from the beginning on the demand of big markets for special crops. Consequently, the colonial type has become representative of a kind of farming which is highly specialized and therefore almost totally dependent upon the market for its special products.

This specialization, along with the large supply of the proper

¹ The author is fully aware that the word "peasant," having clearly disparaging connotations, is no real equivalent to the French word "paysan" or the German word "Bauer." It is clear, however, that the word "farmer" must be reserved for a special type of agriculturalist who often is not a "paysan" or "Bauer." Other terms which have been suggested to the author by his Anglo-Saxon friends—like "agricultural freeholder" or "farmer yeoman"—sound too artificial and laborious. The only possibility left, then, would seem to be to retain the word "peasant" and to ask the Anglo-Saxon reader to forget for the moment its pejorative sense until a better term is suggested. That this is not an insolent demand is proved by the fact that good English writers like G. K. Chesterton have used it before in a clearly laudatory sense. It has been shown, therefore, that it can be done. The reader should be also reminded that no less an author than J. Stuart Mill wrote, in his *Principles*, special chapters which bear the title "Of Peasant Proprietors" (Book II, ch. vi-vii) and which, from beginning to end, are a real panegyric on peasantry in the continental sense. "The generality of English writers," he says (*Principles*, ed. by Ashley, London, 1929, p. 256), "are no better acquainted practically with peasant proprietors, and have almost always the most erroneous ideas of their social condition and mode of life. Yet

soil in those overseas countries, made it possible to develop a highly mechanical technique of agricultural production, which was largely inapplicable to the European type of farming and which, therefore, made it difficult for the latter to compete with the former in the products in question. The European type, on the other hand, was forced by tradition and the need of highly intensified agriculture to perfect the development of mixed farming, and to preserve the fertility of the limited soil by the rotation of crops and the extensive use of animal manure and artificial fertilizers. This development of the European type makes it quite clear that intensification of production does not lead to more, but to less specialization, involving as it does the necessity for combining crop cultivation and livestock farming, for extending crop cultivation to a greater variety of plants, and thus for establishing a complex balance of production within the farm itself. This greater complexity of intensive production leads, at the same time, to a higher degree of economic self-sufficiency for the farm on the one hand and, on the other, to an increase in the quality and value of the products sold on the market. Moreover, since the greater variety of production brought about by greater intensity also leads to a better balance of natural and economic risks, this type of farming proves much less sensitive to crises and cycles and much more resistant to economic shocks than the highly specialized and more extensive colonial type of farming, the existence of which depends almost entirely upon the price of its marketed products.

These two types, then, represent methods of farming which in many respects are totally different. It has to be observed, however, that the difference has become much smaller recently and will become still smaller in the future, the more it is realized that the colonial type has been highly speculative and soil exhausting

the old traditions even of England are on the same side with the general opinion of the Continent." Nor should it be forgotten that William Thornton published in 1848 his *Plea for Peasant Proprietors*, to say nothing of Wordsworth and other poets. So we feel in very good company. It is, of course, not without deep significance that it is so difficult to find an English equivalent of "paysan" and "Bauer," for if the thing itself existed there would be a word for it. The rather disreputable sense of "peasant" arises surely out of the fate of peasantry under British feudalism, and the Anglo-Saxon settlers transplanted this sense to the United States and the Dominions. It seems that in the United States the word has fallen still more into disrepute by the fact that there the reminiscences of old-world feudalism have been freshly supplemented by the new feudalism in the Southern States, which was based on the subjection of people belonging even to another race of a different colour. It is more than probable, however, that in the United States there are more real peasants in the very respectable French, Scandinavian, Swiss or German sense than the habit of abhorring the term itself would suggest. It is equally probable that on the average they are quietly prospering, which explains why we hear so little about them. At all events, the whole question is badly in need of a thorough investigation.

and that, if it is to continue, it must adopt more and more of the features of the European type of farming. This only testifies to the fact that agriculture, however mechanized and industrialized, must in the end acknowledge the peculiarity imposed upon it by the laws of nature and organic life.

The *second* point to be kept in mind with regard to the special character of agriculture is the peculiar nature of the *social* conditions of agricultural production and supply. The great number of production units (farms), the special mentality of the agricultural producer, the complex nature of the process of agricultural production, the relatively long periods of production, and a number of other factors, result in the fact that agricultural production tends to be highly irregular and does not lend itself to rational control and swift adaptation to changed conditions. For these and a number of other reasons the different elements of the cost of production are usually less elastic in agriculture than in other industries. All these facts explain the well-known experience that, in times of change, adjustment takes place in prices rather than in output; that agricultural crises are mostly processes of very painful and long drawn-out depression; that, in those periods, elasticity of supply may easily become inverse, and that the most elastic element in this situation remains the standard of living and the endurance of the farmer and his family. Unemployment; closing-down of factories; cartels and trusts; advertisement and high-pressure salesmanship; price stabilization by restriction of output carried through by the producers; sudden changes in management, organization and technique of production; horizontal or vertical combinations of enterprises; intricate financial manœuvres and the floating of stocks and bonds—these and a host of other phenomena familiar in the sphere of industry have usually no parallel in agriculture.

A *third* point to be considered is the peculiar character of the *demand* for agricultural products. In general, it is relatively inelastic with regard both to income and to price elasticity. It must not be forgotten, however, that in this respect important differences exist between the different groups of agricultural products, especially between staple products like wheat and other cereals and those of higher quality and value like meat, dairy products, eggs, fats, vegetables, and fruits. Whereas the elasticity of demand for the former group is, indeed, very small, it is quite considerable in the case of the latter. This is a fact which can hardly be stressed enough and one which must be kept in mind for later consideration. But the fact is so well known, and has

been studied lately in such detail, that there is no point in going into it here more deeply.² This much is clear: the co-existence of relatively low elasticity and high irregularity of supply with a low elasticity of demand for many important agricultural products, is bound to lead to large fluctuation of prices and thus to make agricultural production and marketing a special problem of economic policy, a problem which does not exist in the same form in the sphere of industry.

There is another point which must be mentioned in this respect, because it has some bearing on the present situation and future trends of agriculture. It concerns the shifts in demand which are likely to concur with the industrialization and growing urbanization of a country. There are three phases in such a development: a first phase in which the growth of industrial centres leads to a strongly increased demand for staple products (cereals, potatoes, &c.); a second during which the change of nutrition habits imposed by urban life and the special food requirements of the industrial worker shifts the demand from the coarser to the finer staple products (e.g., from rye to wheat) and from the cheaper to the more valuable animal products; a third phase in which a further refinement in nutritive habits changes demand definitely from the staple products to those of high quality which, owing to their richness in vitamins and other ingredients, are sometimes called "protective foods."

A *fourth* point, which explains the special position of agriculture in modern economic life and is closely connected with the other three, is that agriculture has its own peculiar problem of credit, as well as specific ones of ownership, succession and land tenure. The tendency towards mortgaging the farm in the acquisition of ownership by purchase or succession and towards overvaluing it in times of prosperity or real estate speculation, the danger of short-term credits (especially in the commercial form unsuited to agriculture), the usual lack of working capital on the part of the farmers, the ever-present economic and natural risks in agricultural production which are not easily mitigated by insurance, the difficulty of settling over-indebtedness by orderly bankruptcy and subsequent change of ownership and/or management, the lack of easy access to the central money and capital markets and other factors are apt to involve agriculture again and again in serious over-indebtedness, which aggravates agricultural crises in the most dangerous manner and frequently calls for special intervention.

² Cf. especially the Report of the League of Nations on the "Problems of Nutrition."

There is a *fifth* point which requires to be mentioned, namely, that agriculture, in addition to the aforementioned difficulties, has also to contend with a *special labour problem*. Inasmuch as the existence of the rural proletarian is, for comprehensible reasons, even less attractive than that of the industrial proletarian, as agricultural work is not only for the most part strenuous, but also unevenly distributed over the seasons, and as agriculture cannot hope to compete on equal terms with the industrial labour market, it finds difficulty in securing hired labour on suitable conditions and in the necessary quantity. The drift to the cities, especially in times of industrial prosperity, has become a phenomenon familiar to all industrial countries, and it is rare for those who desert the land to return to it during a subsequent industrial depression. There is, therefore, likely to be a constant drain on the labour reservoir of the open country—unless forms of agriculture can be developed which will make the life of those who work on the land less proletarian in character.

As the *sixth* and last point mention should be made of the *sociological peculiarity of agriculture* to which we have already referred several times. With due regard to the difference between the European and the colonial type of farming, it may be said that—in the former more than in the latter—agriculture is not only a business like any other, but a mode of life and a type of existence to which the farmer is bound by more than mere considerations of profit and into which people are “born” perhaps more than into any other field of production. This also explains why agriculture is so much characterized by traditionalism and conservatism, and why the agriculturist—especially if he happens to belong to the peasant type—sticks to his soil even under almost unbearable conditions of life and work. It further explains why, in agriculture, selection among producers is less intense and less likely to eliminate the unfit than in industry, so that we find here an unusually wide range of skill and success and, accordingly, a greatly varying level of subsistence. Instead of a profit and money economy, agriculture, especially in the European peasant farm, is largely a “want and surplus economy.” Then, there is also the special mentality of the farmer, which characterizes the problems of rural education, of rural community life, and of the professional and economic organization of agriculture.

All these special features—which by no means exhaust the subject—must be kept in mind if one is to understand the recurrence and the special character of agrarian crises and cycles, and the peculiar place of agriculture in the development of occidental

capitalism during the nineteenth and twentieth centuries. It may well be asked whether agriculture is not generally handicapped in sharing the economic advantages of this development, and how far it really fits into this economic system. Without answering these questions on the present occasion, it may safely be said that, with the exception of some relatively short periods, the agriculture of industrial countries has, under capitalism, always been more or less a child of worry giving rise to special problems with which agricultural policy has had to cope. In the past, all kinds of solutions of this problem of harmonizing agriculture with capitalism have been tried, but it must be said that at the present moment we are, perhaps, still further than ever from any definite and reasonably satisfactory solution, although it is to-day more important than ever to find one.

The problem with which we are most concerned in this connexion is that of agriculture's share in the process of the international economic integration of the past and in that of the present. As for the past, it is clear that the growing importance of international trade in agricultural products, based equally on the growth of population in the industrial countries and on the extension of colonial agriculture overseas, has been one of the most essential elements of that scheme of international division of labour, in accordance with which world economy developed in such a stupendous fashion, though it would be wrong to regard the world economy of the past as merely, or even predominantly, an international exchange of industrial against agricultural products, instead of a mutual exchange within the industrial sphere itself. If, however, we want to go beyond such trivial statements and give a detailed picture of agriculture as an element of the complex structure of world economy, it must be realized that we are facing a highly intricate problem. To understand this, the reader must be referred to a previous chapter (Part I, Chap. III), where a distinction has been drawn between the quantitative and the qualitative aspects of international economic integration and disintegration. Thus, if we want to define the past or present function of agriculture in the structure of world economy, it is not enough to make statistical measurements of international trade in agricultural products as a percentage of total world trade, of total production or of consumption of the agricultural products in question. To do this is not altogether unimportant and far from easy, but what is wanted in addition is a study of the qualitative-functional relationships as exemplified by the part played by agriculture in the multilateralism of the world economy of the past and in the present

tendency toward bilateralism, in the relatively steady character of world trade in the past and in its more erratic character to-day, in the interdependent and intercommunicating character of world economy before the Great War and in the present trend toward compartmental development and formation of economic blocs. The complex repercussions of agricultural changes on world economy and of changes in world economy on agriculture must be disentangled. Though some preparations for undertaking such a study have already been made, it is not possible at this juncture to do more than state the problem as such and to underline its importance.

These considerations lead us to the central problem of the probable *place of agriculture in the causation of the present process of international economic disintegration*. It is common knowledge that, in the agricultural sphere of world economy, important things happened during the 'twenties which prepared the breakdown of the 'thirties. In large sections of agriculture, especially in the production of cereals and cotton, an acute depression had started long before the outbreak of the industrial depression, and many have adopted the view that it was just this concurrence of a more or less cyclical industrial depression with a long agricultural depression which explains the intensity and the obstinacy of the general depression of the 'thirties. It is an undisputed fact that the way in which the agricultural policy of important industrial-import countries responded to the agricultural depression with protective measures of growing ruthlessness, had a share of the responsibility for the dislocation of world trade which, in its turn, was bound to react further on agriculture; and there are even a few authorities who put most of the blame for the breakdown of world economy on the agricultural nationalism of the industrial countries.

Though all these facts cannot be denied, it is still an altogether open question what relative weight should be given to them and in which direction the causal threads really run. It is not to be wondered at, therefore, that we find a variety of theories and causal interpretations which conflict with or supplement each other. While a survey of these theories cannot be given here, we venture to give a tentative sketch of the most probable way in which the different elements may have worked together. It is unnecessary to say that such attempt at causal interpretation is highly necessary, though open to serious divergences of judgment.

To begin with, the combined effect of the Great War, speculative extension of the areas under cultivation, a number of technical advances in agriculture and possibly of some amount of under-

consumption in large parts of the world, resulted at an early date in serious overproduction in certain lines, especially in wheat and cotton. At the same time there was, in the industrial countries on an agricultural import basis, an intensification of agriculture up to and even beyond the pre-war level. This development was furthered by the resumption of agricultural protectionism, which was intensified the more the tendencies toward overproduction in the agricultural-export countries and the cost-decreasing effects of the new techniques of production made themselves felt on the world market. It is important to note that these happenings were, in the beginning, almost exclusively (cotton excepted) confined to cereals, and more especially to wheat.

This progressive agricultural nationalism of the industrial countries was tantamount to an attempt, carried through with a good deal of ingenuity, to shift the full burden of the world's agricultural overproduction—as far as it existed at that time—to the agricultural surplus countries. This policy was very tempting, since the idea, however dubious, suggested itself that a country on an agricultural import basis only had to shut the door in order to protect itself against the impact of agricultural overproduction. The very fact that these countries were on an agricultural import basis seemed to make it just as reasonable as easy to use protection to secure an equilibrium of their national agriculture, in the midst of a world agricultural depression, and so let the agricultural-export countries stew in their own juice. In addition to this, there was an obvious lack of any acceptable alternative policy, so that agricultural nationalism appeared the only reasonable way out. Without opening the question of guilt and responsibility, there is no denying the fact, however, that this policy of shifting the burden of agricultural overproduction to the export countries only, was bound to lead to the most serious repercussions on all sections of the national economy and world trade.

In the *agricultural export countries* the result of this was *partly* that they further extended their staple production by still more rationalization and mechanization, by subsidies and valorization schemes and by endeavouring to counteract price reductions by an increased volume of sales; *partly* a change from staple production to the production of more refined foods, with the result that the depression spread to this sector of agriculture too (e.g., the development of dairy farming in New Zealand to the detriment of Denmark, Holland and similar countries); *partly* that the agricultural countries further industrialized themselves, and *partly* a sharp reduction in the total purchasing power of the agricultural

population which, in its turn, largely contributed to the international collapse of credit in industry.

In the *industrial import countries the chain of effects* consists of (1) a contraction of general purchasing power due to the industrial depression (which, as we saw, was much aggravated by the repercussions of agrarian nationalism on the agricultural countries), (2) a diminution of the general purchasing power available for high-grade foodstuffs because of the relative increase of the prices of the staple foodstuffs, (3) a subsequent depression on the markets of the high-grade foodstuffs, which were not originally affected by the agricultural depression, and (4) an adverse effect on the cost of production of those high-grade foodstuffs, since the grain protection made fodder more expensive. This chain of effects made it increasingly difficult for the producers of high-grade foodstuffs, in the industrial countries which practised grain protection, to compete with countries like Denmark or Holland which, on the base of free imports of fodder, had specialized in the production of high-grade foodstuffs and under the influence of drastic cuts in the prices of imported fodder and of growing competition from overseas in the high-grade foodstuffs, were already drifting into overproduction in this branch of agriculture. The result, therefore, was that in the industrial countries on an agricultural import basis, the agricultural depression spread from cereals to high-grade foodstuffs, a development which could be observed particularly well in a country like Germany.³

In this situation, these industrial countries were only following the line of least resistance, when they extended their policy of intense agricultural nationalism from cereals and other staple products to high-grade foodstuffs, a tendency which became more and more marked from the end of the 'twenties onward. In following this course, however, they were embarking on a policy which was bound to lead to a host of unforeseen complications and to dangerous repercussions on the widest scale. It is impossible on this occasion to study these repercussions in detail. Let it suffice to say that the point had now been reached where the traditional methods of tariff protection no longer seemed adequate, so that a new and powerful machinery of protective intervention had to be built up to deal with the new situation—a development for which Germany is again the most interesting and important example. In this latter country, particularly, this new development of agricultural nationalism proved an especially crude interference with the old

³ Cf. W. Röpke, *German Commercial Policy*, London, 1934, pp. 40-66.

multilateral network of world economy, since those neighbours of hers like Holland, Switzerland and the Scandinavian countries, were most important buyers of her industrial products and purchased these to an extent in excess of their exports to that country. This was another reason why this new course of agricultural nationalism was bound to lead to great difficulties and complications in commercial policy, especially as the more drastic methods of protection (import quotas, exchange control, &c.) conflicted with the most-favoured-nation clause, thereby causing much friction and resentment. Thus the snowball grew until finally those countries, which specialized in the production of high-grade foodstuffs, felt compelled to adapt their economic policy to changed conditions by themselves having recourse to agricultural nationalism and planning, and thus departing from their traditional liberal policy. As they are losing their markets for high-grade foodstuffs in the neighbouring industrial countries, they are now turning to a policy of increased staple production and also of industrialization. It can hardly be denied that England's definitive turn toward protectionism and the Ottawa treaties contributed to this development.

The foregoing tentative picture of the intertwined causes and effects gives a groundwork on the basis of which a *discussion of the questionable points* could be conducted. Hard as it is to see how the active and important rôle of the policy of increased agricultural nationalism in European industrial countries like Germany could be disputed, it would surely be an over-simplification to let the matter rest here, instead of explaining the reasons behind the growth of agricultural nationalism in Europe. In this respect, special emphasis should be laid on the great speculative extension of grain cultivation to the semi-arid areas in the United States, Canada, and South America which, while being one of the principle causes of overproduction in cereals, was driven much beyond the point at which the initial low cost of production could be maintained over a longer period, since this expansion of cereal production brought with it a rapid exhaustion of the soil.⁴ This development is typical of the sudden and largely speculative increase of production which occurred generally in this sphere of the colonial type of agriculture after the war; and viewed from this angle the growth of agricultural nationalism can be conceived, if not excused, as the outcome of the clash of two types and conceptions of agriculture, i.e. the highly capitalistic, speculative

⁴ This point has been especially worked out by Vladimir P. Timoshenko in his book *World Agriculture and the Depression* (Michigan Business Studies, vol. v, No. 5, Ann Arbor, 1933).

and industrialized type on the one hand and the traditional European one on the other. Consequently, the tension will slowly diminish as the difference between these two types decreases for the reasons given at the beginning of this chapter.

There are a number of other moot questions contingent on the problem of the course of agricultural depression. Of these, those of the monetary and financial causes of agricultural depression, of the consequence of good crops occurring at certain periods, of the effect of the slackening rate in the growth of populations and of the change in nutrition habits, should at least be mentioned, though it seems certain that they are merely accessory factors.

CHAPTER X

CHANGES IN THE INTERNATIONAL LOCALIZATION OF AGRICULTURE

THE preceding chapter has made it clear how the increase and spread of agricultural nationalism in industrial countries, on an agricultural import basis, has contributed to the disintegration of world economy. Naturally, there arises now the question of how to explain this development of excessive agricultural nationalism during the last fifteen years. The first answer which suggests itself is that the counterforces acting against the policy of preserving the actual state of agriculture in the industrial countries must have grown correspondingly during the same period. That is to say: it is to be presumed that important changes have occurred in the international differences of the cost of production of the various branches of agriculture and in the competitive strength of agriculture in different countries, which, in the absence of increasing protection, would have necessitated more or less violent processes of agricultural re-adjustment. This leads us immediately to the problem of what changes in the fundamental factors of the international localization of agriculture in its different branches have upset the international competitive conditions during the last fifteen or twenty years. The importance of this problem can hardly be underrated, for by studying it we may hope to gain (1) a better understanding of the recent development of agricultural nationalism, (2) a measure of its costs and limits and thereby a better view of its general effects, (3) an approximate idea of that international distribution of agricultural production, which would correspond to a rational optimum division of labour among the various countries, so that we would have a standard by which to gauge the deviations from normality brought about by agricultural nationalism, and (4) a basis for a constructive programme of alternative policies to that of agricultural nationalism. Unfortunately, the importance of the problem is equalled by the difficulty of solving it. For this reason a special study of the problem is being undertaken, which is too extensive to be incorporated in the present report, so that only some of the main points can be mentioned here.

Roughly, during the last two hundred years, the international

localization of agriculture has been fundamentally upset by *three successive periods of major changes*, of which the present one is the last. The *first* period is the agricultural revolution of the end of the eighteenth and beginning of the nineteenth century, which initiated a new technique of cultivation and saw a fundamental change in the structure of agricultural production brought about by the introduction of new crops like potatoes, turnips, beets, and green fodder plants and by the replacement of the medieval field systems by the new one of the scientific rotation of crops, which enabled agriculture to adapt itself more freely and swiftly to changing demand. The *second* period of major change was initiated around the middle of the last century by the rapid development of colonial farming overseas which, owing as much to lower transportation costs as to the lower cost of production of the vast stretches of virgin and uncommonly fertile soil cultivated by the new farm implements, became a source of ruinous competition for staple production in European agriculture. The advantages in cost enjoyed by oversea colonial farming in the production of staple agricultural products were so marked as completely to upset the old scheme of agricultural localization and to lead to a new one, to which European agriculture had to adjust itself, within the limits of the specialization possible in agriculture, by leaving such production more and more to the peripheral zones of world agriculture and turning to that of high-grade foodstuffs, except in those cases where agricultural protection acted against this process of readjustment. It is well known that it was precisely due to agricultural protection that this new scheme of international division of labour in agriculture did not work itself out fully.

In attempting to explain the main features of the *third* and last period of major agricultural change, the one in which we find ourselves to-day, it is well to be more explicit. This is all the more necessary, since the present period appears to be particularly complex and incapable of being described by a simple formula. The following are the main points to be considered, and in that order:

(1) *Changes in the technique of agricultural production.* This is made the first point, because the changes in technique of agricultural production which have occurred during the last twenty years have been especially spectacular and, therefore, familiar to practically everyone. For the same reason we can be rather brief, without going to the length of giving a complete account even of the principal innovations which have been developed and applied in our time. Some of these—especially the wide-spread use of the

tractor, the combination-harvester and other mechanical devices—amount to the mechanization of labour processes which, under certain conditions, has gone far to reduce the average unit cost of production in those fields where a high degree of mechanization is possible. Since, however, the conditions for applying such a mechanization are far from uniform in the different countries, the technical innovations just named gave at least a temporary advantage in localization to the regions best fitted for mechanized large-scale farming. It was just this which, in the 'twenties, brought about the enormous extension of low-cost grain production to the wide semi-arid spaces in both Americas and in Oceania, and thus created a ruinous competition for that part of the world's grain production which was less suitable or temporarily less willing to adopt this degree of mechanization.¹ While mechanization is generally confined to crop cultivation, the electrical milking machine should be cited as a rare, but important, example of mechanization in the field of animal husbandry. Of another character is the progress made in the biological or biochemical field of agricultural technique (more and better use of artificial fertilizers, better handling and wiser use of manure, fodder silos, better feeding diets, better animal breeds, development of new plant varieties, &c.).

All these innovations meant better gross or net returns in agriculture, other things being equal. What interests us here, however, is the influence they had on the localization of agriculture and on the differences in cost of production, differences which they may create, enhance or diminish. Such an influence is obvious in the case of the growing of new plant varieties more resistant to an adverse climate or to unfavourable soil conditions, and therefore apt to lead to a wider spatial diffusion of production. This is clearly an innovation which tends to make for greater ubiquity of production. In other cases, the influence on localization depends on the *conditions* under which innovations can be applied. Here the size of farms, in particular, gives rise to very important and interesting considerations. It is obvious that some of the new technical devices cannot efficiently be utilized by the smaller farm and therefore raise the optimum size of farm for the special production in question. The smaller the farm, the more limited will be the profitable use of technical devices which, like the combina-

¹ On these and other points, among the vast literature on the subject, brief and generally reliable information may be obtained from I. Görzel, "Technisch bedingte Standortsverschiebungen in der Landwirtschaft und Agrarprotektionismus in der Nachkriegszeit," *Zwischenstaatliche Wirtschaft*, ed. by Professor H. v. Beckerath, Berlin, 1934.

tion-harvester and similar machines, are expensive and at the same time restricted to seasonal use. In this respect, countries with small or average-size peasant farming are put to a disadvantage in the production of wheat on a large scale compared with colonial farming conducted on vast areas of soil. While even this statement cannot be accepted without serious qualifications, it has to be observed that there are other technical innovations which can be just as well applied by the average peasant farm, especially stationary machines driven by electricity. The electrification of agriculture and also the various uses of the internal combustion engine are clearly fortifying the competitive position of the smaller unit, in agriculture as well as in handicraft.

(2) *Changes in the natural factors of agricultural production.* The natural conditions of agricultural production as determined by the climate and by the physico-chemical qualities of the soil, represent the most elementary factors in the spatial differentiation of production, but at the same time they are the ones least given to change over shorter periods. It is, nevertheless, a noteworthy fact that a change has recently become more and more apparent in these natural conditions, a change which has been caused principally by human actions and which is likely very seriously to affect the future development of the world's agriculture. The wasteful exploitation ("Raubbau") of natural reserves, which is largely associated with the highly capitalistic type of colonial farming, is exacting retribution in the gradual deterioration of the soil in its chemical, biological and physical qualities and, as far as ruthless de-forestation has been allowed to assume vast dimensions, even in an adverse change of the climate. Europe, too, has no lack of signs of similar changes, brought about by an excessive use of artificial fertilizers, by exhaustion of the natural soil fertility through over-intensive cultivation, and by a decrease in the underground water level (due to swamp draining, excessive water demands of industrial and urban waterworks, regularization of rivers and other such interferences with nature). In all these respects, the most spectacular developments are reported from precisely those oversea areas which had been the scene of that highly mechanized low-cost grain production that upset international equilibrium in this field during the 'twenties. Gradual soil erosion has, indeed, become one of the principal worries in almost all areas of oversea field cultivation, especially in the United States with its famous Dust-Bowl and in Australia. At the same time, the reserves of further virgin soils would seem to be practically exhausted, so that the "fresh and joyous" period of wasteful exploitation of the natural reserves of

the earth appears to have come to a close, at least in the temperate zones. This clearly points to the conclusion—already familiar to us from previous considerations—that the enormous advantage gained by colonial farming in extensive and highly mechanized grain production during the 'twenties, is bound to be whittled away by the increasing need for the "Europeanization" of oversea agriculture, i.e. for a more intensive kind of agriculture, and this is invariably equivalent to a change in favour of mixed farming. Since, however, soil erosion overseas is also being caused by overstocking of grasslands (for which Australia is an outstanding example) a similar statement has to be made also for extensive pastoral farming, where the need for serious adjustments and better balance of agriculture has become just as apparent. Yet, one must take into account the possibilities of changing natural conditions, especially water supply, by large irrigation or drainage projects in numerous parts of the earth wherever it is economically advisable and technically possible.²

(3) *Changes in market conditions.* The tendency towards a diminution of the difference in the structure of European and colonial farming, brought about by the growing "Europeanization" of the latter, is being very much strengthened by a change in market conditions. The theory of the localization of agricultural production, which goes back in its elements to the well-known analysis by J. G. von Thünen, teaches us that, other things being equal, the geographical arrangement of the various branches and systems of agricultural production will be pre-eminently determined by the location of the central market for the agricultural products, the most intensive kind of agriculture forming the inmost Thünen-circle while the bulk of staple production finds its natural localization in the more distant circles. As long as industrial Europe could be conceived as a central consuming market for the whole world, it was quite in accordance with this elementary principle to regard colonial staple production and extensive pastoral farming as the outer Thünen-circles, and European intensive

² Among the vast literature on the subject of land reserves and soil depreciation, see: Isaiah Bowman and others, *Limits of Land Settlement*, New York, 1937 (containing an extensive bibliography); O. E. Baker, "The Increasing Importance of the Physical Conditions in Determining the Utilization of Land for Agricultural and Forest Production in the United States," *Annals of the Association of American Geographers*, vol. xi, pp. 17-46; H. W. Graf Finckenstein, *130 Jahre Strukturwandel und Krisen der intensiven europäischen Landwirtschaft*, Berlin, 1937; Ehrenfried Pfeiffer, *Die Fruchtbarkeit der Erde*, Basel, 1938; *The Depreciation of Soil Productivity*, Circular of the Bank of New South Wales, vol. ix, 1939, No. 1; *Report on National Planning*, U.S. National Resources Board, 1st December, 1934; S. V. Jacks and R. O. Whyte, *The Rape of the Earth, a World Survey of Soil Erosion*, London, 1939; D. Lange and Paul S. Taylor, *An American Exodus: a Record of Human Erosion*, New York, 1939.

agriculture as the inmost one. Whereas this picture of the previous arrangement of circles is itself rather crude and subject to important qualifications, we are now in the midst of fundamental changes brought about by the growing significance of new consuming centres, which have grown up outside Europe as a result of industrialization, urbanization and the agglomeration of population almost everywhere. Consequently, we are now going to have, instead of one big consuming centre, several ones like so many planetary systems. This means, first, that overseas staple production now represents the outer Thünen-circle of more than one system of circles—i.e. supplies not only the European, but also a growing African import market—and, secondly, that such regions are largely taking on the characteristics of an inner circle as, being nearer to consuming centres, they are becoming suitable for the intensive production of high-grade foodstuffs. Moreover, a more intensive system of agriculture, as it is developing to-day in so many overseas countries, becomes itself a better market for staple products, especially because of the need for buying staple products as animal fodder.

(4) *Changes in transport.* Transport is a highly important factor in agricultural localization and has also undergone recent changes that are far from being negligible. Whether it is the development of motor traction and the construction of highways in the outlying districts of the world, the use of refrigeration in land or sea transport, or the building of new and the improvement of old railroad systems, all these changes invariably mean a relative advantage in localization for the more distant agricultural areas and a higher market integration everywhere. This is equivalent to saying that, as far as transport is concerned, the zone of intensive farming is being widened. That dairy farms in New Zealand have become the leading suppliers of butter in England is a spectacular example. At the same time, it is a development which augments the range of products suitable for profitable production, from which the farmer may choose in order to adjust his farm to changing conditions.

(5) *Changes in adaptability of agriculture.* The last remark brings us to a further factor in determining the localization of agriculture: the degree in which agriculture in different countries is able or willing to adjust itself to changed conditions of production, whether they be changes in the technique of production, in natural conditions, in marketing prospects or something else. There is always a certain resistance to change which will vary not only from farm to farm, but particularly also from country to country,

according to different mentalities or systems of farming. While it is not necessary here to stress again the fundamental difference in this respect between the European and the colonial types of farming, it should be noted that, with the drive for modernization, industrialization, and urbanization everywhere, there is a marked tendency towards a less traditional outlook on the part of peasant farmers in many parts of the world ("farmerization"). On the other hand, there is also a tendency for the colonial type of farmer to be more willing to lend an ear to those recommending a less speculative outlook and less smartness in adapting themselves ("peasantization"), so that both types are coming closer together and approaching from opposite sides a reasonable equilibrium in adaptability.

In this connexion, it is important to realize that it would be quite wrong to attribute the relatively strong resistance to change on the part of the peasant to nothing but his proverbial conservatism, or to pass on this mentality the condescendingly adverse judgments to which our time is so prone. Not only is there very much to be said in favour of such a conservative attitude, but, what is more, it has quite comprehensible reasons which are to be sought in the peculiar character of agricultural production, especially in the European countries with their long-established and very intensive agriculture. It is the complex and the long-term nature of agricultural production which makes it much more difficult for agriculture to apply new methods and make quick adjustments in production than it is for industry. For this reason, there is hardly any doubt that the sector of old-established, intensive and highly diversified farming is, in periods of great change, at a clear disadvantage compared with that of colonial farming, a fact which should be taken into account in judging the agricultural protectionism of the former. Experience seems to prove again and again that, more often than not, it is the more enterprising pioneer agriculturalist in the old countries who gets into difficulties, while the more conservative type fares much better.

(6) *Changes brought about by non-agricultural competition.* The undeniable tendency to replace some organic raw materials produced in agriculture by inorganic products of industry or mining, has recently led to further important changes, which affect the general position of agriculture. Among these, the most outstanding example is obviously the gradual replacement of oats by petrol, as motor traction takes the place of horses. This development has set free large areas of grain land and thereby contributed to the problem of surplus cereals. In this connexion, mention

should be made of similar replacements of minor importance, like those of natural fibres by synthetic ones or of butter by oleomargarine, containing whale fats.³

(7) *Temporary and lasting changes.* It should be obvious that it is extremely important to know whether the changes in localization are only temporary or more durable in character. The more a change is temporary, the more questionable becomes the economic advisability of an adjustment, since it has to be followed in a short time by a readjustment, whereas, in the case of an enduring change, adjustment to the new conditions is economically rational. This has a great bearing on the question of whether agricultural protectionism can be justified on economic grounds. It should be added, however, that any concession made to protectionism in this way implies equally the temporary character of this kind of protection ("emergency protection"). Now, a further peculiarity of agriculture is that, in general, changes in localization are lasting rather than transient. Such occurrences as the previous cultivation of the present American Dust-Bowl, however, are very important exceptions to this rule.

Sketchy as this enumeration of the principal points must be, it at least gives the impression that the changes in agricultural localization occurring in our time are both particularly far reaching and complex. It is therefore difficult to summarize our findings in a few words. With all due caution, however, this much may be said: (1) the advantage colonial farming has in large-scale grain production and extensive grazing, compared with European farming, has been fundamentally preserved and largely even strengthened; (2) certain particularly spectacular developments in colonial farming are being revealed now as untenable exaggerations involving a wasteful exploitation of the soil, which has to be corrected by more conservative methods of farming; (3) the technical need of and economic prospects for intensive and diversified farming producing high-grade foodstuffs are increasing not only in Europe, but also in the new consuming centres overseas; and (4) this tendency together with the gradual Europeanization of colonial farming is at the same time leading to more integration within certain geographical sectors of world economy and to less integration and specialization between the distant parts of the earth. If we correctly interpret the natural tendencies working in the world's agriculture to-day (which are largely being counteracted

³ On the present state and future outlook of the whale oil industry and on its bearing on the world's fat markets consult: K. Brandt, *Whale Oil, an Economic Analysis*, Food Research Institute, Stanford University, 1940.

by state interventions of different kinds), it seems that against the undeniable differentiation in localization among countries and continents must be set the trend, which is setting in, toward a diminution of world-wide specialization, greater diffusion of the different kinds of agricultural production and a levelling-out of the differences between the European and the colonial type of farming. In spite of a large amount of economically rational inter-continental trade in staple products, international division of labour in agriculture will follow natural tendencies and become less general and world-wide and less based on speculation, capitalist exploitation and exaggerated specialization. Even without excessive protectionism, the agriculture of the world would, according to our interpretation, move in the direction of an all-round and diversified type of farming approaching that of the family-farm, which would correct certain exaggerations in specialization between farms, countries and continents which certainly existed in the past. Agriculture would be less submerged in the capitalist money- and exchange-economy, assume more of the character of the family and sustenance farm and become accordingly more stable and shock-proof. In this way it would make a decisive contribution towards rendering our economic and social system less complex, top-heavy and stilted. All this would happen in spite of the many innovations in agricultural technique, which, after all, have not changed the fundamental laws that agriculture cannot disobey without paying a heavy penalty for it in the end. It goes without saying that this is an interpretation which needs a number of qualifications, but there is a strong probability that it cannot be very far from the truth. It should be added, moreover, that also the special problem of *tropical plantation farming* has to be considered in the light of this tendency towards a better balanced agriculture. Particularly here, where a speculative capitalist conception of large-scale cultivation has brought about serious instability of production, many people have come to believe that there is no alternative beyond either an untenable policy of *laissez-faire* or planned production. Recent experiences—e.g., the tremendous advance of native peasant cultivation of cocoa in West Africa and of rubber in the Netherlands East India—are proving, however, that there is a third solution, which is not only better, but also more natural than planning, viz. the development towards well-balanced peasant farming on a small scale.⁴

⁴ See, however, p. 159.

CHAPTER XI

THE DRIVING FORCES OF AGRICULTURAL NATIONALISM

AFTER the general account of the post-war development in the field of agriculture and agricultural policy given in Chapter IX, and the consideration in Chapter X of changes in the international localization of agriculture as one of the principal causes of post-war agricultural nationalism, we now have to determine what were the general driving forces which made post-war agricultural nationalism try to preserve or reshape the national structures of agriculture in conflict with counteracting forces. The difficulty of this task lies not so much in any lack of provisional answers, for they are many, as in the need for finding a satisfactory order for them. Here, as on so many other occasions during this enquiry, an overwhelming amount of facts, opinions and literary documents has to be condensed, so as to get a clear outline of the strategic factors. To this end, it seems advisable to proceed along the following order of points:

(1) Every attempt to interpret post-war agricultural nationalism must begin with the *peculiar position of agriculture within our highly developed capitalist economy*, which, as we saw at the beginning of this part, gives rise to special problems that easily serve as motives or pretexts for measures of protection or compensation. The whole course of agricultural protectionism during the last generations cannot be understood without reference to this underlying factor. Agriculture, however, has not only its special problems, but it is also a branch of economic life which is considered too important to be left to an uncertain fate. For this reason, there is some *prima facie* argument for agricultural protection, but there is the dilemma that, if agriculture is protected by state intervention, it invariably means the simultaneous price protection of the very commodities which are of the most vital importance for the consumers. To make food more expensive—absolutely or relatively—is at least as undesirable as to expose the farmers to distress.

This is the fundamental dilemma characterizing the whole history of agricultural protectionism and which leads either to some sort of compromise or, unfortunately only in rarer cases like that of

Denmark, to the more intelligent and honest solution of finding a third alternative, which is neither ruinous *laissez-faire* nor protectionism. Moreover, it goes without saying that agricultural protectionism very easily degenerates into the protection of vested interests, sluggishness and ineptitude. Quite often agriculture becomes, instead of the "underdog" who arouses our indulgence and commiseration, a lobbying pressure group, which has the utmost interest in presenting the case for agricultural protection as a mere matter of choosing between ruinous *laissez-faire* and salvation by protection and in ridiculing any constructive alternative policies as the impracticable ideas of arm-chair economists. The situation is rendered still more complex by the fact that the economic interests of agriculture in all its different branches and forms are very far from being uniform in any one country, so that the protection of one kind of product may gravely violate the interests of others. Finally, more often than not, agricultural protection will mean that the socially and economically undesirable forms of agriculture are conserved to the disadvantage of more desirable forms; the "plight of the farmer" must not be mistaken for the distress of agriculture in general were it conducted as it could and should be.

In view of all these complications, it is very difficult for the impartial observer to find his way and to make it understood that, in regard to agriculture, he is neither actuated by an urban-minded callousness nor indulgently biased. After this, there should be no further fear of being misunderstood, if one stresses that the problematical situation of agriculture in our modern world has certainly lost nothing of its weight during the last few decades. On the contrary, there is a strong presumption that the great changes in the structure of our economic system—especially the increase of interventionism and monopolism in every field of economic life—put agriculture generally at a still greater comparative disadvantage. Consequently, the increase of agricultural protectionism can largely be understood as a struggle by the farmer for a "place in the sun," in the face of developments which (like the growth of industrial monopolies, &c.), have done much to make him feel that he is getting the worst of the bargain. He is faced with a world in which planning, industrial tariffs and subsidies, financial manœuvres and price rigidities are flourishing, while he feels himself delivered over to the ruthless forces of world-wide competition. Statistics tell him that the gap between the prices for agricultural products and those for industrial ones—the famous "scissors"—tends to become wider, just as the costs of agricultural production tend to eat into his selling prices, while industrial prices

show a growing rigidity in comparison with agricultural ones.¹ The ensuing feeling that agriculture is merely "the tail of the industrial kite" (H. Wallace), gives rise to agriculture's demand to be treated on an equal footing with industry, either by restoring free competition and low tariffs for industry, or by giving agriculture the same degree of monopoly and protection. In spite of strong advocacy of the former course (by people like Secretary Wallace in the United States), it is more often than not the latter one which is finally adopted. Whether this is the wisest thing for agriculture is another story. What interests us here is merely the point that the recent increase of agricultural nationalism must be understood, if not excused, as the agricultural counterpart of the general development of our economic system towards more intervention, planning, monopoly, and rigidity. That is why it is hardly possible to consider the growth of agricultural nationalism in our time as an isolated phenomenon and to judge it, favourably or adversely, from this narrower point of view. For the same reason, a revision of this tendency is hardly imaginable without a total revision of our economic system, which would remove excessive interventionism and monopolism.

(2) Greatly increased weight is given to the factor just named wherever *pro-rural ideas and theories* dominate, where the commonly accepted aim of preserving and fortifying the position of agriculture is made out to be not only due to it, if it is to have equal justice with industry, but even more as being necessary for deep sociological reasons. Such a policy is made one of the corner-stones of a reform of the whole society. If a whole nation is persuaded that an agriculture run by prosperous peasant farmers is the backbone of society, not only for economic, but also for sociological, sanitary, cultural, and demographic reasons, it will be easier to make it accept agricultural nationalism than would be the case in an urban-minded country, where people are more insensitive to such an outlook. Whereas the former case may be illustrated by the examples of Germany, France and Switzerland, England seems to come closer to the second. In general, there is a fundamental difference between countries where agriculture is looked upon as an industry like any other, and those where it is regarded as a means to higher ends than that of material production. Experience shows that it is just as difficult for these two groups to understand each other as it is

¹ Cf. especially Gardiner C. Means, *Industrial Prices and their Relative Inflexibility*, U.S. Senate Document, No. 13, 1935, which, besides substantiating the facts, gives a very good idea of this trend of thought.

to get the colour-blind and the normal to agree on the meaning of red.

It is a remarkable fact that we find the rural mentality in those countries where the peasant type of farming prevails, i.e. a type of farming whose subtle structure can rarely be made clear to countries and people who have not been made familiar with it by practical experience. The fact that the countries characterized by a rural-minded philosophy are practically identical with peasant countries is easily explained, for it is hard to see how one could be sentimentally attached to any other type of farming or construct sociological philosophies around "wheat factories." It is equally difficult to understand how agriculture can be presented as the backbone of a nation, if it is not agriculture in the sense of peasant farming, for it is only here, and not on highly rationalized and industrialized large estates, that rural life provides the milieu which breeds a different type of man to that of the industrial centre. Nor is it comprehensible how people, who look upon agriculture as an industry like any other, should deplore the "drift from the country" any more than, let us say, the "drift from the shoe factories." Whoever thinks of agriculture in terms of mere productive efficiency, artificial fertilizers and tractors should be consistent enough to drop the mask of pro-rural sentimentalities. It cannot be stressed too forcefully that wherever the argument of agriculture being the foundation of a nation is used, it can only be agriculture in the sense of peasant farming that is meant. This is all the more necessary as the argument in question is so often misused by large-scale agriculturalists for furthering their own interests, quite often precisely at the expense of the real peasant farmers.²

It is evident that the recent growth of agricultural nationalism must be largely attributed to the influence exerted by those pro-rural ideas and theories, in view of the increasing difficulties under which European agriculture has been labouring since the 'twenties. Moreover, it has to be observed that, for a number of reasons, this pro-rural attitude has gained enormously in strength in most countries since the war, so that the drive for "re-agrarianization" has everywhere become a potent force in economic policy. This explains why, even in democratic countries where the agrarian electorate is in the minority, agricultural nationalism could be carried through on an unprecedented scale. It is extremely important to bear this in mind, not in order to excuse the policy,

² Cf. W. Röpke, *German Commercial Policy*, London, 1934.

but so that we understand that it would hardly be realistic or acceptable to the pro-rural school to present an alternative policy which left this philosophy unsatisfied. However, the important point (which will be developed later) is that the alternative to agricultural nationalism is exactly such as promises to give even fuller satisfaction to the pro-rural philosophy than does agricultural nationalism.

(3) Coloured by the pro-rural philosophy, but chiefly owing its position to considerations of military security and economic independence, the ideal of a maximum of *national self-sufficiency in foodstuffs* ("food autarky") achieved a dominating influence after the war. This ideal represents a rather complex combination of heterogeneous ideas and theories, a combination which can be largely traced to economic philosophies that had been developed in some countries long before the war, e.g. in Germany during the well-known "*Agrarstaat-Industriestaat*" controversy (around 1900) or in France by writers like Jules Méline in his book *Le retour à la terre* (1905). It is partly the outcome of rational considerations of a military character, partly the result of economic reasonings based on distrust of the stable development of world economy, and partly the reflex of that more instinctive desire which drives the individual to grow his vegetables in his own garden. All this becomes a very forceful motive for "re-agrarianization" and one which nobody can afford to dismiss as altogether incomprehensible. The important point to be noted is that, whereas in the pro-rural argument the emphasis is on the human and social side of rural life, it is here above all the physical volume of agricultural production which is stressed. In the first case, the goal aimed at is a maximum of men earning their living and leading a satisfactory life in agriculture, while in the second it is maximum productivity. It is easy to see that these two kinds of considerations are very likely to come into serious conflict with each other, a fact which makes the whole policy of agricultural nationalism self-contradictory, when it sails under the flag of "re-agrarianization." The recent development of agricultural policy in Germany may be cited as a striking example of this.

In view of the possible conflict between the human and the productivity argument for "re-agrarianization," it becomes important critically to examine the latter by enquiring whether a maximum of national self-provisionment in foodstuffs can really serve the desired ends or whether it may not create fresh difficulties, which are even less welcome than a higher degree of dependence on

imports, to say nothing of the sheer impossibility of the most highly developed industrial countries attaining even a small degree of food autarky or of the grave danger attendant on the wasteful exploitation of the soil accompanying frantic efforts in this direction. As far as the *military argument* for food autarky is concerned the reader is referred to Part III of this book.

(4) The recent growth of agricultural nationalism must be further understood as typical of the way in which some of the more important ideas in the *general* economic policy of the present day find expression in the field of agriculture. Paramount among these is undoubtedly the desire for greater economic *stability*. As this motive is considered so important a factor of present-day economic nationalism in general that a special part of this book will be devoted to it, it may suffice merely to mention the point at this juncture. It should be added, however, that the motive of economic stabilization may serve agricultural nationalism in two senses: in the narrower sense of aiming at agricultural stabilization proper, i.e. at stabilizing agricultural incomes, prices or production; and in the wider sense of making agricultural policy in some way or another part of a large scheme of general economic stabilization. What is meant by the latter will become clear if one considers that, once a country like present-day Germany embarks on a policy of full employment based on general autarky, exchange control and planning, agriculture is bound to become an integral part of such a collectivist system.

In connexion with the last remark, it may also be observed that the general drift of economic policy to-day can be conceived not only as the outcome of the desire for economic stability, but also as a result of the modern drive for *socialism*, *planning*, and *collectivism*, which is based on the most diverse considerations. In spite of its peculiarities, agriculture can hardly escape this general tendency; thus agricultural nationalism is bound to ensue as the unavoidable external counterpart of internal collectivism and planning.

(5) So far we have enumerated the major driving forces behind contemporary agricultural nationalism, which may be considered as fundamental and deeply rooted in long-run tendencies. To these must be added the numerous motives born of *special conditions* of a more or less passing character, which are connected with the agricultural depression since the 'twenties or the general depression since the 'thirties. For the present purpose it may be sufficient to group under this heading agricultural indebtedness, monetary

disturbances, the special problems of rye production and viticulture, the reactions of dumping and other policies and the consequences of the industrial depression on agriculture.

(6) It is worth elaborating this last point, that not only do the various driving forces behind modern agricultural nationalism easily involve it in serious *conflicts* and *inconsistencies*, but also that the *aims of agricultural nationalism* may often undergo a *conspicuous and sudden change* either because the dominating motives are changing, or because a new and unforeseen situation is cropping up in the course of the agricultural policy. Thus we can observe that agricultural nationalism starts, as in Germany in 1933, by combating low prices and overproduction, until the original surplus suddenly turns into a serious shortage, thereby changing a previous "surplus economy" into a "shortage economy" presenting entirely new problems. A similar development could be observed to a certain extent in France, where an agricultural policy designed to protect the farmers against the consequences of deflation, was later made the instrument for preventing agricultural prices from rising too suddenly after the devaluation of the franc. Again, a most spectacular change of scenery can be studied in Germany, where the country's general economic policy, which led during recent years to a most critical shortage of labour, has completely changed the outlook of agricultural policy. Not only has the original "surplus economy" turned, as we saw, into a "shortage economy," but at the same time a policy which aimed at settling as many people as possible in agriculture has perforce had to concentrate on trying to solve the problem of how to produce a maximum of agricultural products with a minimum of labour.

CHAPTER XII

THE METHODS OF AGRARIANIZATION AND AGRICULTURAL NATIONALISM

THE way in which agricultural nationalism, driven by the forces explained in the preceding chapter, is trying to achieve its ambitious aims presents a special subject worthy of a penetrating analysis. Its interest for our study lies not so much in the picture it offers of the technique of economic policy, as in the fact that the development of new methods truly indicates not only the excessive character of modern agricultural nationalism, but also its immense difficulties, contradictions, conflicts, and complexities.

In general, the methods of modern agricultural nationalism developed in such a way as to complete the traditional policy of protection, which was based principally on the instrument of import duties, and replace it more and more by new means which largely belong to the category of "non-conformable" measures and involve agriculture increasingly in a system of *planning* of production, marketing, the formation of prices, capital and labour supply, imports and exports. Studying this development, we are able to see once more how the first steps along the road to planning and "non-conformable" interventionism inevitably lead further and further in that direction, how unforeseen new problems and complications always arise, and how these demand ever bolder measures. There is, however, practically no country on the map which can say with all sincerity that by following this road of modern agricultural nationalism it has reached a stable and half-way satisfactory situation, and there is no government which, looking complacently on its agricultural policy, can exclaim with Faust: "Ah, still delay—thou art so fair!"

To give a complete account of this development for the different countries and different branches of agriculture is a task which is quite obviously beyond the scope of this book. It would fill a number of large volumes and leave the reader bewildered by a maze of technicalities. What has to be done here, is to try to find in the complex material some illuminating points of a general character and thereby bring some logical order into it.

One way of doing this, is to attempt to *classify the agricultural policies* of the *different countries* in larger groups according to

their economic structure, their prevailing aims or the methods preferred.¹ In this respect there is, among others, the fundamental difference between the agricultural policy of the agricultural-import countries and that of the agricultural-export countries, which, in its turn, can be sub-divided into several groups. The specific methods of agricultural policy developed in the latter countries are, indeed, to be understood as more or less successful attempts at solving the special and formidable problem of giving protection and stability to the agriculture of a country which is on an agricultural-export basis. Another interesting classification could be made according to the degree (1) in which methods of collectivist planning, state control of production and even of socialized farming have been applied in the different countries, and (2) in which the substance or at least the form of individual farm ownership and initiative have been preserved. A further method would be to classify according to the extent to which it has been possible to develop a system of agricultural policy, which induces agriculture to make sound readjustments and contrariwise by the extent to which agricultural policy makes agriculture a veritable hot-house plant. Furthermore, there remains the interesting task of making comparative studies of the way in which the different countries have tried to solve problems more or less common to them all, like that of dairy farming, or to analyse the attempts at tackling problems confined to peculiar countries, like that of viticulture in France.

A question of special interest is, why did hardly a single country think it need not have recourse to a more or less complete system of *agricultural planning*. Why is it that practically no one any longer is satisfied with the more traditional methods of agricultural policy? To some extent, the possible answers to this question have already been suggested, when it was mentioned that the new planned type of agricultural nationalism reflects the growing obstacles in the way of attaining the ends desired or that the first steps along this road are bound to lead to still further planning on an ever-growing scale. But here it should be added that there is more in it than this, and that the task of probing more deeply into the problem should be left to a special study. In indicating the general direction of such a study, it may be said that agricultural planning of to-day can be conceived largely as an effort

¹ In the vast literature following this line of analysis, special attention must be called to Karl Brandt, "Recent Agrarian Policies in Germany, Great Britain and the United States," *Social Research*, May, 1936. Cf. also the Proceedings of the several "International Conferences of Agricultural Economists" (last volume, London, 1939).

to give agriculture some sort of monopolistic organization equal to that of industry ("cartelization"), and to do this in spite of some natural obstacles agriculture puts in the way of monopoly. Above all, however, it has to be explored how far such special branches of agriculture like forestry are badly in need of that kind of planning which the Germans call "Raumplanung," and which aims at obtaining by planned control that rational use of the soil, water and other natural resources, which *laissez-faire* seems no longer able to assure. It will only lead to confusion and misguided judgments if this sort of planning is not clearly placed in a category by itself and judged separately on its own merits. It is common knowledge that agricultural planning in the United States under the New Deal comes partly under this heading, which, to say the least, is much more respectable than many other kinds of planning.

CHAPTER XIII

THE EFFECTS OF AGRICULTURAL NATIONALISM

IN studying now the effects of agricultural nationalism as they have already become visible or as they are likely to be made manifest in the future, we are taking up another task of almost discouraging dimensions. So it is again all the more necessary to reduce the overwhelming material to a summary of the most important points, always keeping in mind the ultimate subject of the whole enquiry.

That the agricultural nationalism of our time has in a number of ways been one of the most important contributory factors in the disintegration of world economy, is one of the ideas behind this part of the book, and especially Chapter IX, which gives a general account of post-war development in this field. Now that the time has come to be more specific, it may be convenient to divide the effects of agricultural nationalism into two broad groups, (1) those affecting the agriculture of the country practising agricultural nationalism itself, and (2) those touching the non-agricultural sections of its national economy or the world at large.

Beginning with the *effects of agricultural nationalism on agriculture* itself, we may legitimately ask how far the immediate aims of this policy have been reached. That agricultural nationalism with all its formidable machinery should at least reach the strictly sectional aim of bettering or stabilizing the economic situation of the agriculturalists, as measured by prices, net returns, burden of indebtedness, the purchasing power of the farming population and its standard of living, is, indeed, the minimum which the most modest critic must demand and failing which the whole worth of the policy becomes problematical from the outset, even from the narrowest point of view. It cannot be denied that in some, if not in all, countries agricultural nationalism has, broadly speaking, achieved this minimum—even though only after painful experiments and a complex multiplication of measures.

Even this statement, however, needs some serious qualifications. To begin with, agricultural protection driven beyond modest limits has, like all policies of valorization, the well-known tendency to defeat its own purpose by bringing about over-production and thus an aggravation of the calamity. This, in turn, makes it necessary to drive agricultural nationalism further into a system of severe

and planned control of production, which tends to become all-embracing.¹ In this way it may be possible to cope with the problem of over-production, but only at the cost of increasing collectivism, which is bound to lead to all sorts of friction and to make the farmer resent regimentation, which means that the immaterial aspects of his well-being are touched at a most sensitive point. Consequently, it is probable that the obedience of the farmers will sooner or later wane, especially when regimentation is no longer compensated by better prices. There are to-day already unmistakable signs of growing disobedience among the farmers even in Germany, so that the experiences of the Great War may be repeated.² In this connexion, it may be seriously doubted whether agricultural nationalism, in aiming at greater stabilization in agriculture, will not bring about new instabilities in a number of ways, especially since, as the percentage of a country's food supply produced at home grows, the possibilities of its stabilizing the national market by regulating imports will diminish, until, in the event of its becoming totally independent of imports, the national harvest with all its incalculable insecurities becomes the decisive factor. Consequently, where a country before depended on world economy with its manageable and largely controlled vicissitudes, it now has to rely on the less manageable but even greater vicissitudes of its own weather conditions, so that some great nations are being thrown back into the primitive state in which the whole population is nervously preoccupied with the question of harvest prospects.³ Viewed under these and other possible aspects, the vaunted stabilizing effect of agricultural nationalism becomes an important problem, which deserves a fuller and special analysis.

Another serious problem is presented by the difficulties arising out of the fact that protectionist measures affect the different branches of agriculture in a different and often quite contradictory manner, so that, under a system of agricultural nationalism, one farmer's meat may become another's poison. The contrast is especially remarkable between cereal production and animal husbandry based on imported fodder. Thus the net effect of agricultural nationalism will be more often than not to impair, at

¹ Cf. the report of the Economic Committee of the League of Nations, *Considerations on the Present Evolution of Agricultural Protectionism*, 1935, and L. Robbins, *Economic Planning and International Order*, London, 1937, pp. 134-157.

² For England see: L. Robbins, *The Economic Basis of Class Conflict and Other Essays in Political Economy*, London, 1939, p. 158.

³ In this respect it is to be noted that a great stabilizing influence on international markets of cereals is exerted by the enormous and costly grain storage in the overseas export countries.

least relatively, the position of peasant agriculture (live-stock farming) producing the high-grade foodstuffs.⁴ To give to this branch of agriculture a compensating protection is a formidable task, which involves the policy of agricultural nationalism and even the whole national economy in the gravest complications, especially in view of the fact that the high elasticity of demand for the high-grade foodstuffs limits the possibilities of a useful price-raising policy in this field.

While all this refers to the European import countries, it has to be borne in mind that agricultural policies in the *agricultural export countries* were faced with quite different problems, so that they have to be judged from a different point of view. Their objective was to find a solution of the problem of restoring the profitability of agriculture despite a large exportable surplus of production. That is why agricultural relief in those countries took the form of a more or less successful policy of restricting the acreage under cultivation and of governmental subsidies. Linked with this policy were measures which aimed at changing agricultural methods, so as the better to conserve the soil, and at transferring the farmers to the less exhausted areas. A very interesting result of this policy is the marked trend toward diversified farming ("better farm organization"), with its implication of crop rotation and live-stock farming, which can be observed. Agricultural policies overseas, therefore, largely contribute to the tendency toward "peasantization" of colonial farming, to which attention has already been drawn. In general, it seems that agricultural policies overseas, after a painful process of trial and error, have reached their immediate aims more unequivocally than those of agricultural nationalism in the European import countries, though the means used may be very questionable.

A further scrutiny of *agricultural nationalism* in the principal *European import countries*, which takes in those broader effects that go beyond the betterment of the economic status of agriculture itself, helps to enlarge our horizon. It has to be remembered that agricultural nationalism has, or should have, other and wider aims than the mere increasing of the profitability of farming itself, and it is just these wider aims that justify the policy in the eyes of the non-agricultural parts of the population. Viewed in this light, however, the effects of agricultural nationalism are largely

⁴ See on this point for England, e.g. A. G. Street, *Farming England*, London, 1937; for Italy, C. T. Schmidt, *The Plough and the Sword, Labour, Land and Property in Fascist Italy*, New York, 1938, and for Germany, W. Röpke, *German Commercial Policy*, London, 1934.

such as to make its case much more doubtful than when presented from the point of view of those other aims, which are bluntly sectional. If, for example, the advertised aim of agricultural nationalism is not only to help agriculture in general to a larger share of the national income, but also to develop it in such a way as to make it a populous industry based on peasant farming, and thus to fulfil the ideal of the pro-rural philosophy, we are certainly entitled to ask what has become of this ideal under the rule of such agricultural nationalism. To some extent, the answer to this question has been anticipated by our stating that there is much in modern agricultural nationalism which tends to discriminate against the peasant type of farming, by putting the development of high-grade food production, which is the most suitable form for smaller-scale farming, at a disadvantage. This is borne out by the fact that, to say the least of it, there is no noticeable, far less spectacular, development of peasant farming (in contrast to large-estate agriculture) in the leading European countries practising agricultural nationalism. It would even be easy to give facts to prove that quite the contrary is the case in more than one important country.⁵ On the same level is the further remarkable fact that in a country like Germany, where this policy is being executed with the utmost vigour, the number of persons gainfully employed in agriculture has decreased during the recent years at an alarming rate,⁶ so that the problem of

⁵ In this connexion it should be stressed that some current views about the effects of agricultural free trade and protection on the social structure of agriculture are badly in need of correction. This is especially true in the case of English agriculture, which is said to have been ruined by free trade in the nineteenth century so as to create the impression that a full-blooded agriculture is not to be had without protection. It goes without saying that this is a very crude view, which takes no account of the great complexity of the conditions which influenced the development of English agriculture during that time. That it is a mere fallacy of the "post hoc ergo propter hoc" type is proved sufficiently by the opposite example of Denmark, which, under free trade, has become one of the leading agricultural countries in the world and the model country for what peasantry may achieve if it is given a fair chance and if, especially, the essential social and spiritual conditions are fulfilled. (Cf. Einar Jensen, *Danish Agriculture, its Economic Development: a description and economic analysis centering on the free trade epoch, 1870-1930*, Copenhagen, 1937.) Why English agriculture went the other way is a question on which, it seems, the standard work is still to be written. So much appears to be clear, however, that the decay of English agriculture is largely equivalent to the decay of British rural life—caused by the secular effects of feudalism. It is the story of a system of agriculture which lost its peasantry long before free trade, and which did not find any satisfactory solution of the problem of land tenure. This view had been strongly emphasized by Cobden himself. Cf. also Sir William E. Cooper, *England's Fatal Land Policy*, London, 1913.

⁶ The net loss of workers in German agriculture from 1933 to 1938 has been estimated at 400,000 (*Deutschlands wirtschaftliche Lage an der Jahreswende, 1938-9*, Reichs-Kredit-Gesellschaft, Berlin, January, 1939, pp. 48-49). The total loss, however, is much higher, since the working members of the family leaving the open country would have to be added, and still higher is the total loss of all

the flight from the country has become more burning than ever. This is surely a rather poor result for a policy which was launched under the slogan of "re-agrarianization."

A development like that going on in *Germany* is partly to be explained by the irresolvable *conflict* between a policy which tries to develop *the human and social side of agriculture* and one which aims at combining a policy of *maximizing agricultural production*, for the sake of food autarky, with that of maximum production and maximum autarky for the entire national economy. If this conflict is ended by giving preference to the latter aim, it is almost inevitable that agriculture will develop in a direction which precludes the possibility of attaining the former. Spurred on by the general shortage of labour and the necessity of enhancing production at all costs, and alongside of the economically unsound increase of staple production, agriculture will become more and more mechanized and industrialized, and the peasant farmer will have to suffer accordingly. If that is so, then we are again entitled to ask how far the practical results of agricultural nationalism correspond to these tremendous efforts.

In this respect, it has to be recognized at once that in those European import countries which already have an intensive agriculture, any policy which aims at a conspicuous increase of agricultural production can only do so within rather narrow limits, and these become progressively more evident the further the policy is pursued. This again may be well illustrated by the highly important example of *Germany*, where the limits of national self-provisionment in foodstuffs have become so notorious during the last few years that the impossibility of attaining food autarky has had to be openly recognized. Since the supply of untitled land in Germany is practically exhausted, and reclamation of sub-marginal soils, besides doing perhaps more harm than good, of negligible importance, the increased cultivation of one product

people, including the farm owners themselves, who have recently joined the human stream to the cities and industries (a new phenomenon in Germany). An enquiry made in spring 1939 by the Reichsnährstand (the official organization of German agriculture) revealed that from 1935 to 1938 the total loss of fully employed agricultural workers of all kinds is to be estimated at 650,000, an enormous loss which has been much aggravated by the fact that those remaining in agriculture show a higher percentage of female, juvenile or not fully able workers. In the class of farms of from 5 to 20 hectares (12.5 to 50 acres), the loss of male workers above 18 years is as high as 38 per cent. This rural depopulation of Germany finds its parallel in the wholesale destruction of the class of artisans and small shopkeepers by the Nazi régime. It goes without saying that all this is a very natural development in a totalitarian country where the ultimate aim is to turn the entire population into an amorphous mass of proletarians. Only those who do not understand the real nature of Totalitarianism can associate it with a policy of protecting the class of peasants and other independent middle class people. Such a policy is, indeed, the very opposite of Totalitarianism.

takes place at the expense of others, unless returns can be increased by better and more intensive methods, despite the law of diminishing returns. The scope for such an increase, however, is strictly limited in a country like Germany.

In order to see this more clearly, one has to bear in mind the stubborn fact that German live-stock farming cannot go on without a large amount of regularly imported fodder of cereal or other origin, so that what has been attained in the way of national self-provisionment in animal products is, to this extent, only apparent and not real. If these imports are appreciably curtailed, German live-stock has to be reduced accordingly. This, however, has even wider consequences than a corresponding reduction in the home-grown supply of animal products, for the decrease in live-stock entails a corresponding decrease in the quantity of manure which, in its turn, is bound to impair the yield of the arable land. The efforts made so far to escape this vicious circle by growing oleaginous fodder plants and the development of ensilage have not been successful on the whole. The curtailment of the imports of fodder into Germany during recent years has indeed had the effect of the live-stock being slaughtered on a large scale, of reducing the domestic supplies of animal products, of increasing her imports of some animal products and of a slow deterioration of the long-run productivity of German agriculture. Such a policy of augmenting national agricultural production at all costs, and without due regard to the limits imposed by the law of diminishing returns, is, moreover, apt to interfere in the end with the immediate aim of bettering the economic position of agriculture, since it will entail a gradual rise in the average cost of production in agriculture, which it would be either impossible or intolerable to compensate by corresponding increases in selling prices. From a certain point onward, therefore, this policy will turn against the immediate aim with which it started; the profit margin for agriculture in general will grow smaller again, agricultural indebtedness will show a new tendency to rise, and the farmers will have to work harder and harder and will find it more and more difficult to make both ends meet. For this, also, the German example provides abundant and officially authenticated material.⁷

An analysis of the effects of agricultural nationalism on agriculture itself is especially important, because it opens up a field of

⁷ Cf. especially the current Weekly Reports of the Berlin Institut für Konjunkturforschung, and a number of articles in the semi-official periodical *Die Deutsche Volkswirtschaft*. On the recrudescence of agricultural indebtedness in Germany see also Leo Drescher, *Entschuldung der ostdeutschen Landwirtschaft*, published by the Bank für Deutsche Industrieobligationen, Berlin, 1938.

study which has scarcely been explored. Also, it is obvious that, if this should expose agricultural nationalism to criticism from this special point of view, we have an argument *a fortiori* against it. We are meeting it on its own chosen ground and answering it in its own terms. The attempt at such an analysis, as it has been made in the preceding paragraphs, clearly suggests a final judgment of a plainly adverse character.

Turning now to the *second group of effects*, i.e. those to be observed *outside agriculture*, we find ourselves on very familiar ground, so that it is possible to be brief. In general, it is extremely difficult to measure with reasonable accuracy these wider effects about which there may be a divergence of opinion, but we are assisted by the fact that, as is well known, economic phenomena present themselves the more unequivocally the more macroscopic and crude the circumstances are. If agricultural import duties are moderate, a study of their effects on the national economy must necessarily be rather subtle, so that any evaluation requires great circumspection and important qualifications. If, however, agricultural protection becomes as far reaching as it is to-day, judgment can be made in a much more peremptory fashion, with less emphasis on niceties and qualifications. There is no denying the fact that the present policies of agricultural nationalism, in so far as the means for aiding agriculture are not obtained by the much overrated device of diminishing the margin between farm prices and consumer prices, demand enormous sacrifices from the rest of the community in the form of a higher cost of living (at least in relative terms), of less sufficient nourishment and of downright subsidies. It is possible to underestimate the order of magnitude of these sacrifices if attention is confined to the immediate effects of agricultural nationalism on household budgets and public finance, instead of being extended to its wider effects on the industrial markets, exports and international trade relations. On these wider and perhaps more decisive effects, enough has been said on previous occasions, especially in the first chapter of this part, to make it unnecessary for the present purpose to resume discussion of this subject.

There is, however, a *definite limit* to the sacrifices for agriculture which the community will tolerate and it is probable that this point has already been reached in more than one country. If this is the case, it is evident that *agricultural nationalism will be in a serious dilemma*, which may be stated like this: In order to achieve its aims, agricultural nationalism must have recourse to planning and regimentation; planning presupposes a minimum

of obedience and co-operation on the part of the farmers but this is a condition which will be fulfilled only as long as they are always being humoured by better prices. Yet, if this is done beyond a certain limit, urban discontent will assume proportions which cannot be ignored; at this point it will become more and more difficult to enforce agricultural regimentation and planned control—unless, perhaps, the government does not shrink from following the example of the Soviet régime in the “liquidation” of individual farmers and in completely collectivizing agriculture. Even if a country followed the Russian example, however, it is no longer possible to ignore what seems now to be a well-established fact, viz. that the Soviet Government is encountering growing difficulties in its attempts to enforce a stable and workable system of collective agriculture against the wishes of the peasants. It seems that not even the most ruthless terror and the cold-blooded annihilation of millions of peasants have been able to suppress the natural gravitation towards individual farming.^s

^s Cf. the report in the *Economist* of 25th November, 1939, based on articles in *Pravda*.

CHAPTER XIV

POSSIBILITIES OF ALTERNATIVE POLICIES

CONSTRUCTIVE PROGRAMMES FOR RESHAPING AGRICULTURE IN THE INDUSTRIAL COUNTRIES

WHOEVER comes to the conclusion that the policy of agricultural nationalism as practised to-day cannot be the last word in economic wisdom—nay, that a thorough revision of this policy is of strategic importance in any programme of international economic reconstruction—must now consider the problem of how such a revision could reasonably be made. It should be said at once that it is here more than ever necessary to think radically, that is to say to consider the problem, not as the object of a day-to-day policy, but with due regard for ultimate implications and consequences. The world to-day has made more than enough short-sighted concessions to expediency and opportunism, but all too seldom had the courage to tackle the principles involved and leave details and refinements till later.

For this reason, we should have little use for the *opportunist and conservative school of agricultural policy*, which is content to seek revision in matters of mere detail and technical expediency, while accepting the general trend of modern agricultural nationalism without demur. One obvious characteristic of this school of thought is its narrow sectional outlook or, as it were, what the Germans call “*aufgeklärter Ressortpartikularismus*” (“enlightened departmental particularism”), in other words what might, perhaps, be the attitude of a well-informed agricultural engineer. The basic question to which this school tries to find the answer is this: How should a thoroughly efficient system of agricultural nationalism and planning be constructed so that, without too much attention being paid to what it means for the rest of the community, it should form a coherent whole free of contradictions, possess a stable equilibrium, and attain with a minimum of effort and a maximum of effectiveness those aims of agricultural nationalism which we take for granted?

Such a question reflects a mode of thinking familiar in every sphere of economic policy to-day: everywhere there are areas and branches of production which are faring badly; everywhere there

are distressing conditions which it is only too easy to describe in heart-rending words and which may lead us to the conclusion that this really is a case of exceptional emergency, which must be dealt with by the extraordinary means of planning, restriction of production, contrived monopoly, quotas and so on. The more enlightened advocates of this policy will concede, more or less as an after-thought, that the methods employed to carry out the policy should be as reasonable as possible. It goes without saying that this whole trend of thought is of very little help indeed, especially as it only amounts to preaching a policy which is everywhere being put into effect without our scientific assistance. That is not to say, however, that even within this narrow circle of "enlightened departmental particularism" it would be impossible to do some fruitful work and achieve some mitigation of agricultural nationalism by demonstrating possible ways of making it more rational. As a matter of fact, modern agricultural nationalism has this in common with other aspects of contemporary economic policy that, far from being a rationally planned system well thought out in detail, it is an agglomeration of improvisations and hit-or-miss emergency measures, which ends by coalescing into something more consistent that ambitious governments can easily represent as the result of a preconceived plan. It is evident that such a complexity of measures needs to some extent to be rationalized and mutually harmonized. Admitting these possibilities, though at the same time stressing the danger of overrating them and the still greater danger of being satisfied with them, let us turn to the more promising prospects for an alternative programme.

Having considered the most conservative attitude, it may be well to turn now to the most radical programme, which is that of *unmitigated free trade and laissez-faire* and the ruthless destruction of agricultural nationalism. At first sight, this would seem even less helpful and constructive than the opposite extreme. While the conservative method fails by being too "practical" and in making next to no change in present policies, the fault of the radical free trade programme seems to lie in the opposite extreme of being far too theoretical and divorced from the realm of practical politics. Moreover, it would seem that one of the main reasons for its impracticability is that it is believed to involve disaster, not only for agriculture, but also for the national economy as a whole. It is necessary, however, to be on one's guard against lightly accepting such impressions or dismissing this alternative possibility *a limine* as utterly unhelpful and destructive. This would only be

justified if it could really be proved that to do away with present agricultural nationalism altogether would mean the definite ruin of agriculture. It would be altogether too rash to take this for granted. On the contrary, there is every reason to suspect that this is one of the most promising problems we still have to explore.

It is well worth while finding out what changes in the structure of agriculture would be involved by restoring international division of labour in this sphere, and ascertaining whether the new structure would in reality be so disastrously different from what would appear to be desirable from a comprehensive point of view that stressed the importance of a populous and socially sound agricultural system. This is why so much importance attaches to a thorough study of the natural factors of the international localization of agriculture, as outlined in Chapter X. There is good reason to believe that, under a free trade régime, European agriculture would *finally* reach a new state of equilibrium not very dissimilar to that which will be described below. Thus, even a radically liberal policy would in all probability not bring about any results which could be called disastrous. But that is no reason why we should not try to find a more satisfactory policy, which would avoid the cruelties and hardships of transition, and improve the efficiency of agriculture in every possible way.

If the radical programme, therefore, is to be considered as a good starting point from which to develop a constructive plan for an alternative policy, we must hasten to add that this should be done in a spirit altogether different from what was and still is rather characteristic of the traditional *laissez-faire* outlook, so different, indeed, that not a few advocates of this traditional outlook will look askance at our approach. It will be generally recognized to-day that *the most urgent need of our time is to find, instead of the sterile alternative of either laissez-faire and collectivism or reactionary interventionism, that Third Way which will provide a solution on a new plane, which is not mere compromise.*¹ This is what we must bear in mind in defining our new approach to the special problem of agriculture, which is really the major one to-day. This will become clearer if we show how far our position departs from *laissez-faire* on the one hand and its antithesis on the other.

On the one hand, we wholeheartedly accept certain of the ultimate aims and fundamentals of agricultural nationalism; we recognize that agriculture represents a branch of production with a structure

¹ W. Röpke, *Die Lehre von der Wirtschaft*, Vienna, 1937, pp. 187-195. (French version under the title *Explication économique du monde moderne*, in the press.)

of its own and its own special laws, and is, therefore, a section of economic life which has to contend with peculiar difficulties, difficulties which, though at all times latent, make it especially necessary to-day, with the disorganization of world markets, to proceed with caution and consideration. We stress the fact that there is some scope for rational state intervention in agriculture, and an even wider one for better organization of agricultural markets aiming at greater stabilization of prices and cheaper distribution of agricultural products. If it is the aim (or even merely the pretext) of agricultural nationalism to achieve a populous and socially sound agriculture, we emphasize that this is an aim which we are making our own without qualification or fear of expressing an unscientific value-judgment.

On the other hand, we do not admit that for attaining this end, about which there can hardly be any dispute, there is only a single solution, to wit, that of actual agricultural nationalism, and we do not even admit that this is a satisfactory solution at all. Agricultural nationalism means rather giving exclusive preference to that solution which aims at rigidly preserving or even strengthening the status quo and the vested interests connected with it. In clinging to the status quo against the forces of change, agricultural nationalism is reactionary; in combining its undisputed fundamental aims with individual and group interests it is particularist, sectional and even hypocritical; in either case it leads to economic, social and political disintegration. Like all policies and ideologies which exploit crude alternatives (e.g. Communism versus Fascism, inflation versus deflation, *laissez-faire* versus planning, &c.), the advocates of agricultural nationalism have the utmost interest in presenting their case in such a way as to give the impression that there is no other alternative than agricultural nationalism or ruinous free trade. It is all the more necessary to unmask this view, and the most effective way to do this is to develop an alternative programme.

The very essence of this alternative programme is to find out what structure of agriculture will make it possible for the industrial import countries to attain a maximum of these undisputed fundamental aims with a minimum of protectionism and collectivism. If the intention is to preserve the agriculture of industrial countries as it is, on the principle of the national park, then there is indeed no other way but that of actual agricultural nationalism. Yet the increasing radicalism of this policy is at the same time an exact measure of the resistance which the natural development

opposes to such a conservative and reactionary policy. In this manner agricultural nationalism is forced in the end to follow a course requiring ever more violent measures. The irony of it all is that by this development agriculture will finally be transformed radically and in a fashion likely to prejudice the attainment of the ultimate aim of making agriculture an economically and socially sound sector of national economic life, and the stronghold of free and vitally satisfied men like the peasant or the craftsman. If by this road of reactionary agricultural nationalism we are to arrive finally at a more or less collective system of agriculture with a Russian aroma, we are entitled to ask what further justification there is for talking of the ultimate sociological aims of agricultural nationalism, as the subtle human qualities of agriculture—as it were, the “humus of peasantry”—will be destroyed just as surely as the gloomiest pessimist could expect from free trade.

As a matter of fact there is no reason whatever why the agriculture of the industrial countries should be identified with the structure of agriculture formed by actual agricultural nationalism, or why just this structure should be the only one suitable to them from the point of view of the fundamental aims referred to. In other words there is no reason whatever why the existing structure should be just as sacrosanct as the fundamental aims in question. There is, moreover, a very strong suspicion that one must choose between the policy of conserving the existing structure and that of effectively attaining the fundamental aims. We decide for the latter and now proceed to look for that new structure of agriculture which may be considered the optimum one for industrial countries.

The best approach for defining that optimum structure is to give to the agriculture of industrial countries its natural place in the rational scheme of localization of the world's agriculture. This place is roughly determined by the now familiar fact that *in the industrial countries the preference should rationally be given to the production of agricultural high-grade products in contrast to the staple products, the natural localization of which is to be found more in the peripheral zones of the world economy*, a statement which is subject to all due qualifications concerning the limits of any specialization in agricultural production.²

The main considerations on which the foregoing statement is to be based may be arranged under the following points:

² The programme evolved here has much in common with that set forth for England in the *Report on International Trade*, published by PEP (Political and Economic Planning), London, 1937, pp. 207-210.

(a) The high-grade products are those in the marketing of which the agriculture of the industrial countries has a natural "transport protection," and in the production of which it has already at the present moment in many countries a certain superiority which, while based to-day largely on a traditional technique of production, is certainly capable of being further improved by a development of agricultural technique.

(b) The high-grade foodstuffs are those toward which the nutritive wants of urban-industrial populations (as determined by physiology and habit) tend to be directed more and more.

(c) The production of high-grade foodstuffs, if done in a proper way, implies an agricultural technique which serves to keep up the fertility of the soil, a task that has become a very serious problem under a long-run aspect, particularly in those countries with an old-established intensive agriculture.

(d) It involves, further, a high degree of variety of production on the individual farm and, therefore, a better distribution of the risks in production or marketing. This diversification means a better balance in the biological process which farming represents, and at the same time a better economic balance which is bound to make the farm less cycle-sensitive.

(e) This greater shock-resistance is much enhanced by the fact that both the higher degree of self-provision in foodstuffs (sustenance farming), and the smaller dependence of the family peasant farm on hired labour, are bound to diminish the dependence of the farm on the oscillations of the market and to give it a high degree of elasticity, which sometimes may be still further improved by some combination of agriculture with handicraft or other sidelines.

(f) It is wrong to suppose that such an orientation of agriculture in industrial countries must necessarily defeat a policy of securing the national food supply for war time. It has to be borne in mind that cereals and sugar—which now would be imported in greater quantities—are particularly suitable for long storage, so that large war reserves can be accumulated in peace time. On the other hand, the live-stock staples which would increase under such an orientation of agriculture represent a further important war reserve which has the additional advantage of automatically solving the problem of storage, while the technique of agricultural production implied by the development of high-grade production is bound to improve the fertility of the soil and thus provide a further most important reserve for time of war.

(g) It is exactly in the case of high-grade foodstuffs that there still exist reserves of potential demand which must not be underestimated and which could be tapped (1) by price decreases made possible by corresponding reductions in the cost of production, (2) by an increase of the urban-industrial purchasing power, and (3) by nutrition policies acting for a change in consumption habits.³ It is important to note that conditions (1) and (2) would be largely fulfilled automatically by the far-reaching repercussions of the new orientation of agriculture.

It is very likely, moreover, that much can still be done towards reducing the cost of production of high-grade foodstuffs by developing better methods of technique.

(h) Mobilizing these large reserves of demand for high-grade foodstuffs will necessarily involve some increase of the derived demand for agricultural staple products. In this connexion, it is of great significance that the production of high-grade foodstuffs is largely a process of refining staple products and substituting quality for quantity. In order to produce a given amount of calories, therefore, the production of high-grade foodstuffs, reaching through all stages of production from the staple fodder to the final product sold on the market, claims a relatively large soil surface compared with the production of the staple foodstuffs.⁴ An extension of the production of high-grade foodstuffs by mobilizing the existing reserves of demand, in the manner indicated above, should be a promising means of making the agricultural problem in its widest sense—internationally and for the whole range of

³ Among the vast literature on this subject which has found more and more attention to-day, the Nutrition Report of the League of Nations should be particularly stressed. See also F. L. McDougall, *Food and Welfare*, Geneva, 1938. An outstanding example of the new possibilities and physiological necessities of nutrition favouring intensive agriculture is given by the rapidly increasing importance of fruits in national diets and in world trade. The total value of world exports of fruits was, in 1938, greater than that of wheat and meat. The per capita consumption of fruits in England rose, from 1909-13 to 1934-35, by 89 per cent. and is still far from having reached saturation point, although it is already much higher than in most other countries (Ernst-Wilhelm Tessin, "Welthandel mit Früchten," *Internationale Agrar-Rundschau*, March, 1939, pp. 47-54). Much the same thing can be said about vegetables.

⁴ Several estimates have been made for arranging the different products according to the acreage needed for producing a given amount of calories, or according to the amount of calories produced on a given acreage. We give here only Baker's figures (quoted from "Internationale Konferenz für Agrarwissenschaft," Leipzig, 1934, p. 363):

Acres necessary for producing the average annual food want per man (=1.4 mill. calories)									
sugar beet	-	-	-	0.28	tomatoes	-	-	1.47	
sugar cane	-	-	-	0.34	apples	-	-	2.35	
potatoes	-	-	-	0.76	pork and lard	-	3.10+0.1	pasture	
corn flour	-	-	-	0.79	milk	-	2.35+1.6	pasture	
wheat flour	-	-	-	1.45	beef meat	-	11.30+2.5	pasture	

products—less insoluble than it appears to be at present, considering the actual tendencies toward general overproduction in agriculture as a whole.

(i) As a last, but very important point, it has to be stressed that, in general, agricultural high-grade production involves in some of its branches an unusually great degree of labour intensity, which would greatly increase the employment capacity of agriculture, i.e. its capacity to absorb part of the population, to relieve the industrial labour market correspondingly and to place people under the conditions of life and work imposed by agriculture and rural surroundings.⁵ Therefore, if it is the sincere aim of agricultural nationalism to make possible a populous agriculture, instead of having a maximum number of workers for the production of synthetic rubber and petrol or for erecting concrete fortifications, and, furthermore, if we make this aim our own as we have every reason to do, then it becomes clear that here is perhaps the strongest and the most convincing argument for the alternative programme which we have in mind.

We could conclude this chapter here, but there is one last aspect of a general character which should be mentioned in order to meet possible objections, and which will also fortify our main argument. The thought suggests itself that, in our alternative programme, special emphasis should be laid on the necessity of progressive changes in the technique and organization of agriculture. In this way, we may be tempted to construct in our mind a new form of agriculture which, by paying due attention to certain permanent and definite peculiarities of agriculture, will nevertheless re-establish it on that technically rational base which characterizes modern industry. Is it not true that agriculture is still lingering in the primitive stage of handicraft which, being less productive and efficient, is no longer to be tolerated in our age of machine and mass production? And is not a programme of reform which lays stress on peasant agriculture inimical to progress and typical of a romantic and reactionary mind?

It is to be hoped that enough will have been said already to dispel those doubts. Especially, it should be clear now that the notions of "progress" and of mechanized maximum production, whatever their value in industry, should be applied with the utmost

⁵ See Karl Brandt, "The Employment Capacity of Agriculture," *Social Research*, February, 1935, pp. 1-19, and his article on the "Potentialities of Agricultural Reform in the South," *Social Research*, November, 1936, where he applies this reasoning for the especially burning problem of agriculture in the Southern States.

caution to agriculture. What is more, it is just the peasant-farmer type of agriculture in its traditional structure which represents a form of human work and life whose value is inestimable from a higher sociological point of view and especially with regard to the ultimate conclusions of the whole present enquiry. As will be shown in the last part of this book, international economic disintegration and economic nationalism are in the last resort connected with certain degenerative developments of our society which go back to the process known as "the formation of masses" and which, therefore, make it imperative to put a policy directed toward the unmaking of mass society at the head of our list of desiderata. If we come to the conclusion that our whole economic and social system has become highly pathological and that the disease afflicts all sections of our society, this cardinal point should dominate all our thinking in whatever field and on whatever problem. There is no denying the fact that the peasant world to-day presents, together with the sector of handicraft, the liberal professions, the civil service, and other smaller branches outside of agriculture, a last great island not yet inundated by mass society; here we have still the solid rock of a form of human life and work which is inherently stable and vitally satisfying. It is an immeasurable benefit if this form still exists, as in the greatest part of continental Europe, and it is a great misfortune for a country if it has been destroyed, as in England, to such a degree that the loss is not even felt any more.⁶ If we agree that we should try to elaborate a comprehensive programme for the reform of our moribund society, there can no longer be any doubt that to preserve, strengthen, and, if need be, restore peasant agriculture is a consummation devoutly to be wished. It is, therefore, extremely fortunate that that structure of agriculture which, for the reasons adduced above, is the most suitable for the industrial countries is so completely identical with the peasant structure of agriculture. *It is a miraculous coincidence of circumstances which has brought it to pass that the economic optimum structure of agriculture for the industrial countries is at the same time so largely its sociological optimum structure.*⁷

⁶ See the strong remarks in Hilaire Belloc's *Essay on the Restoration of Property*, London, 1936, pp. 20, 37-40.

⁷ It ought to be mentioned that the optimum structure of agriculture in industrial countries as described above has already been clearly hinted at by J. H. von Thünen in his famous *Der isolierte Staat in Beziehung auf Landwirtschaft und Nationalökonomie* (Hamburg, 1826), where he states that that kind of agriculture belonging to the "inner ring" will at the same time favour "Güter von geringem oder mässigem Umfange" (p. 141 of Waentig's edition, Jena, 1921). Werner Stark ("Niedergang und Ende des landwirtschaftlichen Grossbetriebs in den böhmischen Ländern," *Jahrbücher für Nationalökonomie und Statistik*, vol.

The foregoing consideration should by no means preclude a discussion of the large and necessary *potentialities for mechanizing and rationalizing peasant farming* without prejudice to its sociological structure. Just as in handicraft proper the essential feature of peasant farming does not lie in the technical fact of manual labour, but in the specific form of life and work, whereas it is just the possibility of applying modern technical devices in handicraft as in peasant farming which, fortunately, makes it easier for both to preserve their existence. In so far, however, as the economic optimum structure of agriculture does not completely coincide with its sociological optimum structure, it is obvious that a price has to be paid for preferring the latter. In so far the productivity of peasant production will be less than that possible under another structure of agriculture. Now, first, it may be seriously doubted whether such a gap can be considerable; and in this respect everything could be repeated which has been said earlier on this subject. As far, however, as there is some gap, it must be stressed, secondly, that man does not live by bread only, and that the preservation or restoration of peasant farming is a goal which is worth the price of some sacrifice in technical rationality.

It is here, moreover, that a remarkable coincidence is to be noted: that, generally, the peasant farm is rather insensitive to crises and that the peasant will sometimes let his economic situation and conditions of work deteriorate to an incredible degree before he gives up farming, which proves conclusively that he finds a

146, 1937, pp. 416-449) has shown in an interesting way how the simple necessity of adapting agriculture to the conditions of an industrialized country brought it about that, in 1848, feudal Bohemia was turned into a country of prosperous peasants, in striking contrast to Eastern Prussia where the dissolution of the feudal system and the "peasants' liberation" ended in the disappearance of the peasants and in the triumph of the large estate.

Furthermore, it is to be noted that a division of labour in agriculture as it is envisaged here on an international plane will be considered as altogether natural and rational within the politically controlled area even in countries which are leading in agricultural nationalism. A good example for this is a passage taken from the semi-official German periodical *Der Deutsche Volkswirt* (No. 29, 21st April, 1939). There it is said that in the new German "Grossraum" the whole agricultural production must be rearranged so that the best division of labour will be achieved. "If, for instance, a peasant in the old Reich were encouraged by certain methods to cultivate at high cost plants which could be had in the Danube basin in large quantity, with security and low cost—instead of adjusting his production to something we need—it would be a faulty investment from the point of view of the peasant and from that of the whole community of the people. For if it became possible to lower the prices of certain foodstuffs because it would be no longer necessary to keep them high in the interest of the subsistence of the peasant and for the sake of food autarky, it would be possible at the same time that consumers pay more for other foodstuffs which, like dairy products, vegetables, and fruits, could be produced in greater quantity in the old Reich." That is exactly the argument used in this report, and only political reasons could be adduced for restricting its validity to the politically controlled or affiliated area.

non-material equivalent for the sacrifice in material well-being. That is not the case everywhere, but only where it is a question of the true peasant type in the broad sociological sense and in contrast to the type of the commercial farmer, the agricultural entrepreneur, and of the corresponding agricultural proletarian. Our sociological appreciation of the peasant form of work and life, therefore, is shared by the peasant in a very practical and individual manner; and this is just the reason why our sociological appraisal of peasantry appears so justifiable, since it is the appreciation of a vitally satisfying form of life and work. Consequently, the peasant himself is largely prepared to assume the sacrifice involved by a possibly lower degree of efficiency of peasant farming as compared with other modes of farming or with non-agricultural ways of production. For this reason it is by no means unjust to leave such a possible burden principally to the peasant farmer himself, but it is all the more imperative to do everything possible to diminish that burden by making farming economically and technically more rational. That is precisely the aim of what we understand by a constructive programme of an alternative agricultural policy.

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PRESENT SITUATION AND FUTURE PROSPECTS (NATIONAL AND INTERNATIONAL) OF DEMAND-SUPPLY EQUILIBRIUM IN AGRICULTURE

It is not intended to elaborate this subject at the present stage, because it will be premature to anticipate the probable results of special enquiries which must of necessity be rather comprehensive and painstaking. We must confine ourselves, therefore, to making clear the meaning of the problem envisaged here. This can be done rather briefly because it is largely self-explanatory. The idea is that our efforts at interpreting the agricultural problem of to-day, and at suggesting constructive solutions, must be crowned by an investigation into the factors which at the present time influence and are likely in the future to influence the demand-supply equilibrium of agriculture as a whole and in its component parts, both nationally and internationally. Is it really true and, if so, to what extent, that the world is more and more facing a situation in which an increasingly smaller part of population, capital and human effort will be needed for supplying the food of nations? Must the present situation already be interpreted in these terms? And must, in the future, the agricultural base of the world pro-

duction become smaller and smaller, relatively and perhaps even absolutely? Is, therefore, the agricultural problem of the present, and still more of the future, a problem of long-run redistribution of productive forces between agriculture and other industries in favour of the latter? And does not this possible necessity of a fundamental change dominate, in the last resort, all other aspects of the problem? Is the agricultural problem perhaps only a part of the more general problem of maldistribution of productive forces, in the sense that undue resistance is being offered to changes in the direction of production made necessary by changes in technique or demand? If so, where is the place of agriculture in the new and more rational scheme of the distribution of productive forces?

Although such questions are liable to crop up continually in the course of this whole part, it will be agreed that the prospects to which they give rise should be elucidated *in toto*. For this purpose, it will probably be found convenient to divide the factors in question into those working (a) on the side of production (e.g. the development of the technique of production, the prospects of soil fertility and others), and (b) on the side of consumption (e.g. population trends, nutritive habits, &c.).

PART V

THE INDUSTRIALIZATION OF AGRARIAN COUNTRIES

CHAPTER XV

GENERAL INTERPRETATION

WHEREAS the effect of the policy of agricultural protectionism on international economic disintegration is indisputable, it is by no means clear whether the parallel development of the industrialization of "new countries," as furthered by protective measures, is to be considered also as a disintegrating factor. It is therefore questionable whether we are justified in regarding both developments—the contrived intensification of agriculture in the old industrial countries and the contrived industrialization of agrarian countries—as factors which are working equally, though from opposite directions, for the same result of less international trade, less rational distribution of productive factors among the different nations and of more national economic independence. It is true that both developments have very much in common with each other, and it is also true that they interact on each other, even if only in the sense that the one development is often used as a pretext or justification for the other. If our doubts, however, are justified as to whether industrialization is as disintegrating a force as agrarianization, then we should be very circumspect in classing the two together as is usually done.

It is a fact that the industrialization of new countries has been viewed *pessimistically* in the old industrial countries from the beginning of the modern economic era. The dispute over the economic effects of industrialization runs through the whole history of economic thought. Invariably the pessimists maintained that the spread of industries to other countries was bound to ruin the old established industrial countries. From here it was only a step to argue that if the old industrial countries were no longer able to check new industries abroad, as in the days of the old colonial policy, they would do well to put a brake on industries and to develop agriculture in order to avert the danger of being too dependent on the hazardous exportation of manufactured goods and the correspondingly insecure importation of agricultural goods. In this way the pessimistic view on the industrialization of new countries has again and again been used as an argument for agricultural nationalism.

It is a further noteworthy fact that so far no historical example has become known which might have justified the pessimistic theory. During the last two hundred years one country after another has become more or less industrialized, but it would be absurd to say that in this process of spreading industrialization the old industrial countries as a whole had suffered by the industrial development of the newcomers. In this period the volume of international trade in general, and of the exports of manufactured goods from the old industrial countries in particular, has multiplied—not in spite of, but largely because of, the industrialization of more and more countries. The bulk of international trade consists indeed of the exchange of commodities between the highly industrialized countries, and it is not by accident that these countries are usually the best customers of each other.

Industrialization has not only gone on all the time, but it is usually the way in which a country becomes incorporated into the orbit of occidental civilization and capitalism. In most cases it has been the vehicle for the spread of what we call progress, rational technique of production, efficiency and the modern outlook on life involving the breaking-away from tradition. It is this aspect which marks an enormous *difference between industrialization and agricultural nationalism*: no matter what the ultimate goal of a policy of industrialization may be, it is quite clear that industrialization *per se* is a process which is absolutely in accordance with the dominating trend in the secular development of world economy, whereas the policy of agrarianization of industrial countries is plainly reactionary in the sense of reversing the trend of development. In industrializing its economy a country is doing something which other countries have done before to the great advantage of the rest of the world; it is not deviating in principle from the line on which world economy developed heretofore. Industrialization is a process which, historically speaking, points forward, and for that reason is also a development which, ideologically, is quite inconceivable without “modernism.”

The agrarianization of industrial countries (“agricultural nationalism”) means unmistakably a retreat from world economy toward more national economic independence, and that in a double sense. It is, first, a retreat in the sense of a policy which, consciously aiming at autarky, is motivated by an ideology which the critically minded would call “romantic,” and which gives expression to the longing for a simpler and less specialized economic life and to disgust of industrialism and urbanization. Agricultural

nationalism, as far as it is rooted in this anti-urban and anti-industrial ideology, is surrounded by a peculiar psychological atmosphere, which is to be interpreted as the outcome of deep-set instabilities in the economic, social, and cultural structure of the mature industrial countries and, finally, as one of the symptoms of the cultural crisis of our times. But agricultural nationalism is a retreat from world economy also in the second sense that it has the immediate effect of a lessening of foreign trade. There is no reason why the intensification of agriculture should not bring about immediately a net decrease of all the imports and probably also of all the exports of the country, and there is nothing in the process that necessarily calls for a compensating increase of imports of other commodities.

In both these respects industrialization is different. First of all it is different, as we have seen, in its motivating spirit. It means that, with youthful fervour and sometimes with a real inferiority complex toward the old industrial countries, the latter are to be imitated as thoroughly and as swiftly as possible. This *pro-industrial attitude* may reach an excessive degree, so that everything which is urban, industrial and European will appear a sign of a higher form of existence; one is ashamed to live in a "merely agricultural" country, and one is impatient to have a share in the happiness and prosperity which industry seems to bestow upon the occidental countries.¹ It would be an interesting task to analyse this attitude and to discover the ultimate reason for the almost uncanny attraction, like that of a candle on a moth, which occidental civilization is exerting on all countries and which has made it the most universal civilization of all times. Besides the essentially positivist character of our civilization and the increase in material well-being which it promises, one of the most powerful causes of its universal imitation is probably the fact that it brings military and political power against which a country cannot hope to defend its independence unless it allows itself to become occidentalized. This is the destiny of all non-occidental countries, a destiny which they can hardly escape in the end. What is needed is not only the military technique of the West, but also the entire technical, economic and intellectual foundation on which the power of the Occident is based. The rest then follows relentlessly, particularly

¹ It is one of the few merits of the book by M. Manoilescu, *Théorie du protectionnisme et de l'échange international*, Paris, 1929, that it gives a good picture of this attitude. Cf. especially pp. 292-293, where the "travail brut" of the agrarian countries is opposed to the "travail noble" of the industrial countries.

the occidentalization of the whole culture and the high esteem of everything that is Western and industrial.

It is of course not only possible but altogether probable and in conformance with actual experience that, together with the other achievements of the West, also *nationalism* in all its forms will be imported. It is therefore not by accident that the spirit of industrialization will be strongly flavoured with nationalist ideologies, with emancipatory sentiments and with a pugnacious attitude toward the old industrial countries, especially if the country in question has had hitherto reasons to complain of imperialistic oppression. Not only the spirit of Saint-Simon but also those of Friedrich List and Karl Marx will be invoked. But, to whatever length this industrial nationalism may go and whatever the ultimate result may be, so much is certain: the process of industrialization, quite in contrast with agricultural nationalism, cannot lead immediately or even within a longer period to more economic independence and less foreign trade. Industrialization means, of course, that there will be less imports of some products, but the very process of industrialization makes it necessary that there will be *more imports of other goods*. Nobody has ever denied and no trade statistics have ever disproved the fact that industrialization necessitates the imports of machines, implements, locomotives, automobiles, rails, and other capital goods which are needed in order to establish factories and to improve the means of transportation. Every industrialization has to go through a number of stages, beginning with the simplest industries of consumption goods and then slowly proceeding to other lines of production which presuppose not only the highest degree of experience and technical knowledge but also a large market that can exist only in a fully developed industrial country. It is exactly the capital goods industry which largely belongs to the latter class. Though cement plants or even high furnaces may be erected in a rather early phase of industrialization, no country can start industrialization with the engineering industry and kindred industries. Even Soviet Russia, which surely presents the extreme example of a country set upon emancipation from the West, could not escape this *iron law of industrialization*; it has become one of the largest buyers of machinery in recent years. The pessimists in the old industrial countries may argue that these exports of machinery and other capital goods to the new countries amount to an economic suicide for the future when the new countries, equipped with modern machines, may drive the industries of the old countries out of

business. Even in arguing thus the pessimists are probably wrong, but they never could question the palpable fact that, at least during the initial phase of industrialization, the new country becomes a larger market for capital goods, and this by force of necessity. Since the process of industrialization has gone on all through the last century, it is to be presumed that the exports of the old industrial countries will be marked by an increasing share of capital goods and a decreasing share of consumption goods, a presumption amply corroborated by actual statistics.²

So much, then, is undisputed. It is both a fact and an inescapable conclusion that, during the initial phase of industrialization (which may be very long or may never end), the decrease in imports of consumption goods now produced by the new country finds its counterpart in the increase of the imports of capital goods. But now there arises the question of what is likely to happen after this initial phase. In putting this question we are entering a field where the realm of necessity ends and that of debatable probabilities begins. It is not necessary, but it is probable that the *compensation* brought about by increasing imports of capital will be supplemented by two other sorts of compensation: (a) by the *increasing imports* (or *decreasing exports*) of *raw materials and/or foodstuffs* which the industrialization will bring about, and which will increase the purchasing power of third countries available for the imports of manufactured goods from the old industrial countries; (b) by the *increasing national income of the new country* which now may import either in larger quantities or in higher qualities those industrial products which are not produced by the national industry, but which will be increasingly demanded by the population of the country. In order to understand the second point fully, one must not forget that the term "industry" comprises the greatest variety of manufactures for which a high degree of specialization may develop between the different industrial countries. This accounts for the very significant fact that up to the war, for instance, almost 50% of the German exports of machinery went to the highly industrialized countries, a fact which disproves the pessimistic view that the exports of capital goods will taper off

² See especially the calculations given by E. Wagemann in his book on *Struktur und Rhythmus der Weltwirtschaft* (Hamburg, 1931), p. 145. The whole subject of the process of industrialization has been thoroughly analysed by Walther Hoffmann, *Stadien und Typen der Industrialisierung*, Jena, 1931. Cf. also Otfried Fröhlich, *Die Wirkungen der Industrialisierung junger Länder auf ihre Einfuhr*, Dresden, 1936; Heinrich Dietzel, *Bedeutet Export von Produktionsmitteln volkswirtschaftlichen Selbstmord?* Berlin, 1907; Karl Lange, "Bedeutet Maschinenausfuhr volkswirtschaftlichen Selbstmord?" *Wirtschaftsdienst* (Hamburg), No. 26, 26th June, 1931.

with the gradual industrialization of the new country. The appropriate reasoning seems therefore the following: more industrialization means more prosperity; more prosperity means greater differentiation of demand for all sorts of commodities, and this growing demand for a greater variety of higher valued goods can only be satisfied by imports from the old industrial countries which are specializing more and more on the production of these highly differentiated and higher priced goods.

All this seems plausible enough, but there is of course a strong reason why a more pessimistic view has always found a wide acceptance. The conception of a newly industrialized country as a competitor for the old industrial countries is only another example of the "fallacy of misplaced concreteness" (Whitehead) which is so common in all questions connected with international trade. The old industrial country and the newly industrialized country appear like two firms competing with each other in the same line of business; if both are making bicycles it is clear that, other things being equal, the one must lose what the other gains. In reality, however, the term "industrial country" is nothing but a convenient name for a great number of individual firms of the greatest variety. Since this is the case on both sides there will be real competition only between *special* firms or industries, while for the rest co-operation may be greater than rivalry. The political implications of the industrialization of a new country should not close our eyes to the fact that it is a process which is not essentially different from the spread of industries to new regions within the same country.³ The pessimistic view, therefore, is too prone to identify the special case of the industries which have directly to suffer from the competition of the new industries abroad with the general case of all the industries together. Nobody ever denied that the industrialization of new countries involves losses and hardships for special industries and the painful necessity of adaptation to the structural change implied by industrialization, and few will fail to sympathize with these industries which are adversely affected. It is also quite comprehensible that those immediate losses and hardships may be perceived more clearly than the indirect compensations. It is all the more necessary, however, to keep the

³ Goetz Briefs, "Revierbildung und provinzielle Streuung der Industrie," *Archiv für Sozialwissenschaft und Sozialpolitik*, vol. 67, 1932, pp. 29-52. Outstanding and well-known examples of such "industrialization" within industrial countries are in our days the rapid development of new industries in the southern districts of England and the shift of industries towards the southern states in the United States. Cf. on the latter: B. Mitchell, *The Rise of Cotton Mills in the South*, Baltimore, 1921; A. Predöhl, "Die Südwanderung der amerikanischen Baumwollindustrie," *Weltwirtschaftliches Archiv*, January, 1929, pp. 106-159.

general aspect always in mind and to separate it from the special problems.

It has already been indicated that one must beware of dogmatism in this matter and weigh the various probabilities. Consequently, there is wide scope for discussion of the right interpretation of the process of industrialization and of its effect on world economy. It cannot be denied, however, that the international spread of industries in the past has had the results which the optimistic view assumes. One country after another has become industrialized, not to the detriment of, but to the clear net benefit of the old industrial countries, and world trade has taken that ascending course with which we are all familiar. Since the Great War this process has gone on more rapidly than ever, and it seems that the development of modern production technique in the old industrial countries is facilitating more and more the task of the newcomers. It is true that this is only the continuation of a secular process. The question we have to answer, however, is whether this still means for the world economy and for the old industrial countries what it meant in the past or whether it has taken on new aspects which must alter our view. That is the question which will be taken up in the last chapter of this part, after several other questions have been dealt with.

CHAPTER XVI

TYPES AND STAGES OF INDUSTRIALIZATION

ANY deeper analysis of the phenomenon in question must obviously start with an attempt to define more exactly and to describe more fully the process of industrialization. In doing so we cannot help being aware of the rather complex nature of what we call industrialization. What one generally has in mind is plainly the fact that a country in which heretofore the primary industries, especially agriculture and kindred types of production, dominated, and which therefore exchanged exports of raw material and agricultural products against imports of manufactured goods is now developing secondary industries of different sorts. This conception of industrialization is usually associated with the idea that such an agricultural country is in a general economic and cultural stage which we call condescendingly "primitive," "backward," "pre-capitalistic," or at best "half-capitalistic." In this case industrialization does not mean only that one line of production is being supplemented by another, but that there is a real revolution in the whole economic and cultural structure, which is now undergoing a dynamic process of modernization and occidentalization. In extreme cases it is a change from the wooden plough to the modern textile factory. That is indeed more or less what happened in countries like Japan, and what is still happening in countries like China, India, Persia and other countries of the Near East or in South Eastern Europe.

These cases are important enough, but there are other types of industrialization which are different in that it cannot be said that they involve a real revolution in the whole economic life of a nation. On the one hand, it may happen that the industrial activity which is being developed in a new country remains so much on the periphery of economic life that the rest does not change its pre-capitalistic or colonial character. It may be a sort of industry which, like mining in its more primitive colonial forms (including the first stages of refining), has a wholly extractive character getting along with unskilled labour, or it may be that we have to do with industries which, being largely conducted by foreigners, are able to remain, as it were, economically extra-territorial. On the other hand, an agricultural country may become

industrialized without any revolution of its general economic life, because it was already more or less occidental and capitalistic. The industrialization of Denmark, for example, is a case of a country which, though being an agricultural country, belongs totally to the capitalistic-occidental sector of the world, so that it has no need to take correspondence courses in capitalism. It had remained an agricultural country only for the reason that certain given circumstances—cheap fodder and the vicinity of rich markets for high-grade agricultural products—had made the specialization on a certain kind of agricultural production highly advantageous. Industrialization in Denmark—and the same is true of countries like Finland, Holland and the British Dominions—does not mean therefore the step from the wooden plough to the textile factory; it means that a shift is made from highly developed agriculture to another line of production which seems more profitable because the whole constellation of world economy has changed in the meantime, especially owing to the policy of agricultural nationalism of the old industrial countries. It would be possible, perhaps, to discover still greater variety in the types of industrialization, but what has been said may be sufficient to show that it is necessary always to keep in mind the fact that industrialization is far from being a uniform process. Much will depend also on the extent to which the new country has raw materials at its disposal, an element which has much influence on the choice of industries to be developed. Large deposits of rich iron ore and cokable coal may lead at an early stage to the erection of iron and steel plants which would be quite out of the question in a country less fortunate in this respect. Industrialization may, finally, mean two different things, depending on whether it is combined with a visible neglect of agricultural development (as in England in the past and perhaps to some extent in India at the present), or whether there is a parallel improvement of agriculture (as to-day in Greece under the ten-year plan of the Metaxas Government or in Turkey under the Kemalist policy of industrialization).

All these differences in the types of industrialization account not only for the general significance of the industrialization for the country itself and for the world at large, but also for the peculiar way in which the country will run through the different stages of the *classical course of industrialization*, i.e. from the consumer's goods industries to the capital goods industries and from industries supplying only the home market to export industries. The type of industrialization together with special factors of localization will also determine the speed with which it will reach the intermediate

and the final stages of industrialization. It has already been pointed out that we have every reason to believe that the tempo of industrialization has to-day become generally much greater than in former times, when only a few industrial countries existed and the technique of industrial production was much less developed.

To make the whole picture still more complex, there arises the question of whether it would not be more advisable to widen the scope of our study by giving the term of industrialization an unusually comprehensive meaning. Just as we found it useful in the case of agricultural nationalism to keep an eye on the changes in agriculture-export countries, we would hardly exhaust the subject of industrialization to-day without duly taking into account the *changes in industry in the industrial export countries*. This seems all the more necessary as we have much reason to suspect that these changes, which bear largely the stamp of industrial nationalism no less than the industrialization of new countries, are more important for the world economy than the latter. It seems quite justified to conceive of "industrialization" not only in the sense of the spread of certain industries to new countries, but also in the sense of an increasing industrialization within the old industrial countries. This means that total industrial production in the old industrial countries is growing in absolute terms or relatively to non-industrial production, and, further, that the range of industries is changing either in the direction of greater specialization or diversification of industries. That the industrial countries are changing to-day in the direction of national diversification rather than national specialization can be regarded as a commonly recognized fact. That is to say, the total industry in the industrial countries tends to become more mixed through the development of industries which formerly were more or less the specialities of another country. The spread of the chemical and optical industries from Germany to other industrial countries is a well-known example. On the other hand, however, it is easy perhaps to over-estimate the importance of this development for the trade of industrial goods between the industrial countries. After all, it seems that, in spite of the widening range of industries in each industrial country, new specializations are developing all the time. It is difficult, therefore, to make at the present moment a correct estimate of the total influence of the "industrialization" of the industrial countries on the future of world trade.

CHAPTER XVII

CHANGES IN THE LOCALIZATION FACTORS OF INDUSTRIAL PRODUCTION

BEFORE any balanced judgment can be made on the industrialization of new countries, it is obviously necessary to know how far this process corresponds to a change in the factors of international localization of industries which makes it economically rational to transfer some industrial activity from one point of the globe to another. That part of industrialization which is in accordance with such a change will be "natural" or "normal," while it is the other ("contrived") part which represents industrial nationalism in the proper sense of the term.

In the old industrial countries some people were always inclined to regard the existing scheme of international division of labour more or less as a fixed norm and to condemn all changes as mere aberrations. It should be clear, however, that any existing scheme of international division of labour is only the historically determined result of a constantly changing combination of factors. It was a definite historical situation which was responsible for the fact that the textile industry was at one time concentrated in England and a few other countries of the industrial West. Consequently, it would surely be wrong to-day to use the pre-war scheme of international division of labour as a criterion by which to judge the present industrialization of new countries. It would be altogether unlikely that industrial production would to-day still be distributed between the different countries more or less as it was before the war, even if there had not been industrial protectionism. There is no doubt that during the last twenty-five years the localization factors have considerably changed, certainly in a way which deprived the old industrial countries of much of their former superiority in a number of industries. To analyse these changes is a highly important subject of enquiry. At the same time, however, it is so comprehensive that out of the present material only a few indications can be given for the present survey:

(a) *Changes in the technique of industrial production* have been certainly such as to make a number of industries less dependent on highly trained and specialized labour than formerly. Conse-

quently, the cheapness of labour in undeveloped countries may now represent a real advantage in industrial localization in lines where it did not exist before. This tendency has become so well known to-day that, instead of giving illustrations,¹ it is perhaps preferable to point to its limitations. It is not necessary to refute the rather wild idea that technical progress has made it possible from the economic point of view to establish any industry in any country, if only the right machines are imported and the right licences are secured.² But even in more sophisticated views we find a tendency to underestimate the limitations of mechanized production and to disregard some serious problems, especially that limitation of mechanized production which consists in the fact that the market must be large in order to make the use of highly elaborate machines profitable.³ In the history of recent industrialization there are indeed many examples of industries which had to be given up because of the insufficient size of the market.⁴ On the other hand, it would be erroneous to believe that the recent development of production technique has invariably raised the optimum size of production and thereby the minimum size of the market.⁵ These various and largely conflicting considerations make it necessary to analyse carefully the influence of the recent changes in production technique for the separate industries.

Another important limitation of mechanized production in the new industrial countries lies in the obvious fact that it involves the substitution of labour by capital, i.e. by a factor of production which is usually particularly scarce in those countries (cf. c). Finally, it must be said that the changes in the technique of production which favour the international diffusion of industries are probably more important for the spread of industries over the *old* industrial countries (greater diversification of industries) than for the spread of industries to the *new* industrial countries.

¹ If illustrations are needed, the spread of automatic machines in the glass industry (Owen's bottle machine, Fourcauld's plate-glass machine) and in the metal industries (the automatic continuous strip mill, automatic lathes, &c.), may be mentioned.

² It should be added here that the expiration of important patent rights, as for instance in the chemical industry (rayon, nitrogen, &c.), and in the electrical industry (bulbs, wireless sets, &c.), is reinforcing the international spread of modern production techniques. In the same direction works the growing disrespect of patent rights in general.

³ Concerning this and many other problems of industrialization which can be reviewed here only cursorily, cf. W. Röpke, "L'industrialisation des pays agricoles, problème scientifique," *Revue Economique Internationale*, July, 1938, vol. iii, No. 1.

⁴ e.g. the automobile industry in Poland and various industries in Denmark.

⁵ Cf. Report of the Commission of Inquiry into Banking, Currency and Credit, 1938 (Ireland), Dublin, 1938, pp. 71-73.

Now it is generally true that, much as certain changes in the technique of industrial production are democratic in bringing to some extent industrialization *à la portée de tous*, the old industrial countries will be always somewhat ahead in the progress of production technique. Certain industries, however, have now reached such a degree of technical maturity that further major developments are hardly to be expected. In this case—which may be illustrated by the example of the cotton industry—the new countries have a good chance finally to overtake the old industrial countries.

(b) *Changes in the labour factor of localization* require careful consideration. The inefficiency of labour in oriental countries has often been mentioned as a serious obstacle to extensive industrialization.⁶ Experience shows, however, that one would do well not to regard this as a permanent inferiority. In addition to this, it is not improbable that the spread of skill and training is going on now somewhat more rapidly than formerly. This applies also to higher technical knowledge and entrepreneurial aptitude.

(c) *Changes in the capital factor of localization* are very difficult to determine, since there are two conflicting tendencies. On the one hand, foreign capital imports into new countries have decreased considerably. On the other hand, however, the new collectivist methods of industrialization have increased the internal supply of capital beyond what is provided by voluntary saving. It is recognized that to-day the industrialization of countries like Poland and Yugoslavia is being greatly hindered by the lack of capital.

(d) *Changes in the significance of raw material supplies* have occurred in several respects. In some cases there is to be observed a growing emancipation from raw materials,⁷ while in others the places producing raw materials are attracting more and more the refining and finishing industries.⁸ It is in this connexion that the changes in transportation costs and in the specific value of

⁶ See : John E. Orchard, *The Social Background of Oriental Industrialization: Its Significance in International Trade, Explorations in Economics* (Tauszig Festschrift), New York, 1936, pp. 120-130; Reinhard Junge, *Das Problem der Europäisierung orientalischer Wirtschaft*, Bd. I, Weimar, 1915; *The World Textile Industry: Economic and Social Problems*, I and II, Geneva (International Labour Office), 1937.

⁷ A very clear and important example of the emancipation from raw materials is the increasing use of scrap iron for the production of iron and steel, a development which has diminished the importance of iron ore deposits as a localization factor of the iron and steel industry. The growth of the iron and steel industry in countries like Italy and Japan is largely due to this circumstance.

⁸ Outstanding examples of this shift of the refining industries to the raw material deposits are to be found in the rapid development of the production of zinc in Australia, Mexico, and Canada; of the production of lead in Mexico, India, Canada and Australia; and of the production of copper in South America and South Africa.

industrial goods (higher value in smaller bulk) are to be considered. A special but very important point is the effect of changing conditions in the supply of fuel and power resources which seem to have lessened considerably the former rigid localization of industries on the basis of coal resources.⁹ A final factor is the development of synthetic production of raw materials.

(e) *Changes in the consumption factor of localization* seem to have led to greater diffusion of certain industries, inasmuch as with the growth of population new consuming centres have arisen, and as a number of new habits tend to favour industries located in greater proximity to markets.

Taking into account all these changes in the factors of international localization of industries, it is clearly impossible to formulate any simplified judgments of general validity. The only possible course consists in analysing one industry after another with due regard to those national differences which further restrict the validity of general statements. Only in such a manner would justice be done to the immense complexity of the problem. The only general truth in this matter is unfortunately a rather trivial one, i.e., that on the whole the changes in localization seem to favour the further diffusion of the simpler consumption goods industries, but that there is no reason to suppose that the tendency for the capital goods and durable consumption goods industries to be highly centralized in the old industrial countries has lost much of its force.

⁹ F. Friedensburg, *Die mineralischen Bodenschätze als weltpolitische und militärische Machtfaktoren*, Stuttgart, 1936; D. C. Kinsman, *Our Economic World: A Study of the World's Natural Resources and Industries*, New York, 1937. The development of electric power is, of course, especially important in this respect. It is to be noted, however, that the production of the heavy electrical machines remains highly concentrated in a few countries so that the emancipation from the coal-producing countries and the greater decentralization of industries by electricity appears compensated by greater dependence on the old industrial countries for the delivery of electrical machines. Much the same is true in the case of the internal combustion engine.

CHAPTER XVIII

THE DRIVING FORCES OF INDUSTRIALIZATION TO-DAY

AFTER having mentioned the changes in rational localization, we now slightly vary the question by asking what, regardless of rational localization, are the real driving forces of industrialization to-day which foster a deliberate policy of industrialization. They may be arranged under the following headings:

(a) *Agricultural overproduction*, which means that for various reasons—especially on account of excessive agricultural protectionism on the part of the old industrial countries—the relation between agrarian and industrial prices has shifted in favour of the latter. This shift is surely one of the most potent factors making for the industrialization of agrarian countries.¹

(b) *Agrarian overpopulation*, i.e. the congestion of people in agriculture to such an extent that there is poverty and unemployment on the open country. This is, indeed, a factor of industrialization of which the classical examples are in the history of industrialization in England and Germany. It seems that the existence of a rural proletariat has always been the prime condition for the industrialization of every country and that this is the ultimate origin of the industrial proletariat with all its formidable problems. The surplus of rural population may have two causes: (1) the continuous subdivision of farms under the pressure of a high birth-rate and a limited supply of arable land or (2) the prevalence of latifundia. The first condition may be found to-day in most countries of Eastern and South-Eastern Europe (especially in Poland, Bulgaria and Yugoslavia), whereas the second is represented by the classical cases of England and Germany. The same phenomenon can be studied again to-day in countries like Hungary and Spain.² It is clear that in the latter case industrialization is by no means the only alternative. Since it is the prevalence of

¹ T. E. Gregory, *Gold, Unemployment and Capitalism*, London, 1933, p. 199.

² Let us note that both of these conditions are equally pathological and detrimental to a sound structure of agriculture. Where peasants are proletarianized, peasantry loses much of its sociological value. Under these conditions there develops easily that type of mean and niggardly small-peasant which many make the mistake of lumping together with the general peasant farmer type.

latifundia which is artificially decreasing the labour capacity of agriculture, it is probable that an agrarian reform is an even more rational policy for relieving the rural population pressure than industrialization. But even in the former case of an overcrowded peasant agriculture much can be done to increase the labour capacity by rationalizing and intensifying agriculture.³ Moreover, it should not be forgotten that industrialization tends to increase rural overpopulation to some extent by plugging up the outlet which surplus labour had formerly found in handicraft and by-occupations. Lastly, it must be mentioned that the drastic restriction of immigration everywhere to-day has greatly contributed to rural overpopulation in many countries, and therefore to the industrialization of agricultural states.⁴

(c) *The present disturbances in the mechanism of international trade* are clearly influencing the industrialization of new countries, though in a way not easy to define. To some extent they are working in favour of industrialization in various ways, among which the influence of pre-war bilateral clearing agreements between Germany and some South American states may be mentioned. By such agreements Germany was compelled to pay for the imports of raw materials directly by industrial exports. Since Germany, however, tended to give in exchange those products which contain a maximum of national skilled labour, it preferred the export of machines and other production goods of high specific value. In other respects, the present disturbances of international trade are hampering industrialization, not only because of the lessening of capital imports, but also because of the rise of prices and the cost of living which bilateral clearing agreements are apt to engender.⁵

(d) *Theories and ideologies in favour of industrialization.* Under this point the remarks made in the beginning of this part on the peculiar sociological climate of present-day industrialization should be further elaborated. It is also here that an analysis of special theories, like Manoilescu's, finds its appropriate place.

³ This point, on which all observers of agriculture in South-Eastern Europe agree, is well illustrated by the fact that the proportion of the rural population, which on the present basis of agricultural technique is really superfluous in Bulgaria, has been estimated at one third (Oskar N. Anderson, *Struktur und Konjunktur der bulgarischen Volkswirtschaft*, Jena, 1938, p. 9).

⁴ We must also remember that, given certain conditions, agricultural settlement may involve a much greater immediate outlay of capital than the erection of industries. That seems to be the case in Palestine under the exceptional conditions of that country (cf. K. Grunwald, "The Industrialization of the Near East," *Bulletin of the Palestine Economic Society*, vol. vi, No. 3, 1934).

⁵ Cf. the note in the *Economist* of 3rd June, 1939, on the hindering of the industrialization of Roumania by the German-Roumanian trade agreement.

Likewise the theories and ideologies reflecting the attitude in the old industrial countries toward the industrialization of new countries are worth mentioning in this connexion.⁶

⁶ An attempt to deal more fully with the theories and ideologies of industrialization has been made by the present writer in his article "L'industrialisation des pays agricoles, problème scientifique," *Revue Economique Internationale*, vol. iii, No. 1, July, 1938, pp. 131-137. As for the attitude in the old industrial countries it is interesting to note the differences between the various countries—for instance between the more optimistic Germany and the more pessimistic England—and between various groups of interests within the same country. On the latter point cf. Louis Merat, *Problèmes coloniaux d'industrialisation*, Bulletin bimestriel, No. 113, Société Belge d'Etudes et d'Expansion, December, 1938. Manoilescu's theory has been severely criticized by his compatriot G. Tasca, "Les relations d'échange entre les pays agricoles et les pays industriels," *Mélanges Truchy*, Paris, 1938, pp. 508-517.

CHAPTER XIX

THE EFFECTS OF INDUSTRIALIZATION

To study the effects of industrialization is a task of the widest scope. It can be roughly divided into a study of the effects on the country itself and of those on the world at large, especially on the old industrial countries. Both sorts of effects have been dealt with extensively in recent literature.¹ For the purpose of the present report it may be permissible, therefore, to mention only some salient points on that aspect which is of the greatest interest for the Western World, i.e. on the *effects of industrialization on the old industrial countries*.

The gist of the matter has already been made clear. It consists in the problem of whether the reasons adduced in favour of an optimistic view are still as valid to-day as before the war. There is a strong presumption that, generally speaking, the question is to be answered in the affirmative. That is to say: experience and reasoning still suggest that the industrialization of an agricultural country, while being detrimental to individual industries in the old industrial countries and forcing them to make painful adjustments, develops those compensating factors previously mentioned. In this way we would get the final result of a more intensive world economy in which the old industrial countries, while leaving certain industries to the new industrial countries, would be exporting all the more of other kinds of industrial goods. The structure of the old industrial countries would undergo a more or less painful change, which would be determined by the range of industries developing in the new countries. Since the process of industrialization usually starts with certain consumption goods industries—particularly with the simpler kinds of textile

¹ G. E. Hubbard, *Eastern Industrialization and its Effect on the West*, 2nd edn., London, 1938; M. Mitnitzky, "The Economic and Social Effects of Industrial Development in Hungary," *International Labour Review*, April, 1939; *Der deutsche Aussenhandel unter der Einwirkung weltwirtschaftlicher Strukturwandlungen* (Ausschuss zur Untersuchung der Erzeugungs- und Absatzbedingungen der deutschen Wirtschaft), vol. ii, Berlin, 1932; Max Ilgner, *Exportsteigerung durch Einschaltung in die Industrialisierung der Welt*, Jena, 1938; Richard Linder, *Die schwedische Landbevölkerung unter dem Einfluss der Industrialisierung*, Greifswald, 1938; Carl Major Wright, *Economic Adaptation to a Changing World Market*, Copenhagen, 1939; Otfried Fröhlich, *Die Wirkungen der Industrialisierung junger Länder auf ihre Einfuhr*, Dresden, 1936; and an extensive literature on the industrialization of special countries.

EFFECTS OF INDUSTRIALIZATION

industry—it is to be expected that the share of consumption goods, especially of the simpler kinds, in the total export trade of the old industrial countries would decrease in favour of capital goods and durable consumption goods.² We would get a progressive diffusion of the production of consumption goods over the whole earth while the production of capital goods would remain largely concentrated in a few highly developed and old-established industrial countries. At the same time the importance of foreign trade in the newly industrialized countries for total world trade would increase rather than decrease. It is especially the latter consequence which is clearly illustrated by the accompanying diagrams (5-12) showing the development of foreign trade in a number of newly industrialized countries after the war. It is especially noteworthy that in most of these countries the share of their foreign trade in total world trade shows an ascending trend.

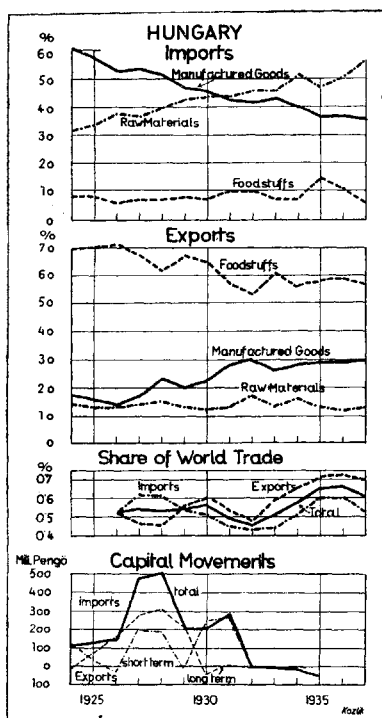


Diagram 5

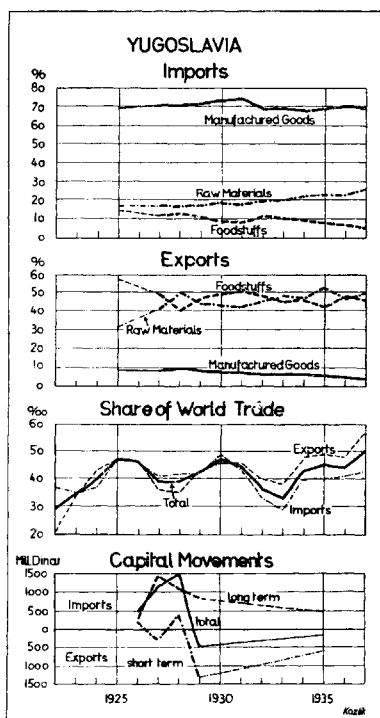


Diagram 6

² How far the exports of simpler consumption goods may shrink is illustrated by the fact that in 1938 the British exports of cotton fabrics had fallen to the 1850 level. On the other hand, it is significant that the increase of total exports of manufactured goods from a country like Switzerland during recent years is entirely due to the increased exportation of capital goods.

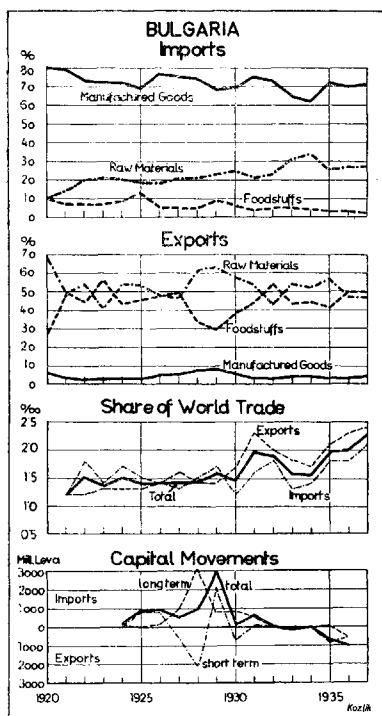


Diagram 7

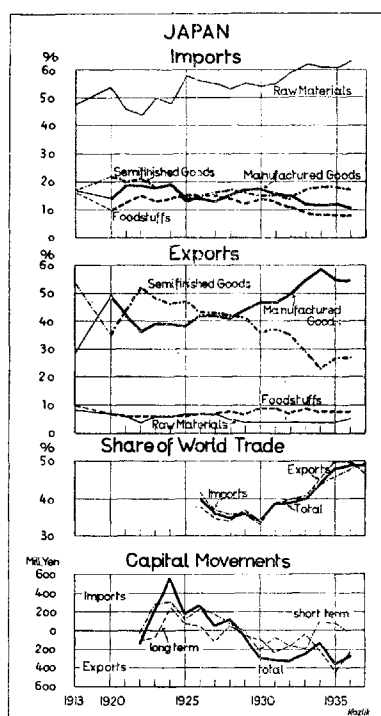


Diagram 8

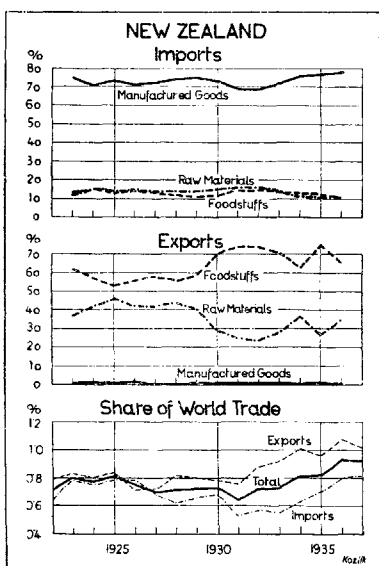


Diagram 9

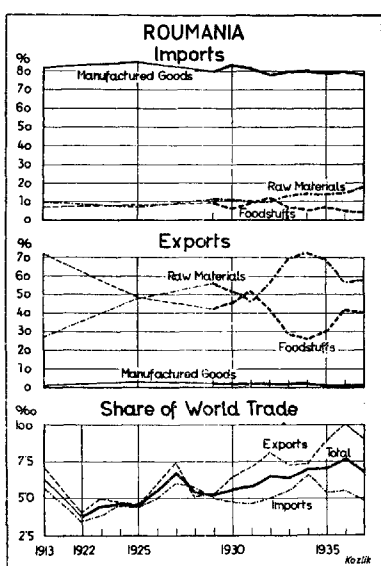


Diagram 10

EFFECTS OF INDUSTRIALIZATION

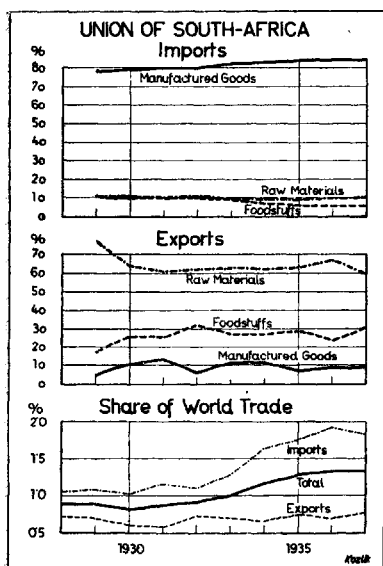


Diagram 11

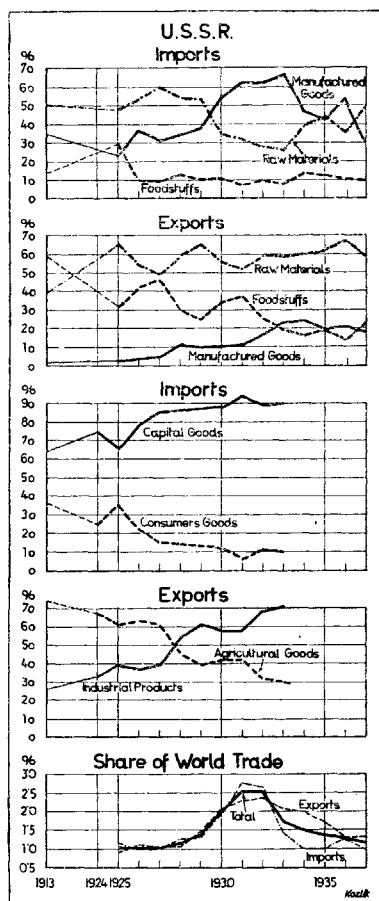


Diagram 12

It is hardly possible to dispute the essential truth of these statements, but it is equally impossible to overlook the necessity of making many *reservations* and *qualifications*. It is here where the really interesting and difficult part of the problem begins.

To begin with, there is the question of the many implications of the transformation of the industrial structure in the old countries in the direction of a greater importance of the capital-goods industries and of the industries producing durable consumption goods. As the example of England with her "special areas" shows, the process of transition may be protracted and highly painful. Furthermore, it has to be asked whether the growing importance of the capital-goods industries does not lead to a greater cycle-

sensitiveness of the economic system³ and to more industrial concentration with all its serious consequences. More fundamental even is the question of how far the optimistic theory of over-compensation is really applicable to-day. For example, is it true that the industrialization of a country must invariably engender an increase of purchasing power and thereby a widening of the market for new industrial products to be imported? It would surely be curiously dogmatic to take this for granted. If, for example, the Eskimos, inspired by Manóilescu's theory, wanted to industrialize Greenland by the well-tested methods of duties, import embargoes and exchange control, it is obvious that they would make themselves merely poorer and less capable of importing industrial products. It is quite pertinent to ask whether industrialization as it is being practised to-day in some countries does not come closer to this hypothetical case of Greenland than the industrialization practised before the Great War. The *method* in which the industrialization is being carried through is therefore of decisive importance for judging its effects. It is under this aspect especially that the collectivist-autarkic industrialization of Soviet Russia must be studied. It is a well-known fact that in this case the industrialization—after the initial phase characterized by an enormous increase of the imports of capital goods—finally resulted in a decreasing importance of foreign trade. Whether such a rapid approach to autarky is possible in a newly industrialized country depends, of course, in the last analysis also on the specific economic structure of the country, which in the case of Russia makes such a development exceptionally easy. For this reason it is difficult to apply any general rule. It seems, on the contrary, that every case must be studied largely on its own merits.⁴ Of some importance is, furthermore, the fact that industrialization to-day seems to be much less supported by foreign capital and foreign entrepreneurs than formerly, a fact which can hardly fail to foster the inclination toward industrial autarky. Whereas industries based on foreign capital and enterprise are often those exploiting raw material resources for export, industries developed

³ A. Loveday, *Problems of Economic Insecurity, World's Economic Future*, London, 1938, p. 37.

⁴ There is, for instance, the interesting case of Hungary which recently has become also a clear exception to the rule that industrialization is followed by more dependence on foreign trade. Another case is that of British India where the deterioration of agriculture by deforestation and the ensuing soil erosion leads some pessimists to believe that the increase of national income and the standard of living brought about by industrialization may be more than compensated, in the long run, by a gradual fall of rural income.

by national capital and enterprise and encouraged by the government will be more devoted to finishing raw materials for the home market.

Looking further ahead into the future we perceive a final problem which must be squarely faced. It is questionable whether, even under the most optimistic assumptions, this industrialization of the earth can be continued indefinitely, so that all countries would become richer and richer and so that world trade would consist more and more in the interchange between industrial countries. Our answer must, of course, be that whole nations cannot live by taking in each other's washing. In other words: the industrial superstructure of the whole world must, and always will be, kept in proportion to primary production, which is the foundation supporting that superstructure. If the industrial superstructure becomes too large the relation between the prices of industrial products and those of primary products will shift in such a way that the increasing profitability of primary industries and the decreasing profitability of secondary industries will engender a restriction of the latter and an extension of the former. It is difficult to say beforehand in which countries the one or the other result will happen. This will depend not only on the unforeseeable economic policy of the different countries, but also on the future prospects of production in both manufacturing industry and primary production.

PART VI

CHAPTER XX

THE DISTURBANCES IN THE MONETARY-FINANCIAL MECHANISM OF WORLD ECONOMY

THE monetary element cannot be separated from other aspects of the process of international economic disintegration, with which it is bound up both as cause and as effect. It has proved impossible, therefore, to eliminate this element during the different stages of the present enquiry; and thus it has been mentioned again and again whenever it was necessary to do so. It is quite clear that the world economy of to-day and the economic policy of the various countries would be entirely different if we still had an international monetary system like the gold standard. That is such a banal statement that one almost hesitates to repeat it, but its full bearing on the process of international economic disintegration is still far from being understood generally. It is not only the immediate effect of the breakdown of the gold standard on international trade and commercial policy which has to be considered, but also the deep change brought about in the national money and credit systems which, even if still adhering to an essentially liberal organization, have lost their tendencies toward self-adjustment under the influence of the new monetary system (e.g., the gold sterilization in the United States or the working of the Exchange Equalization Account). This, in turn, has largely contributed to that spread of conscious central control of the national economic process which bears so much responsibility for international economic disintegration.

It is equally clear, however, that such a statement cannot carry us very far, in view of the other fact that international economic disintegration owes just as much to the breakdown of the gold standard as the breakdown of the gold standard to it, so that the breakdown of the gold standard thus appears both as cause and effect. It is another example of a vicious circle and of that deadlock in historical analysis which is always the result of such a state of affairs, to the great tactical advantage of those who approve of the cumulative process of international economic and monetary disintegration.

The problems awaiting us in this field are extremely interesting

and important. At the same time, they are also so intricate and complex that here perhaps more than anywhere else the author must resignedly acknowledge the sheer impossibility of doing in this book much beyond stating the problem and suggesting further studies on the basis of the general philosophy laid down in these pages.¹

In order to make clear what the problem implies we must begin by stating the bare fact that the old international monetary and financial system, based on the gold standard and on the auxiliary arrangements in the financial sphere, which had made the world virtually a payment community, is no more, and that the prospects of its restoration in some form or another have gradually become more remote. It has been replaced by a set of monetary and financial relations and arrangements which it would be unduly euphemistic to call a system at all. The changes which have occurred in this field during the last decade may be said to centre around the rival concepts of *monetary liberty* and *monetary stability*. That is to say: the old monetary system characterized by the legendary gold standard has been fundamentally modified everywhere in the direction of international monetary disintegration and monetary nationalism, but in one set of countries it is the liberty of international monetary transactions which has been primarily sacrificed, whereas in another the stability of the exchange values of the different currencies. It is, of course, to be understood that there are in fact all shades of combinations to be found between these two alternatives, of which the one is that of *exchange control* and the other that of the system of more or less *free exchange rates*, with Great Britain as the best-known example. The whole situation can be summed up by saying that nowhere has it been thought possible in the end to preserve both external monetary liberty and external monetary stability in the

¹ Among the vast literature on the subject a special reference should be made to the books by Michael A. Heilperin, *International Monetary Economics*, London, 1939; and by Attilio Cabiati, *Il Sistema Aureo e il Fondo di Congaglio dei Cambi*, Turin, 1940. The following outline of the main subjects to be further analysed would perhaps accord best with the general spirit of this book:

1. Factual account
 - (a) the pre-war system and its conditions;
 - (b) the period of post-war restoration;
 - (c) the break in 1931 and the subsequent period.
2. The different manifestations of disorder.
3. Analysis of causes.
4. Appraisal of the effects, with special regard to the effect on economic nationalism.
5. Monetary policy as a substitute for or a supplement to protectionism.
6. Critical account of theories and ideologies.
7. Remedies.

storm of the economic dislocations during the last decade. Apparently a choice had to be made everywhere between the one or the other with the sacrifice of the corresponding alternative. The desperate struggle of the countries of the gold bloc, before it gave way in the autumn of 1936, is a dramatic illustration of this growing incompatibility of those two prerequisites of monetary internationalism, external monetary liberty and external monetary stability.

Very few will hold the opinion to-day that, even within the sector of the free exchange system practising no exchange control, a new equilibrium had been found after the series of devaluations so that a new situation was in sight where monetary liberty could again be combined with monetary stability, if not *de jure*, then at least *de facto*. The exchange rates within this sector even before the war were still wildly fluctuating, and, what is more, almost all countries concerned were more or less determined to preserve the right and the possibility of making drastic changes in the external value of their currencies whenever they considered it advantageous. What there was of international monetary stability was stability "*cum dolo eventuali*"; and it is surely of the deepest significance that the only crystallization of some sort of an international monetary system, viz. the Tripartite Agreement between Great Britain, United States and France, was subject to a notice of 24 hours. The last state of world economy could, in fact, find hardly a better and more telling expression than in the term "24-Hour Standard." An entire epoch is revealing itself here: its hand-to-mouth character, its utter lack of principles and norms, its insecurity, its abhorrence of binding rules in international relations, its drift to unknown destinations.

This is not the place to discuss the technical details of the different systems now in practice, to describe the rôle which gold is still playing to-day, and to point out the difference between the various types of exchange control or free exchange systems. Nor is it possible here to go into an analysis of the numerous and complex reasons of the breakdown of the old system and to derive from such an analysis conclusions as to the ways and possibilities of putting a new international monetary order in the place of the ruins of the old one. Finally, it must be understood that in the present context it cannot be our intention to join the heated controversies about the merits or demerits of the different monetary systems. At the present stage we are not concerned with technical description or with causal analysis or with policies or judgments of value. The only question concerning us here is the simple

phenomenon of international economic disintegration in all its various manifestations. What we have to ask ourselves, then, is whether the developments in the monetary-financial sphere of world economy signify disintegration or not, no matter how they may be judged from any other point of view. To this specific question only one answer seems possible: the recent changes in the monetary-financial sphere of world economy are not only the result and the symptom but even more one of the most potent agents of international economic disintegration, which is simply inconceivable without them. If one had to define what international economic disintegration really means, one would indeed hesitate as to whether more stress should be laid on the shrinkage of the total volume of world trade, on the qualitative changes as they have been discussed in a previous part, or on the "nationalization" of money which is the topic of this part.

In order not to let this appear a mere—though evident—assertion, it seems well to apply a definite criterion of economic disintegration by raising the question whether this or that development in international trade is widening or shortening the gap between domestic and international trade. That this is a fair measure of the degree of economic integration nobody will deny, since the more the character of international trade approaches that of domestic trade the greater will be, other things being equal, the degree of international economic integration, and vice versa. By applying this measure we arrive at a statement which implies no arbitrary judgment of value. It is a measure which can be usefully applied to each and every development in international trade during the last ten years, and it will appear worth-while to reconsider in this light what has been said in the preceding sections on bilateralism, the erratic character of present world trade and other symptoms of international economic disintegration. Applied now to the recent changes in the monetary-financial arrangements of world economy, it can show only one thing, i.e. that also in this respect—or perhaps in this respect more than in many others—the difference in the degree of economic integration between domestic and international trade has become much greater than before, whereas contemporaneously national economic integration has undoubtedly increased rather than decreased. Thus there is no escaping the conclusion that the break in the previous monetary system of world economy means more international disintegration, at least relatively to national trade.

That among the two monetary systems of the present day the

system of exchange control is *par excellence* an element of international economic disintegration in the exact sense explained just now seems obvious and undebatable. If it was not in all cases its expressed purpose from the beginning, it is at least its inevitable result in the end that it makes the national economy in question a more or less closed system by multiplying the possibilities of severely and consciously controlling all transactions in foreign trade. By accomplishing what the Germans call the "closed money circuit" (*geschlossener Geldkreislauf*) and by providing the exterior framework both for national planning and for the highest degree of national autonomy in money and credit policy, exchange control is a powerful agent for enhancing national economic integration at the expense of international economic integration. At the same time, exchange control—practised at least by one of the participant countries—is the indispensable pre-requisite for clearing agreements, representing the strictest form of bilateralism, so that exchange control is indirectly responsible also for this undisputed phenomenon of international economic disintegration. If there should remain any doubt about the validity of these considerations it may be dispelled by mere reflection on what it would mean for national economic integration if the different provinces within a country were to put up regional systems of exchange control.

Whereas the highly disintegrating effect of exchange control is so obvious and powerful that it must be regarded, indeed, as one of the culminating points in the present international economic disintegration, it is much less clear that the other monetary system which has recently replaced the previous gold standard, i.e. the *free exchange system*, must be considered also a factor of international economic disintegration, though of a much milder kind than exchange control. In this respect, different opinions have been held at different periods, and it cannot be truthfully said that the problem of what the world-wide stability of exchange rates means for international trade has found a solution to-day which is universally accepted—a fact surely testifying to the rather complex nature of the problem. Up to about 1931 the conviction that the rigid exchange-rate stability brought about by the universal gold standard was beneficial and its replacement by a free exchange system detrimental to world trade dominated and was hardly disputed; but after the gold standard had been given up by leading countries under the pressure of well-known circumstances the opposite habit of minimizing the importance of external monetary

stability became fashionable and was backed by high authority.² Though admitting that the free exchange system involves greater risk and uncertainty for international trade and international transactions, the representatives of this new heterodox view asserted that this effect must by no means be overrated and that there were technical devices—especially the use of the forward exchange market—for reducing the monetary risk if it should be really deterrent. At the present moment, however, it seems that current opinion is again swinging round and recognizing that there is decidedly more in the old orthodox view than the advocates of a free paper standard had supposed. Weighing all the arguments on both sides, the present state of the discussion does not leave any doubt that the disintegrating effect of the free exchange system is far from being negligible, though it is also evident that in this respect it cannot be compared with the exchange control system.³ Without going, at the present juncture, into the intricacies of the business cycle aspect of the problem we may take it as an established fact that the uncertainty involved in the free exchange system is a decidedly troubling element in international trade which, other things being equal, will mean less international trade or a qualitative distortion in the currents of international trade. This effect will be the greater the more important the time element is in international economic transactions. For this reason, international long-term investments will suffer most, while, on the other hand, the uncertainty of exchange rates is bound to foster the hectic movements of international short-term capital migrations so that, in this way, the free exchange system also adds to the forces responsible for the erratic character of world economy to-day. But it is not only the individual business psychology which is affected by the uncertainty due to the free exchange system. Equally important is its adverse effect on the readiness of governments to conclude long-term commercial treaties in a liberal spirit. And, again, if there remains any doubt about the validity of the foregoing arguments the simple question should be asked what it would mean for national economic integration

² A good account of this attitude will be found in: Frank D. Graham and Charles R. Whittlesey, "Exchange Rates, Foreign Trade, and the Price Level," *American Economic Review*, September, 1934, pp. 401-416.

³ A good sample of this well-established view is Professor Gregory's contributions to the collection of memoranda on "The Improvement of Commercial Relations between Nations and the Problems of Monetary Stabilization," ed. by the International Chamber of Commerce, Paris, 1935. The whole problem of the integrating or disintegrating effects of the various money systems has been penetratingly studied by Professor F. A. von Hayek in his book on *Monetary Nationalism and International Stability*, London, 1937.

if the various provinces of a country were allowed to have regional paper standards with free exchange rates toward each other. In this respect, it is not necessary to overstrain one's power of imagination since it is exactly the situation to be found in a country like Germany before the unification of the monetary system in 1871, and still existent to-day in those of the most backward countries of the world having regional exchange rates. To overcome this medieval state of affairs has been regarded everywhere as a prime condition for national economic integration, and the world-wide spread of the gold standard toward the end of the nineteenth century was nothing else than the spatial extension of the area integrated by a common monetary system. Seen in this light, the free exchange system appears as a notable retrogression in the development of economic integration, however desirable it might appear from a nationalistic point of view.

PART VII
ECONOMIC NATIONALISM AND ECONOMIC
STABILIZATION

CHAPTER XXI

INTRODUCTION

BEFORE the Great War, and even for some time after it, protectionism was preponderantly what the term suggests: a policy aiming at the protection of certain groups of producers against foreign competition on the home market. The reasons put forward to defend this policy against the plausible argument of the free trade doctrine were various, but the plain end was invariably the same, the defence of producers' profitability against adverse influences coming from abroad. It was a policy directed toward limited aims, but very rarely was it made the instrument of a policy aiming at regulating the whole economic process within the national economy. Up to the Great War protectionism in the more advanced countries was hardly ever based on considerations of a monetary character and worries about the balance of payments as became the fashion after the war. In general the regulation of external equilibrium was left to that mechanism of automatic self-adjustment which has been described by the classical theory of international trade. This does not mean that no attention was paid to the problem of internal economic equilibrium in connexion with protectionism. On the contrary, the condition of industries in times of depression was a powerful stimulus to protectionism, so much that there can be discovered a close correlation between the waves of depression and prosperity on the one hand and the increase or decrease of protectionism on the other. But this was so because depression only strengthened the sectional motives of protection and not because the idea of stabilizing the whole economic process by protection played any important part. Also the argument of protection as a means of creating employment was used extensively, but generally in a manner which did not make it too difficult for the advocates of free trade to dispose of it. The notion that economic nationalism might be instrumental in or conducive to smoothing out the business cycle was rarely of any practical importance at that time.

This aspect of protectionism has completely changed since the war and especially since the outbreak of the great depression in 1929. The old arguments and motives of economic nationalism are as forceful as ever, but more important than any of them has become the idea that, whatever the advantages or disadvantages of economic

nationalism in other respects, it will be indispensable for a policy of regulating the whole economic process in order to achieve economic stabilization for the national economy independently of the rest of the world. For example, one wants agricultural protection more than ever for all the traditional reasons, and it is highly fruitful to study agricultural nationalism of to-day still from this more restricted and conventional point of view; but the important point is that this policy cannot be fully understood except as an integral part of a more comprehensive policy of national autonomy in regulating the economic process as a whole. The same applies to industrial protection. It is equally clear that the fundamental changes in monetary policies which have occurred since 1931 have their deepest origin in the consideration that the gold standard with its features of exchange stability and exchange liberty and with its mechanism of automatic self-adjustment is believed to be incompatible with a policy of national economic stabilization. Monetary nationalism of to-day, therefore, is to be understood as the corollary of ideologies and policies of national stabilization. Since the responsibility of monetary nationalism in all its forms, especially that of exchange control, for international economic disintegration is obvious, these policies and ideologies of national economic stabilization are again revealed as the ultimate agent. This is true not only for the period after 1931. It can be shown, indeed, that the unsatisfactory working of the gold standard which was so responsible for the 1931 breakdown was due to the fact that principal countries did not "play the game"—to do so was already at that time deemed to interfere with a policy of economic stabilization. The situation thus created became dramatically manifest in the well-known failure of the World Economic Conference in 1933, which is to be explained by the triumph of the argument of national stabilization over the considerations of international monetary stabilization and international economic co-operation.

The conclusion to be drawn from these observations is self-evident. Under the influence of the ideal of national economic stabilization, dominating all other goals of economic policy, economic nationalism has ceased to be limited in aim and character, and now it tends to become "total" (i.e. all-embracing) in its scope, with a view to supporting or to making possible a policy of regulating the national economic process as a whole. Economic nationalism of to-day can hardly be understood without taking into due consideration this ultimate objective which has become so important.

CHAPTER XXII

PROBLEMS AND AVENUES OF RESEARCH

To acknowledge the importance of the subject is one thing and to tackle it scientifically another. The first task, as always, is to bring order into the problems involved and to arrange them according to their relative importance. It seems appropriate to indicate, as follows, some of the most important problems and the direction in which the solution may be found:

(a) *The stabilizing or unstabilizing effect of economic nationalism as such* (i.e. apart from a business cycle policy supported by economic nationalism) compared with the opposite effect of free international trade. The first question is how far the connexion of a national economy with the world economy leads in some respects to more national stability and in others to more national instability. Here it seems highly necessary to correct certain views which are very widespread to-day, views which unduly stress the possible shocks coming from abroad and the limited potentialities of national economic control under a liberal system, without clearly recognizing the function of foreign trade as an efficient shock-absorber. It was, after all, no accident that before the Great War national economic fluctuations were limited within fairly tolerable bounds during just that period of high international economic integration, which found its most telling expression in the smooth working of the gold standard. It is no use objecting to this argument that that period was also practically free of exogenous disturbances, for these are new elements which have to be assimilated or surmounted under any economic system. It is precisely one of the most common mistakes of the new unorthodox school to make the economic system itself responsible for results due to those present exogenous disturbances with which we have to cope in any case and which cannot be indefinitely compensated by the tricks of monetary nationalism; on the contrary, there is every reason to fear that such highly unorthodox policies may only add to the exogenous forces of dislocation and dissolution. The sober fact remains that not one of the least important reasons for the greater economic stability before the Great War is to be found in that a highly

integrated and smoothly working world economy is an equilibrating factor of the first rank.

There are a number of reasons for this, which have often been explained.¹ Especially noteworthy among them is the fact that the existence of a wide and freely accessible world market helped to provide an outlet and a compensating factor during the depression and thus to prevent the development of a secondary depression. This was possible because the wider the world market is, the easier it becomes to find markets with different business conditions. There is every reason to suspect that it is precisely the present disintegration of world economy which is largely responsible for the present difficulty in breaking the deadlock of depression and thus for the formidable problem of the secondary depression. Since it is this problem which is giving rise to the new-fangled policies of national economic stabilization and thus to more economic nationalism, we find ourselves to-day in a vicious circle of economic nationalism, less spontaneous stability, policies of nationally contrived stability, more economic nationalism, more international economic disintegration and still less spontaneous stability. In such a vicious circle the advocates of national economic stabilization may claim with some superficial truth that their policies are only a response to the new situation, but the more fundamental truth is surely that they are trying to argue out of a vicious circle of which their short-sighted reasoning is merely a subjective counterpart. If we want to get out of this vicious circle of facts as well as of reasoning the first step to be taken is to recognize its existence and to re-establish the somewhat obscured truth that a wide and integrated world economy is preponderantly a stabilizing rather than an unstabilizing factor.

(b) *Protectionism as an appropriate measure of business cycle policy for combating the depression.* Whereas under the preceding point we examined the question of whether more or less permanent economic nationalism may serve to make the national economy more stable, there remains the more special problem of whether the introduction of new, or the reinforcement of already existing, protective measures is a suitable temporary expedient for

¹ See for instance: H. Dietzel, *Weltwirtschaft und Volkswirtschaft*, 1900, and Dietzel's article on "Agrar-Industriestaat oder Industriestaat?" in the *Handwörterbuch der Staatswissenschaften*, 4th edn., vol. i. The International Labour Office has just published a special investigation (*Employment, Wages and International Trade*, Geneva, 1940), which shows that from 1926 to 1936 there has been a close correlation between the changes in foreign trade and those in employment in the different countries. Those whose foreign trade fell off most in the great depression had the worst unemployment, and those whose foreign trade increased least in the recovery showed the smallest improvements in employment.

overcoming a depression. It can hardly be denied that the use of protection as an equilibrating instrument during a depression cannot be dismissed *a priori* as unsound. During this period it may serve two purposes. *First*, it may help to restore the external equilibrium of a country without having recourse to devaluation and too much wage-cutting. *Secondly*, some new protection here and there may give a stimulus to new investments and thus serve to overcome the deadlock of the secondary depression. In this case, the free trade argument is not quite convincing, since the social loss brought about by protection may be more than compensated by the social gain derived from the reduction of unused productive capacity and from priming the whole economic process. However, to admit protection as a possibility in "provocative therapy"² is not to say that it is a particularly recommendable one. Its worst side is that tariffs, once introduced, are very hard to remove. Furthermore, it will be difficult to keep this remedy within the very restricted limits where it does more good than harm. There are other and less dangerous methods than this, and it is quite arguable that a policy of public initiative is to be preferred to this method of giving encouragement to private initiative. Finally, the tariff method is applicable only if there were hitherto no tariffs or only very low tariffs. In cases where tariffs have already become the backbone of industrial monopolies, the interests of recovery will be better served by removing or substantially lowering them rather than by introducing new tariffs. And that is now the case practically everywhere.

(c) *Economic nationalism as an auxiliary, an instrument or a consequence of the policy of national economic stabilization ("full employment")*. Here we arrive at the real problem of the character, of the justification and of the international implications of the new radical type of business cycle policy aiming at the perpetuation of "prosperity" and "full employment" on a strictly national scale by bold credit expansion, large public investments and, in the last resort, by more and more control of the entire national economic process. It is, of course, impossible to do real justice to this very difficult problem without entering into an extensive discussion of the theories and ideologies underlying these policies. Since this will lead us too far at the present moment we must confine ourselves to stating some of the more important problems involved and to offering some tentative solutions. As this will inevitably reflect more or less the personal attitude of the writer,

² W. Röpke, *Crises and Cycles*, London, 1936, pp. 198-200.

reference should be made to some of his publications on the subject.³

The *first* problem which presents itself is that of the possibilities of a stabilizing business cycle policy in an "open system," i.e. without recourse to excessive economic nationalism and that sort of internal economic planning which demands as its external counterpart some degree of autarky. To analyse this problem seems to be all the more necessary as common opinion to-day leans toward the view that those possibilities are extremely restricted so that there is a clear alternative between a policy of internal economic stability on the one hand and a policy of linking up the national economy with world economy on the other hand. According to this view national economic stability is practically to be had only by way of an "autonomous business cycle policy," i.e. a policy of national business regulation controlling the national factors determining the economic process (investments, savings, consumption, prices, wage rates) without consideration to external equilibrium, so that one must be prepared to apply more or less violent measures against the consequences of external disequilibrium. In this respect we have to do not only with the well-known "*doctrine of alternative stability*"⁴ referring to the choice between internal stability and stable exchange rates or, to be more specific, the gold standard. The problem of the necessity of an autonomous business cycle policy is much wider than that. For on the one hand it has to be asked whether some instability in exchange rates (actual or potential) will not be compatible with continued international economic integration so as to widen the possibilities of national stabilization compatible with world economy;⁵ and on the other hand we have to face the problem of whether a policy of national "full employment" will not lead sooner or later to external consequences which cannot be coped with even by devaluation, so that in the end rigid exchange control with all its vast consequences becomes inevitable. Furthermore, the momentous question arises whether national economic stability must really presuppose measures of such a nature that a conflict with international economic relations is bound to ensue sooner or

³ *Crises and Cycles*, London, 1936; "Vollbeschäftigung," *Economist* (Dutch), 1938, No. 7-8; "Konjunkturpolitik am Scheidewege," *Neue Zürcher Zeitung*, 9th June, 1938; "Krisenfeste Zwangskonjunktur?," *Neue Zürcher Zeitung*, 9th February, 1939; "Totalitarian Prosperity: Where does it End?" *Harper's Magazine*, July, 1939.

⁴ W. Röpke, *Crises and Cycles*, l.c., pp. 164-173.

⁵ See H. Belshaw, "Stabilization in a Dependent Economy," *The Economic Record* (Melbourne), vol. xv, Supplement, April, 1939, pp. 40-60.

later, or whether national economic stability can be achieved to a large extent by measures other than those having as their consequence more economic nationalism. In this connexion the terms "stability" and "full employment" should be carefully scrutinized in view of the apparent misuse made of them to-day in many quarters. Both are sweeping notions which should be used only with great caution. They are "global" concepts which are apt to dull our sense for the details and for the component parts which make up the "average." This becomes particularly clear if we consider the notion of "full employment." This concept has a dangerous propaganda value since every person wants full employment in a reasonable sense, and there is nobody who would regard prolonged involuntary mass unemployment as anything but a national calamity of the first order. But that does not mean that there is not a residual unemployment which must be considered as normal. There must always be a minimum of jobless people if the economic process is to have the necessary "play," and if the number of unemployed falls below this minimum the condition of the national economy is hardly less pathological than if the number of unemployed increases beyond the minimum. In this case "full employment" becomes really "over-employment" as in Germany before the outbreak of the present war. Furthermore, it must be remembered that the different labour markets of a country are largely separate compartments between which there is so little communication that full employment may be reached in one trade—the problem of the "bottle-necks"—while a large amount of unemployment may still persist in others.

Having determined the more or less wide margin left to a policy of economic stabilization in an "open system," we shall have to turn to the *second* problem of what a policy of economic stabilization carried beyond that margin really involves. To that end we have to weigh the possible ultimate consequences of such a policy against those of one which remains within that margin, but without neglecting all the possibilities of stabilization to be achieved in this way. By making such a balance-sheet we would be able to assess the real price to be paid for pursuing a policy of full employment at all costs, and we would be better prepared for making the right choice. Here are a number of important sub-questions which have to be studied. There is, first of all, the question of the really stable character of a national investment boom which is the essential feature of a policy of full employment.

Can such a boom be maintained indefinitely or does it contain, as the traditional theory states; some cumulative elements which will make themselves progressively felt? It is the answer to this question on which everything else hinges, but in spite of the vast recent literature on this subject it can hardly be said that we understand it thoroughly at the present moment. It may be said, however, that recent developments in the field of business cycle theory have done little to shake the well-established opinion that a boom cannot be driven beyond a certain point without bringing about a cumulative process of disequilibrium. For the fact remains that beyond this point tensions, dislocations and disproportionalities of all sorts make themselves increasingly felt. If this is so the consequences of a policy aiming at the perpetuation of a boom would be incalculable. We could not hope to postpone the day of reckoning indefinitely by piling up one boom upon another, for sooner or later a point would be reached at which the crisis could only be further postponed by measures which result in the tearing asunder of our economic system after the Nazi example. A consistent policy of "full employment" would lead us gradually to economic collectivism and its inevitable counterpart of political and even cultural Totalitarianism. The external reactions to such a policy would have to be met by a water-tight system of exchange control and by planned regulation of foreign trade, and we would end up finally at the complete control of wages, prices, investments and consumption, a control which could not be made really effective without concentration camps and all the other comforts of a totalitarian collectivist régime. If our reasoning is well founded, then, a policy of "full employment," in the radical sense now fashionable, would set us on a road whose end would hardly be to the taste of most advocates of that policy. It would be the road which oddly enough would lead us from cheap money to the concentration camp.

The least we can say, therefore, is that there would appear to be good reasons for being sceptical of the advantages claimed for the investment boom to which we referred. To this conclusion the *recent experiences in Germany* seem to lend ample support. The undoubted achievements of the policy of full employment in that country should not make us overlook the fact that it is only after full employment has been achieved that the real problems and dangers begin.

Up to this point of full employment, the means for the additional investments could be obtained by credit expansion without inflationary consequences, since the idle reserves of man-power and

productive capacity make it possible to increase production at an equal pace with the increase of the circulating media. So far credit expansion is compensatory, not inflationary. Moreover, the limits beyond which credit expansion must not be driven without the danger of inflation may be considerably widened by a severe exchange control and by ruthless efforts to keep down wages and prices. But although the limits may be made rather elastic they cannot be stretched indefinitely. Sooner or later it has to be realized that the ultimate limits of this policy have been reached. Then we have an *entirely new situation* in which *three courses* are open. The *first* is to stop the wave of investments and to run the danger of a severe economic crisis which such a sudden stop is bound to involve. The *second* is to continue the credit expansion which now means inflation pure and simple. There is the more promising *third* course of a policy which tries to preserve full employment without inflation by pumping the means necessary for further investments out of the existing volume of general purchasing power. This means that, by force or persuasion, money has to be taken away from the consumers who now become more and more a rather annoying class of people.

Is this last course likely to lead to a new stable situation? That is the question. In answering it we must first admit that the boom itself, however contrived and artificial, has by increasing the national income largely created the fund which may be expected to pour out the higher tax returns or savings put at the disposal of the government. For a while, therefore, no great difficulties are to be anticipated. But for how long? This is where we see the fundamental difference between the first "compensatory" phase of the boom and the subsequent one of full employment. Whereas, during the first phase, additional investments really made for easier money and capital markets, they mean now, on the contrary, a real tapping of the available capital resources and therefore a tightening of the money and capital markets. In the first phase, investments were part of the machinery of credit expansion while, during the second, they are really consuming credit. The first signs of financial tension will become noticeable: the interest rate tends to rise, the stock exchanges show an inclination toward bearishness, the banks cannot move as freely as before, and the apparent impossibility to oppose anything against these tendencies except inflation in whatever disguise is bound to give the first shock to the belief in permanent prosperity. The problem which has to be faced now is simply this: is it conceivable that the total volume of purchasing

power may be tapped by taxes and loans to such an extent as is necessary for permanently keeping up the investment activity of the boom? In other words: is it possible to restrict to the necessary amount that part of production catering to immediate consumption? Can the workers, the iron and everything else be spared in this sector of the economy in order to be used for automobile roads, concrete fortifications and similar governmental investments? Now, there would be no reason to be pessimistic in this respect if the part of total purchasing power claimed by investments of that sort were reasonable in amount and, what is more, represented a fixed percentage of national income. It is precisely here, however, where the improbability lies. For reasons known to every student of the theory of business cycles it is to be expected that every boom will tend to gain momentum as it proceeds until, in snow-ball fashion, a breakdown finally becomes inevitable.

The foregoing remarks, far from exhausting this very intricate subject, will serve only as a suggestive example for the kind of considerations which seem indicated and fruitful here. There are other possibilities for approaching the same subject and for making the choice of policies as rational as possible. Thus it should be made quite clear that a policy of full employment at all costs, supposing as it does the familiar combination of internal planning and external autarky, will in all probability have political, social, and cultural implications which will make the price to be paid for this "totalitarian" full employment appear unbearably high to many who would otherwise be quite disposed to flirt with the idea. In the same vein it may well be asked whether a country will really be prepared to take the consequences in the sphere of international economic relations and the ensuing privations which a nationalist policy of full employment is likely to bring about. Furthermore, it is quite clear that the different countries are in a very unequal position for carrying through such a policy. If the autonomous business cycle policy in the German sense should become the fashion everywhere, the small countries would hardly have any other choice than to join economically (and finally also politically) one of the great countries or a bloc of countries; and in the same class with the small countries would be those countries whose economic structure makes foreign trade the prime factor in national economic life. What the *universal* application of a policy of full employment would mean for the world economy in general and especially for the countries practising it at present, is a problem to which little or no consideration has been given so far, but it is

obvious that it is of the utmost importance. It is more than likely that the consequences would be such as to make the policy of full employment much less attractive than it appears to-day, when only a few countries are practising it. Since the international spread of such a policy would necessarily lead to a more or less complete break-up of world economy into bilateralism, some of the earlier conclusions (see Chapter III (b)) would appear applicable here.

Finally, it must be observed that the present radical trends in the policies of national economic stabilization and "full employment" are largely influenced by the idea, so popular to-day, that the occidental world has to face a secular tendency towards deflation which threatens to make the machinery of the market economy more and more unworkable. According to this philosophy of the "*mature economy*" the long-run development of the "propensity to consume," of "liquidity preference," and consequently of the amount of spontaneous private investments forthcoming, will eventually condemn the capitalistic world to a chronic state of under-investment (= over-saving) and under-employment, if matters are left to private initiative and to the traditional automatic working of the market system. A community, so runs the argument, which becomes always richer, but whose natural fields of expansion and investment are more and more limited by a slackening rate of population increase, by reduced possibilities of geographical expansion, and by the lessened probabilities of revolutionizing inventions, will eventually find itself between two millstones, the one of which will be the increasing "propensity to save" (= the decreasing "propensity to consume") and the other the decreasing "propensity to invest."⁶ In other words: if we persist in investing too little relative to what we save as a community (or better perhaps: what we would save with greater investments, and therefore a greater volume of national income), we are doomed, unless the government takes the economic process into its own hands.

It is difficult to discover any logical flaw in this argument. Nor can it be denied that such a development is not altogether impossible and that, judged superficially, it offers a rather tempting hypothesis for explaining the actual economic conditions to be found in more than one country. But to admit this is one thing; to accept it as an established truth is quite another. So far we have only concerned ourselves with certain assumptions which have already been formulated during previous periods of acute depression, but which

⁶ See the particularly clear statement of this philosophy by Alvin H. Hansen in his paper on "Economic Progress and Declining Population Growth," *The American Economic Review*, March, 1939.

have been refuted again and again by subsequent developments.⁷ Whether they are better founded to-day is a *quaestio facti* to which it is hardly possible to give a categorical answer. It should be noticed, however, that the arguments against the theory of the "mature economy" have recently become increasingly numerous and more convincing.⁸ At all events, it would be rash to base the theory of the "mature economy" on our present experiences in a completely disintegrated world whose psychological reactions are now quite abnormal, a state of affairs which is partly due to those very radical economic policies the growth of which the philosophies of a "mature economy" have encouraged. It must be stressed that this theory of a secular tendency towards underinvestment is apt to create its own evidence by encouraging radical interventionism and collectivism which are themselves among the most effective means of discouraging the private propensity to invest.⁹ We should never lose sight of the fact that the proper functioning of our economic system depends in the end on the harmonious co-operation of sensitive psychological reactions which cannot endure more than a certain amount of strain. It is difficult, for instance, to determine com-

⁷ It is amusing to note what Macauley wrote one hundred years ago in the *Edinburgh Review*, January, 1830, on the attitude referred to above: "To almost all men the state of things under which they have been used to live seems to be the necessary state of things. . . . Hence it is, that though, in every age, everybody knows that up to his own time progressive improvement has been taking place, nobody seems to reckon on any improvement during the next generation. We cannot absolutely prove that those are in error who tell us that society has reached a turning point—that we have seen our best days. But so said all who came before us, and with just as much apparent reason. . . . On what principle is it, that when we see nothing but improvement behind us, we are to expect nothing but deterioration before us?" (pp. 564-565).

⁸ Cf. Willford I. King, "Are we Suffering from Economic Maturity?" *The Journal of Political Economy*, October, 1939; Karl Brandt, *Long-time Shifts in Human and Natural Resources* (mimeographed paper of the Food Research Institute, Stanford University); Gottfried von Haberler, *Prosperity and Depression*, 2nd edn., Geneva, 1939, pp. 244-247.

⁹ Much is made, for instance, of the argument that a more stationary population will deprive the building trade of one of its most powerful incentives to continuous new investments. At closer scrutiny, this argument proves to be totally unfounded. On the one hand, it is quite untrue that the demand for new houses is, even to an appreciable degree, dependent on the increase of population, a belief which, immediately after the war, led to a fatally erroneous estimate of the new housing requirements in Germany. Changes in taste, in the distribution of population and production, obsolescence of old dwellings, the increase of per capita real income and the cost of building are the decisive factors of the building market. On the other hand, it can hardly be stressed too forcefully that it is precisely the constant increase of building costs brought about by monopoly and intervention which, in many countries, is nearly killing the incentive to new investments in buildings. This seems to be the case especially in the United States where the building business is said to have "priced itself out of the market" by the joint efforts of producers and distributors of building materials, trade unions, owners of patents, financing agencies and building regulations to produce rigidity and stagnation (Harry D. Gideonse, *Organized Scarcity and Public Policy*, Public Policy Pamphlet No. 30, Chicago, 1939, pp. 21-22). Under these circumstances it appears really too convenient to ascribe the deficiency of investments to the advent of the "mature economy."

pletely the influence which the theory of the "mature economy" has exerted in the United States on a business cycle policy which has not altogether encouraged the average propensity to private investments. A too hasty acceptance of this theory may, therefore, easily help to create the general conditions on which its own validity depends.

These last remarks open up new possibilities of investigation which, in spite of their extreme importance, seem so far to have been recognized only by a few. We are referring in particular to the point that there is hardly any appreciation of the fact that the problem of economic stabilization is not just one of business cycle policy proper but also, in the last resort, one of the economic and social structure *in toto*. This problem, in turn, can only be understood against a background of the general cultural crisis. The economic crises of to-day, in their severity, in their tendency towards recurrence and in their tenacity, cannot ultimately be understood—as was said at the beginning of this book—except as the manifestation of a world which has been proletarianized¹ and deprived largely of its regulatory forces and of the appropriate psychological atmosphere of security, continuity, confidence and balanced judgment. It is not by accident that economic disturbances are weighing most heavily now on those countries which are leading in "proletarianization," i.e. on the United States, England, and Germany. The real remedy of the disease, therefore, is to be found in a comprehensive and long-run policy of attacking the ultimate cause which is to be found in the pathological state of the economic and social structure.² Let us state the problem in the simplest possible terms: We assume that there is a rather large grain of truth in the theory that (a) our economic system needs a certain dynamic *élan* provided by large investment opportunities and that (b) the slackening rate of population increase and similar factors are likely to dull this *élan* by diminishing natural investment opportunities. If from this assumption, however, the conclusion is drawn that in order to save economic stability the increase of population must be instigated again or that the government ought to rack its brains to find public investment opportunities and to carry them through within a more and more collectivist system we are bound to say that, in the last resort, the one suggestion is just as absurd as the other and that both entail the severest judgment which can be passed on our economic system or on its collectivist

¹ Cf. p. 242, n. 3.

² Cf. Part x of this book.

successor. An economic system which must be propped up by such measures would reveal itself thereby as senseless and absurd; it would be the "crazy economy" of Tugan-Baranowski. If Socialists to-day base their claims on the alleged superiority of the collectivist régime in inventing investment projects and in carrying them through they are giving only another proof of their failure to understand what is really wrong with our economic system. What ought to be done instead is: (a) to restore the smoothness of the psychological reactions of the market economy and to reinforce the genuine dynamism provided by competition (within the sphere in which and under the socio-political conditions under which it can really work); (b) to reduce the top-heaviness of our economic system by industrial decentralization, by less division of labour wherever it is possible, by the resolute return to smaller economic units and the encouragement of independent, economically stable and humanly satisfactory forms of work and life and by the other means of unmaking mass society to which we shall return in the last part of this book.³ In the boldest and most challenging terms: let us join *Candide* and cultivate our garden. If the objection were made that we cannot afford this luxury one should remember that the starting point of all these considerations has been precisely the assumed *embarras de richesse* of the "mature economy." If we cannot afford to relax somewhat in our strictest economic rationalism because of the alleged tendency towards over-saving, then the whole problem does not exist.

On the whole it seems that many people are approaching this

³ Here are some excellent remarks made on the subject by a French writer: "Pour conjurer les diverses crises, pour sauver la société, on propose des remèdes rapides et bouleversants (nationalisation, monnaie fondante, autarcie économique, etc., sans parler de la guerre à laquelle tout le monde pense en silence). Ces remèdes donnent la fièvre aux nations. Fièvre consomptive, hélas! et non réactive, qui, au lieu de balayer les impuretés, détruit les réserves. Les nations cherchent le salut dans ce qui les tue. Chaque essai novateur représente un coup de fouet qui communique à l'organisme collectif une vigueur factice au prix de la consommation d'une réserve vitale. On dilapide les plus obscures, les plus profondes ressources du corps social (je pense à des choses aussi diverses que la stabilité monétaire, la continuité et la saine spécialisation professionnelles, l'insertion de l'individu dans les vieux cadres locaux, familiaux et religieux), au profit d'une réussite éphémère, d'une euphorie d'agonisant. Le salut de l'heure présente a pour rançon la dégradation de l'avenir. Que sait on aujourd'hui—même dans les états autoritaires—de la vraie politique, de cette sagesse patiente et silencieuse qui regarde, qui crée des réserves? Le stigmate essentiel du socialisme (et quelle nation n'est pas aujourd'hui plus ou moins infestée du virus socialiste?) réside là; il méconnaît, il détruit les réserves, les lentes réserves dormantes, la patience conservatrice des organes profonds. Là où sont les puits de la vie—les puits de la tradition, de l'autorité, de l'expérience où s'abreuve obscurément la caravane sociale—il voit des parasites et des obstacles." (Gustave Thibon, "De l'esprit économique," *Civilisation*, March, 1939.) The author is a French peasant who, in his spare time, mastered Latin and Greek and became a shrewd observer of contemporary life.

problem in a sort of "Maginot mentality." They think that all we need is some kind of an organizational "fortification" behind which we may establish ourselves in order to be automatically safe against economic disturbances—some bomb-proof monetary system or some sort of planned economy. We know how disastrous such a Maginot mentality may become and how little it may protect us against unpleasant surprises. In fact, the problem of economic stability can hardly be solved definitely in this way, not even by the most rational money and credit policy, and this for the very reason that it is not a mere problem of business cycle policy, but in the last resort one of the entire economic and social structure. The economic crises of to-day, as we know, cannot ultimately be understood but as the manifestation of a world which has been proletarianized and deprived largely of its resilience, of its regulating forces, and of the appropriate psychological climate of security, continuity, confidence, and measure. In other words, the economic crises which have become so uncontrollable are part of a world which, economically and socially, has grown "lumpy." It is, therefore, not by accident that they are heaviest in those countries which have gone furthest on the road to proletarianization, mechanization, centralization and social lumpiness, i.e. Germany, England and the United States. The last cause of economic instability seems to lie where ordinary common sense would look for it more than anywhere else: in the top-heaviness of the whole system; in excessive concentration and dovetailed organization; in the dangerously high percentage of wage income; in the slowness of adjustment which, with more and more concentration and interlacement, is bound steadily to increase; in the fact that the way of adjustment is growing longer and longer and involving ever more and ever greater business units while the adaptability of the single unit has decreased accordingly.

In order to avoid any possible misunderstanding, let us state that we do not want to minimize the importance of a rational business cycle policy which, by regulating the volume of money, savings or investments, is to act on the mechanical motion of the economic process as a whole. Even at best, however, there will remain a residue of disturbances with which we must cope, and this residue has become greater while the individual capacity of absorbing shocks has become smaller. An extreme example of this tendency was perhaps, until very recently, the American farmer who, by extreme specialization, had made himself dependent on the current money income to such a degree that, in case of a

crisis, he had to face starvation just as well as the industrial worker. At the other, more happy end of the scale we find the Swiss worker who, in the case of emergency, may get his lunch from his garden, or his dinner from the lake and earn his stock of potatoes by helping on his brother's farm in the autumn.

It seems unnecessary at the present moment to say more on this subject of the relation between economic nationalism and economic stabilization. This relation is so obvious that it should be clear to everyone, and equally unquestionable should be the importance and the necessity to study it carefully. There remained only to show the direction in which such a study could be usefully made, and it is hoped that this has now been done.

PART VIII

**INTERNATIONAL ECONOMIC DISINTEGRATION AND
CHANGES IN NATIONAL ECONOMIC STRUCTURES**

CHAPTER XXIII

INTRODUCTION

THE foregoing chapters of this study have led step by step from the narrower and more direct aspects of economic nationalism to its wider contexts. In this manner, the changes in the texture of world economy brought about by national economic policies reveal themselves as conditioned by factors which are much more comprehensive than those which formerly determined the commercial policy of the different nations.

It is still possible and fruitful to study the present phase of international economic disintegration under the more traditional aspect of the limited and well-defined factors of commercial policy proper—working, as it were, with an “as if” philosophy pretending that nothing else had happened than the increased desire for protection in agriculture or industry. In the preceding parts devoted to the new protective policies in agriculture and industry attention has been consciously restricted as far as possible to a narrower range of problems, but even there it was clearly impossible to do full justice to the subject without stressing the wider contexts which make us understand how much is really involved. Thus it was said, for instance, that the problem of agricultural protectionism to-day must be ultimately conceived as a problem of the place which is to be given to agriculture in an economic system undergoing the most far-reaching changes, while on the other hand the fate of the economic and social system as a whole will be decisively determined by the solution worked out for the problem of agriculture. It is equally obvious that the industrial protectionism of new countries has taken on forms and dimensions which also make it imperative to connect it with changes going much beyond that limited scope under which the process of industrialization has been previously studied. Moreover, it has become an indisputable necessity to follow up the lines which lead from these policies of agricultural and industrial protectionism to the common sources of international economic dislocation. One of these consists in the disturbances and fundamental changes which occurred in the monetary-financial mechanism of world economy, throwing out of gear that mechanism of international economic equilibrium to which the world had

become accustomed under the reign of the former gold standard and which had been, implicitly or explicitly, presupposed by the orthodox theories of international trade and commercial policy. The other of those common sources of international economic dislocation is to be sought in the universal drive for economic stabilization. Both of these groups of changes—which are closely interlocked—found their place in the immediately preceding parts VI and VII.

Now our outlook must be made still wider if we want to gain a full understanding of the present policies making for international economic disintegration. All those *changes in the internal structure of national economies*, to which reference has been made so often in the course of the present enquiry, finally demand a special and comprehensive analysis which definitely shifts the searchlight of study on this subject which, after all, overshadows all others. From whatever direction we approach the phenomenon of international economic disintegration—be it from agricultural protectionism or from the policy of industrialization of new countries or from the monetary-financial disintegration of world economy or from the new trends in national business-cycle policies—all threads of causation will ultimately lead us to a fact which is both trivial and important: the gradual dissolution or breakdown of the old *liberal* order of economic society. It is obvious, that a liberal order of world economy can hardly be expected to be maintained while *within* the different national economies the liberal order is giving way more and more to a new order characterized by conscious direction of the national economic process, by social control, by monopolistic and interventionist rigidities and by growing collectivization and politicalization of economic life. The methods and forms of this development vary from country to country or from one group of countries to another, but there can be no mistaking the general trend which is common to all; notwithstanding various and important differences in detail, our whole economic system is moving from old to new forms just as our whole solar system is moving toward the constellation of Hercules.

In order to perceive the bearing of this development on international trade it is well to imagine for a moment that it had already found its logical conclusion in the erection of national socialist systems in the full sense of this term and then to ask oneself what this would inevitably mean for international trade and for commercial policies. Reason and experience would equally suggest that the nationalization of foreign trade—in the double sense

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of the strictest governmental control and of the use of this control for the purpose of economic nationalism—would become at once an integral part of the socialist system. In other words, trade between national socialist systems would be conducted on lines made ominously familiar by the regulation of foreign trade to-day in those countries which have already moved the furthest away from the old liberal order to a more collectivist structure of the national economy.

CHAPTER XXIV

WAYS OF RESEARCH

It is easy to reach agreement on the paramount importance of the general changes in national economic structures for all manifestations of international economic disintegration. It may even be said that such statements suffer precisely from being all too obvious, or even trivial, to be either worthy or capable of further fruitful analysis in connexion with the subject of this enquiry. It is hoped that there is no need to point out again that such a defeatist attitude would entail an arbitrary and dangerous limitation of our understanding of what is happening around us. But there arises the question how such a discouragingly broad subject can be usefully investigated without either leading to a mere superficial survey or to an inaccessible Chimborasso of learning. This same question must occupy us again and again and must be answered in accordance with what has been said in the introductory part of this enquiry and on various other occasions. The primary want which is felt is surely not the supply of mere facts allowing the description of the growth of collectivism and of similar changes in national economic structures, and it is not to be expected that further factual studies lacking guiding principles would enlighten us. What is wanted is rather to make use of these facts for finding the answer to questions which first have to be asked and to suggest new factual studies whenever those questions demand them.

After having stressed again the question of proper procedure as determined by the nature of the problem, it is not possible at the present moment to do more than give a few hints as to the directions in which the research may be usefully undertaken, so that it may possess from the outset the right perspective which is so often lacking in comprehensive studies of this kind. What do we want to know and why do we want to know it? That is the question, here as elsewhere.

What we want to know first of all is the *causal interdependence between the changes in national economic structures and international economic disintegration*. It has already been made clear how the national changes are generally reacting on international trade. It goes without saying that this question needs further elucidation. For this purpose, it will be necessary to supplement a

general analysis by a detailed study of the international effects of the different kinds of changes, which would have to be arranged according to their main groups. In general, it is to be presumed that the final result of such an analysis will rather unequivocally point to a disintegrating effect of those changes on international trade, in the sense explained in the first part on the meaning of international economic disintegration.

One has to bear in mind, however, that there is not a one-way causal relationship between national changes and international trade. Not only is the change in national economic structures conducive to international economic disintegration, but also the latter is instrumental in furthering the tendencies toward the internal *growth of collectivism, planning and monopolism.*

That protection creates conditions propitious to the formation of national monopolies and may even become the necessary, if not sufficient, pre-requisite of their development, is a fact too well known to need further elaboration. More far-reaching even is the effect of international economic disintegration on national economic policies aiming at collectivist organization and planned control of economic life. For it is obvious that the loss of resilience of international trade is largely responsible for that increase of economic instability which is calling forth the new and unconventional policies of national economic stabilization. Above all, however, it should be noted that a large part of present collectivism and planning owes its origin to the fact that it is hardly conceivable to have a planned foreign trade and a liberal domestic trade, so that sooner or later the new forms of commercial policy will demand as their internal counterpart a corresponding change of the national structure of production and markets in the direction of more regimentation and control. The experience of countries like Germany and Italy clearly shows that the establishment of a rigid system of exchange control can hardly fail to set the whole national economy on the road to total planning. But after these countries, armed with the formidable new weapons of exchange control, governmental trade monopolies and collectivist organization, had started to play havoc with world trade, one country after another found it necessary to adapt itself to the situation created by the introduction of planned methods in international trade, especially by the spread of bilateral clearing mechanisms. In order to do this it was not sufficient to follow the totalitarian states merely in their commercial policies. It soon became evident rather that it was necessary to accept also more and more the internal counterpart

—governmental interference and organization. If the industry of such a country was hitherto hardly organized at all, it now became imperative to found export cartels or similar organizations as weapons for the new struggle on the world markets; and if the government had so far held itself aloof from taking a hand in commercial transactions, it soon found out that it had to do something in order to guarantee the actual purchase or sale of commodities in the amount promised to another government in a strictly bilateral agreement. In this way the germs of collectivism and planning may insidiously creep in from outside and, after having infested the national economy, re-act on international trade by giving a further impulse to international economic disintegration. Thus we have finally a vicious circle of intertwined causes and effects: international economic disintegration and internal structural changes.

Consequently, we arrive at the conclusion that one of the causes of the present national changes is to be sought in international economic disintegration itself. Without philosophizing about which came first, the chicken or the egg, we would surely not make a great mistake in regarding the national changes as the really strategic factor which is ultimately responsible for having started the vicious circle. If that is true, it becomes obvious that not only our attempts at a causal analysis of international economic disintegration, but also all fruitful endeavours to find the right remedies, must culminate in an interpretation and explanation of the most important *national* changes.

To this purpose the first task is to make a list of the main groups of national economic changes likely to have a bearing on international trade in the general manner explained above. Such a list might include the following headings:

1. The growth of monopoly and semi-monopoly.
2. The growth of the size of firms and plants and the increasing rigidity due to the importance of overhead costs.
3. Growing resistance to change due to psychological, political or technological reasons and growing necessity of change brought about by conditions on the supply or on the demand side.
4. Increasing cost rigidities.
5. The advance of interventionism and planning in all their various forms.
6. Changes in the financial structure of society.
7. Changes in public finance (increasing percentage of national income claimed by governments, growing importance of national

differences in the burden of taxation, new forms of taxation encroaching more and more upon the economic process, &c.).

8. Changes in demand and in the distribution of incomes.

9. The growing importance of social policies in connexion with the problem of the proletariat.

10. Changes in population (slackening rates of increase, changed composition as to age, sex and distribution over rural and urban communities).

For each of these groups it will be necessary to have a reasoned description of what is really happening and especially why it is happening, and it will be useful to do this with a wholesome amount of scepticism as to the alleged inevitability of these happenings. Of particular importance in this respect is unquestionably an examination of the present *trend toward monopoly and concentration* referred to under points 1 and 2, because it is this trend which denotes the profoundest and most far-reaching change of our economic structure and which affords an especially plausible motive for remoulding it on collectivist lines, assuming that the trend is too powerful to be curbed. The prevailing opinion to-day seems to hold indeed that, owing to technological reasons, the tendency toward monopoly and concentration is so powerful as to be practically unavoidable. According to the adage that it is not so much the facts themselves that move the world as the opinions about the facts, the practical importance of the common opinion on monopoly and concentration can hardly be overrated. All the more imperative is the need of shedding more light on this problem. In spite of the vast literature now available on the subject of competition and monopoly, especially on the theoretical implications of the increase in size and of the decrease in the number of firms ("imperfect" or "monopolistic competition"), we are still very far from understanding the most important points. This is due partly to the incomplete interpretation of the facts already known, partly to the failure to put the right questions, and partly to the insufficient knowledge of the facts which are made relevant by raising the right questions.¹

Approaching this subject in the simplest terms, we do well to start from the undeniable fact that there are very conspicuous cases of the growing importance of fixed capital equipment, which is bound to increase overhead cost and thereby the optimum size of

¹ Cf. on the whole question of the "inevitability" of monopoly: L. Robbins, *The Economic Basis of Class Conflict and Other Essays in Political Economy*, London, 1939, pp. 45-80, and the excellent little pamphlet by Harry D. Gideonse on *Organized Scarcity and Public Policy* (Public Policy Pamphlet No. 30, Chicago, 1939). I refer also to my critical review of H. Levy's *Industrial Germany* in *Economica*, February, 1936.

the firm. This is well illustrated by the example of the cement industry. In order to produce 1000 metric tons of cement it was necessary to use in the different periods from 1855 to 1935:²

		1855	1895	1907	1925	1935
Machines in H.P.	- -	10	12	20	31	47
Workers	- - -	25	8	6	3	1.8

It would be easy to find in a number of other industries examples which are at least equally impressive. It is not to be wondered at that the conviction has become very popular that modern technology is more and more confirming the Marxian prophecy as to the concentration of production in fewer and fewer plants; and, looked at more closely, all arguments to-day in favour of collective economic control, of economic nationalism and of overthrowing the traditional mechanism of the market and profit economy are found to be ultimately rooted in this conviction. The idea is even so strongly implanted in the contemporary mind that those who dare to dissent are easily regarded as simply ill-informed about one of the most certain phenomena of our time. The ideological flavouring of this conviction, however, shows the greatest variety, because it either serves to create or to foster a pro-monopolistic atmosphere (by showing monopoly and big business to be in accord with technological progress) or to reveal the actual extent of monopolistic distortion of our market economy and to attract public attention to the necessity of the social control of monopolies. Now the question is not whether concentration and monopoly are actually growing in importance—for they unquestionably are—but rather whether or how far this is due to a “natural” gravitation or to exogenous circumstances which can largely be altered, if so desired. In other words: how far is this growth of big corporations and monopolies to be attributed, not to technology, but to state measures like tariffs; quotas; the legal regulation of corporations, holding companies, trade associations, patent rights or bankruptcy; court decisions; railroad rate regulations and a number of other acts and arrangements which we are only too prone to take for granted?

There are *two main problems* to be attacked by appropriate methods. The one concerns the *facts* themselves. What we want to know is how far modern technology is really increasing the optimum size of the productive unit. One way to get a clearer idea about this is to study modern technology itself and to group the

² *Frankfurter Zeitung*, No. 554, 30th October, 1938. It is interesting to note that annual amortization of plant had risen by 1935 to 23% of total turnover as against 10 to 14% before the Great War.

developments into those increasing and those decreasing the optimum size of the productive unit. No comprehensive enquiry of this sort has become known so far, at least not in published form, which is rather surprising considering the enormous importance of the topic. It is permissible to presume that the result of such a purely technological study would surprise the believers in bigness, since it is already obvious to the layman that such important innovations like electrical power, the internal combustion engine and elaborate machines of the smallest size must have gone a long way toward diminishing the superiority of the bigger plant. This is even true in the field of transportation, where the unusually high percentage of fixed capital makes the case for the big unit especially strong. It can be shown that even here concentration and monopoly have to fight against great odds.³ The modern development of motor highroad transportation surely signifies, to a large extent, the triumph of the smaller over the larger unit, though it must not be ignored on the other hand that against this fact there must be set the triumph of mass production in the automobile industry. The latter exemplifies the interesting fact that, quite often, modern technological developments lead at the same time to more concentration here and to less concentration there. The same is true in the case of the manufacture of elaborate machines of a size and price *suitable* for smaller shops,⁴ and also of electric power stations and the manufacture of electrical appliances. It remains to be seen, however, whether even the highly concentrated industries are not capable of being broken up quite profitably into those parts which must remain centralized for technological and organizational reasons and those which lend themselves to de-centralization. The example of Japan, where the small industries play such an amazing rôle and where even locomotives are said to be manufactured in their component parts by small family shops, may aptly illustrate this point.⁵

To all this must be added that technology is by no means all, other factors being the nature of demand and the problems of psychology and business organization. As to the *nature of demand* it is quite clear that wherever mass production affects the kind and

³ See Kurt Wiedenfeld, *Die Monopoltendenz des Kapitals im Spiegel der Verkehrsmittel*, Jena, 1937.

⁴ A good example of this trend is the recent development of the shoe industry in some countries. For England it has been shown that both the monopolistic organization of the shoe-machine industry and the greater variability of output has led to a distinct decrease of the optimum size of shoe factories (H. C. Hillmann, "Size of Firms in the Boot and Shoe Industry," *The Economic Journal*, June, 1939, pp. 276-293).

⁵ Cf. T. Uyeda, *The Small Industries of Japan*, London, 1938.

quality of products it is dependent on the existence of a mass demand for those mass products. Consequently, it is the consumer who ultimately determines the spread of mass production whenever there is the choice between the mass product and the same product manufactured in a more individual manner, as, for example, in the case of furniture and similar commodities. If the consumption habits of a country, as it is still largely the case in France, favour the high-priced product of a superior quality and of a more individual taste compared with the cheaper, but more vulgar and solid mass product, all technological paeans of mass production become pointless. There is therefore a close connexion between mass production and mass civilization as it is determining consumption habits. It goes without saying that this statement is applicable only to the group of consumption goods and even here not to all of them.

On the other hand, we have to realize the limitations of the technological advantages of mass production and of the bigger plant which are set by some factors of *psychology* and *business organization*. The most rational organization on the biggest scale and the most gigantic and elaborate machines are of no avail if insufficient heed is given to the human factor which ultimately determines the smooth running of the plant organization. If the growth of technique and organization is to be a blessing instead of a curse, it must remain "*à la taille de l'homme*." As Montaigne said so well more than three centuries ago: "*Si avons-nous beau monter sur des échasses, car, sur des échasses encore faut-il marcher de nos jambes. Et sur le plus haut trône du monde, nous ne sommes assis que sur notre cul*." If technique and organization are allowed to grow beyond the human dimensions, the *taille de l'homme*, adverse consequences of various kinds will ensue, consequences affecting not only the factory itself but also possibly the entire society. Taking into account all these consequences, including those of a sociological character (mass civilization), we feel entitled to put forward the hypothesis that a technique and organization of production which allows the cheapest production on the basis of the calculable cost elements, may mean the most expensive kind of production for society as a whole. But that is by no means all, for the zealots of technology and organization quite often not only disregard those wider social consequences, but are inclined to overestimate even the technological and organizational possibilities of Bigness; and a large public is ready to follow them in their exaggerated enthusiasm. Our age seems to be characterized by a curious

tendency toward megalomania and an instinctive delight in the technically impressive which are subconsciously colouring our views.⁶ Giant factories and corporations arrest our attention, while the great number of smaller industries is less conspicuous. The foundation of a new great corporation or of a new cartel finds the widest publicity, while the liquidation of old ones more often than not remains unnoticed. In this way a quite distorted picture of the proportions between the bigger and the smaller industries may develop in our mind. It is all the more necessary to correct this popular picture by careful factual studies.⁷

Finally, we must not forget the quite irrational motives which often lead to the growth of plants and corporations and to the formation of trusts: considerations of business prestige and publicity, the lust of power and the same mere pleasure in accumulating which drives others to collect stamps. It is a well-known fact that motives of this sort may be responsible for investing corporate savings within the corporation's own plant beyond the limit set by the rate of interest which would have been paid if the capital were to be raised on the market.

So much for these possibilities of describing the facts. The other group of problems presents itself if we turn to an interpretation and to a theoretical analysis of the facts relevant to the phenomenon of the industrial concentration. It is here where, among others, the discussion on the meaning and implications of *imperfect competition* finds its place, a discussion which certainly leaves the impression that, in spite of the work done by Chamberlin, Joan Robinson, Miksch, Stackelberg and others, the last word has not been said so far. The same must be said on the

⁶ Cf. Justice Brandeis, *The Curse of Bigness*, New York, 1934; Hyacinthe Dubreuil, *La fin des monstres*, Paris, 1938; C. F. Ramuz, *A la taille de l'homme*, Paris, 1938.

⁷ Among the studies already made on this subject, some American investigations are of special interest: *Big Business: Its Growth and Its Place*, published in 1937 by the Twentieth Century Fund, Inc., and *The Modern Corporation and Private Property* (New York, 1932) by Adolf A. Berle and Gardiner C. Means. The Twentieth Century Fund report states that 80% of all non-governmental economic activity is carried on by the medium-sized or small corporations, by firms which are not incorporated at all or by individuals, and Berle and Means arrive at rather the same result. It should be added, however, that such statistical studies have to face many serious problems and dangerous pitfalls. Consult on these: W. L. Crum, "On the Alleged Concentration of Economic Power," *The American Economic Review*, March, 1934, pp. 69-88 (accusing Berle and Means of having even overestimated the growth and importance of concentration) and Edwin B. George, "How Big is Big Business?," *Dun's Review*, March, 1939. The same problem has been studied on a local scale by W. H. Hench, *Trends in the Size of Industrial Companies in Philadelphia from 1915 through 1930*, Philadelphia, 1938. This author found that there was little evidence of growth toward the single stable size. "The outstanding characteristic throughout the investigation has been that of change, either growing or declining, and not of stability."

subject of the economics of *overhead costs*, which lends itself so easily to misuse on the part of monopolistic interest groups. If there is some growth in the importance of fixed capital and overhead costs, to what extent is it really true that this makes competition more and more unpractical and the need of private or public control more and more undebatable? Why should it not be expected that the greater risks involved in a larger share of fixed capital would exert a regularizing influence on the influx of money capital into the industry in question? How would things work themselves out if the entrepreneurs of those industries did not count on support from government intervention or monopoly and if the risks entailed by the heavy outlay of fixed capital became apparent in overinvestment and overproduction? These are some of the questions which seem pertinent in this connexion, suggesting that much scepticism is appropriate with regard to the ideology of overhead costs. The least that can be said on this subject is that there is much which is too easily taken for granted and which at the same time serves the interests of powerful groups not to be identified with the common interest.

At the present stage of the enquiry it would be both unwise and inexpedient to do more than to indicate the range of problems to be envisaged under the caption of this part and to suggest possible ways of tackling them. It is a subject which seems rather remote from the immediate objective of the whole enquiry, but it is hoped that enough has been said to dispel this impression and to replace it by the other one, that if we want to go deeper into the matter we cannot afford to dismiss this most important subject because of its apparent remoteness.

PART IX

**THE FUTURE OF WORLD ECONOMY AND THE RATIONAL
SCHEME OF INTERNATIONAL DIVISION OF LABOUR**

CHAPTER XXV

THIS is another part which must be kept small; its very modest purpose is merely to convey an adequate idea of what is meant by the title and of the possible procedure to be followed in solving the problem.

A point has now been reached where all the detailed conclusions contained in the preceding parts make it both possible and necessary to formulate a more general conclusion on the future of world trade from the point of view of a rationally organized world economy. If the investigation outlined or already undertaken in the previous parts of this enquiry is brought successfully to a close we shall be satisfactorily informed about the great structural changes in the different parts of the world economy. We shall know what forces are driving agriculture and industry in its different branches in this or that direction and what elements, apart from the influence of violent state intervention, tend to shape the new configuration of world economy.

Now the task lying before us is to synthesize these views and thus to arrive at a fairly correct picture of what the world economy of the immediate or of the more distant future would be like, if the development were allowed to take its "natural" course and to bring about the changes which are to be considered as rational, i.e. those changes in the use and the distribution of productive forces all over the world which correspond to the changes in demand and in the technique of production and which, therefore, are likely to enhance the standard of living. This is not merely an attempt at prognostication of the innate tendencies of world economy; it is also an attempt to provide a guiding principle for constructive policies by suggesting the rational scheme of international division of labour, as distinct from the actual and distorted one and by making clear what changes are necessary in order to bring the actual state of world economy nearer to the rational one. Questions like the following may illustrate what we have in mind: how far and in what directions is it rational to-day to have less international specialization and more international diffusion of production than in the past? How far and in what directions will it be rational to have more and new specialization among the different countries and continents? How far will the newly industrialized

countries take over industrial production not only for their home markets but also for some of the former export markets of the old industrial countries, as e.g. Japan in supplying the poor colonial and semi-colonial countries with the cheapest kind of consumption goods which they would perhaps be unable otherwise to buy at all? What new trade relations are likely to originate from such changes? What is likely to be the ultimate significance of the development of synthetic raw materials for the specialization or for the diffusion of production? Or of the shifts in the production of natural raw materials brought about by the exhaustion of old and the development of new reserves? What will be—to mention another point most important in connexion with the present trade-cycle worries and the propositions of the “mature economy theory”—the international investment necessities and opportunities in the near future, and what will be the most probable form in which international investments will be carried through? What will be the rôle played by items of international trade other than commodities? In what manner will all this react on the total volume of world trade and on its qualitative structure, especially on the multilateral form of international trade? Is there a natural tendency for more regional groupings in world trade, in agriculture as well as in industry? How far will it be possible in the end to maintain a really coherent and intercommunicating world economy in the face of the collectivist or semi-collectivist character of so many national economic systems? What is the maximum of real (i.e. free and multilateral) world economy compatible with the present structure of national economic systems? How great are the possibilities of re-organizing world economy on the principle of international planning? If we face in this respect insoluble contradictions with mutually exclusive alternatives what will be the rational choice or what will be the price in lower standards of living to be paid for a less rational choice?

The foregoing questions are merely meant to suggest the line of thought to be followed and to demarcate roughly the field of research. Its importance is being recognized to-day in many quarters, as is proved by the increasing literature on this subject.¹

¹ Allan G. B. Fisher, *The Clash of Progress and Security*, London, 1935; N. F. Hall, *Preliminary Investigation into Measures of a National or International Character for Raising the Standard of Living* (League of Nations, A.18, 1938, II.B.); Carl Major Wright, *Economic Adaptation to a Changing World Market*, Copenhagen, 1939; D. H. Robertson, “The Future of International Trade,” *The Economic Journal*, March, 1938; PEP Report on International Trade, London, 1937; Leonhard Miksch, *Wirtschaftsgrossmächte und Nebenländer, Betrachtungen über den Umbau der Weltwirtschaft*, Die Wirtschaftskurve der Frankfurter Zeitung, 1939/II.

PART X

**INTERNATIONAL ECONOMIC DISINTEGRATION AS A
PROBLEM OF THE SOCIAL AND POLITICAL STRUCTURE**

CHAPTER XXVI

How far the present enquiry is to be extended depends on the other question of how far it is deemed necessary and fruitful, now or later, to follow up the process of international economic disintegration to its more remote but none the less important causes. No problem in any sphere of science can, of course, be traced to its ultimate causes, even to conceive of which is beyond human understanding; what science can do is to go on widening the range of our comprehension of causality. It is a truism to say that the phenomena which we call economic are ultimately determined by forces lying outside the sphere of economics and rooted in those aspects of the human mind determined primarily by education, tradition, religion, psycho-physical influences, the natural and the social milieu, and by the structure of the society and of the state. Whether it is desirable to bring this "sociological" framework of economic phenomena to the surface will depend on whether we are entitled to regard it as a more or less constant factor or whether a profound change has occurred in the sociological framework. If the latter is the case, then we can hardly afford to confine the study of an economic phenomenon of major importance to its immediate aspects without unearthing its deeper sociological significance and causation. Such a procedure would be unrealistic and superficial. All this has been made clear on several occasions in the course of the present book, especially in the introductory part. There is no need to stress again the fact that the period in which we have the privilege to live is precisely one of a revolutionary upheaval of the sociological foundation of economic phenomena, perhaps one of the most revolutionary which has ever occurred in human history. Let us repeat in this final part that this is the situation which is staring us in the face and which is challenging our capacity for scientific penetration.

To study the sociological "background problems" and to deal with international economic disintegration as a problem of the social and political structure can be considered as a last stage in an ever closer understanding of the disturbing phenomena and as the consummation of the present enquiry, in the course of which so many problems of a sociological character have been raised which now demand a final answer. The whole research programme

presents itself as consisting of different layers to be uncovered one after another, until we reach the underlying sociological one.

In order to make this clearer it may be well to imagine somebody telling us that all the acts, motives, sentiments and ideas which are primarily responsible for the present disorder of world economy are nothing more than the outcome of stupid theories and ill-guided emotions and that nothing more than a sufficiently persuasive intellectual enlightenment on the disadvantages of economic nationalism is needed or, at least, that nothing more than this can possibly be done. We do not know whether such a person exists to-day, but we may safely assume that his point of view would be generally regarded as highly unsatisfactory. For it is obvious that such an attitude would leave unanswered the question of how to explain the present prevalence of destructive stupidities and ideologies, which after all do not just "happen" without any deeper reasons. They grow out of the soil of society as it exists to-day with all its incongruities and instabilities, and they reflect the mind of modern man as it is being shaped by that society and its spiritual climate.

Capitalism, liberalism, individual initiative and responsibility, competition and adaptability are to-day at a heavy discount; they are old-established rulers against whom a mass rebellion has broken out, and this is, as it has been demonstrated again and again, the deeper reason for the transformation of our economic system in general and for the rise of economic nationalism in particular. It is all very well to go on explaining that competition and resilience should be restored in order to make the economic system workable; that a strong, impartial and enlightened government should break the dominance of organized pressure groups and safeguard the fair rules of competition; that the respect of property, contracts and liberties should be re-established; and that with all this a new basis of international economic relations is to be built up. But we have seen too many manifestoes of this kind failing lamentably, not to be led to question whether a real change in the economic sphere can be expected without a change in the pathological condition of society and state themselves. Any step in this direction, however, must be preceded by a satisfactory analysis and diagnosis of that pathological state of our present society. To call it pathological is already an anticipation of the result of such an analysis. In other words: what has happened to our occidental society and the mind of modern man to result in the fact that, unwillingly or deliberately, people are turning their backs on

economic reason and ruining that economic system which reason and experience prove to be more able to ensure economic well-being than any previous one, which has made room for countless additional millions of human beings—all this combined with the maximum of political, civic and spiritual liberties?

Much progress has been made during recent years toward a better understanding and more proper *interpretation of the present state of society and of the degenerative processes* which it has gone through during the last one hundred years.¹ Thanks to these endeavours some essential points have become gradually clearer, and it is exactly on these essential points that opinions have become more and more convergent.

One of the most promising means of grasping the profound transformation of our society during the last one hundred years and of understanding its present crisis is to consider it as a process of dissolution of the structure of society brought about by the *formation of masses* ("Vermassung," "emmassement"). Thus the present crisis of our society appears as a crisis of mass civilization. That a process of the kind suggested by this term has gone on incessantly since the beginning of the capitalist age and that this process is to be considered the prime agent of social dissolution and deformation, is an idea so current in all or most of the modern writing on the subject that it can be regarded as a generally accepted and universally understood proposition.

Indeed, without a grasp of the process of the formation of

¹ The literature attempting to give a *psycho-sociological interpretation* of our times has become so abounding that only a small selective list can be given: Lucien Romier, *Explication de notre temps*, Paris, 1925; Ortega y Gasset, *La Rebelion de la Masas*, Madrid (English and French translations): Walter Lippmann, *An Inquiry into the Principles of the Good Society*, Boston, 1937; Karl Jaspers, *Man in the Modern Age*, London, 1933; J. Huizinga, *Incertitudes, Essai de diagnostic du mal dont souffre notre temps*, Paris, 1939; Louis Rougier, *Les mystiques politiques contemporaines et leurs incidences internationales*, Paris, 1935; Alexander Rüstow, *Zur geistesgeschichtlichen Ortsbestimmung der Gegenwart* (manuscript); Alexander Rüstow, *Rapport pour le Colloque Lippmann*, Paris, 1939, pp. 77-83; Christopher Dawson, *Progress and Religion*, London, 1935; S. Freud, *Das Unbehagen in der Kultur*, Vienna, 1930; Benedetto Croce, *Orientamenti*, 2nd edn., Milan, 1934; Inventaires, *La crise sociale et les idéologies nationales*, ed. by C. Bouglé and others, Paris, 1936; *La foule*, "4e semaine internationale de synthèse," Paris, 1934; A. Vierkandt, "Der labile Charakter der modernen bürgerlich-kapitalistischen Gesellschaft," *Schmollers Jahrbücher*, October, 1936; S. de Madariaga, *Anarchie oder Hierarchie*, Bern, s.d.; W. Drabovitch, *Fragilité de la liberté et séduction des dictatures*, Paris, 1934; Hermann Rauschning, *Die Revolution des Nihilismus*, Zürich, 1939 (English translation); K. Heiden, *Europäisches Schicksal*, Amsterdam, 1937; N. Berdiajew, *Das Schicksal des Menschen in unserer Zeit*, Luzern; R. S. and H. M. Lynd, *Middletown*, New York, 1929 (stressing particularly the growing uncertainty of modern economic life); Richard Behrendt, "Economie et politique d'aujourd'hui, Essai sur le problème du capitalisme," *Revue de l'Institut de Sociologie*, Brussels, 1934, No. 4; Herbert von Beckerath, "Crisis and Reform of the Western World," *Social Forces*, vol. xiv, No. 2, December, 1935; E. Halévy, *L'ère des tyrannies*, Paris, 1938; W. Röpke, *Fascist Economics*, February, 1935.

masses with all its implications no real understanding of the situation in which the world finds itself to-day seems possible. That is not to say, however, that the proposition is already entirely clear and fully explored or that it is no longer open to criticism in detail. On the contrary, perhaps nobody who has read some of the literature in question can escape the impression that the treatment of the problem has as yet hardly passed that pioneering stage in which writers gifted with the talent of imaginative vision see in a flash the broad connexions and implications and thereby state the problems which patient research has to explore and the hypotheses which it has to verify. It is exactly because this pioneering stage has now been passed through, that the time has come for careful research based on a generally accepted range of fundamental conceptions.

A synthetic picture of the different interpretations given so far has to be attempted with a view to stating the points of agreement and disagreement. The various definitions of what is meant by "masses" in the sociological sense must be sifted and classified in order to arrive at the most useful one. Next comes the task of explaining the dissolving and disintegrating effect of the formation of masses on the structure of society and on the mental balance of individuals, a task which involves an explanation of what is meant by the structure of society. This task also involves a careful analysis of two of the most striking and alarming phenomena concomitant with the degeneration of society into a mass civilization: (1) the remarkable *loss of social integration* brought about by the gradual atomization of society, the individualization, the diminished differentiation in the social status and the increasing standardization and uniformity that are destroying the vertical coherence of society, the emancipation from natural bonds and communities, the uprooted character of modern urban existence with its extreme changeability and anonymity ("nomadization") and the progressive displacement of spontaneous order and coherence by organization and regimentation; (2) the equally remarkable *loss of vital satisfaction* brought about by the devitalizing influence of those conditions of work and life imposed by the urban-industrial existence and environment, which seem somehow incongruous with human nature. These two main defects of modern capitalist mass society lead to the most serious strains and dissatisfactions which are perhaps not only the ultimate causes of the present mass rebellion against our economic and social system, but also the origin of the frantic efforts to clutch anything in sight

which promises to appease the hunger for a minimum of social integration and vital satisfaction essential for the equilibrium both of the individual and of society. It is more than likely that what these, who crave for social integration and vital satisfaction, are clutching will be the crushing hand of the totalitarian state. Finally it has to be made clear how all this has gone together with a process of a gradual depletion of moral and spiritual reserves which have been accumulated in former centuries and on which occidental civilization has been thoughtlessly living during the last hundred years.

After it has been explained what the process of the formation of masses means and how it is dissolving society, the *genesis and causation of this process* offers itself as the next subject of analytical research to be attacked from various angles. How did it happen and how far was it inevitable that it should happen? What were the wrong turns taken by the development of the last hundred years and how far can this development be unmade to-day? What are the strategic factors in the whole situation? It is difficult to imagine to-day any problems more important than these and therefore any research, be it of the most tentative kind, more urgent than that devoted to them.

A first point to be mentioned in this respect is naturally the enormous *increase of population of European stock* during the last centuries. It is to be regarded as one of the main driving forces behind the formation of modern mass society, though it is unfortunately still rare to find this point of view sufficiently stressed whether in the literature on the population problem or in the sociological works on modern civilization.² It would seem that this

² It is perhaps natural that sociologists are generally more aware of the sociological implications of the population increase than students of the population problem and economists in general, a situation which well illustrates once again the curiously limited scope in economic science to-day. In the interpretative literature cited earlier in this chapter, special importance is assigned to the population factor in the works of Ortega y Gasset, Romier, Heiden and others. It has been especially put into relief by Marcel Dutheil in his book *La population allemande, les variations du phénomène démographique, leur influence sur la civilisation occidentale* (Paris, 1937), where he demonstrates for the case of Germany how an enormous and quick increase of population is apt to change completely the cultural atmosphere of the country in the direction of proletarianization, of the predominance of mass instincts and emotions and of the destruction of traditional values. We are given to understand that if people are wondering where the country of Goethe, the Humboldts and even of Nietzsche has gone, they should pay attention to the fact that this country has been swamped by countless millions which came too quickly and in too great numbers to be absorbed culturally. So there was a break in cultural tradition and continuity. *A nation may beget its own barbarian invaders*. Cf. also W. Röpke, *Versuch einer Neufassung des quantitativen Bevölkerungsproblems*, Festschrift Oskar Engländer, Brünn, 1936, pp. 195-217, and W. Röpke, *Explication économique du monde moderne* (in the press) chap. 3.

unprecedented increase of population exerted a strain which no society could have withstood without losing its structure and degenerating into a mass society.

The population increase was such a necessary (though by no means sufficient) condition of the genesis of modern mass society that it seems justifiable to use it as the starting point for any real analysis, which then should be supplemented by a study of the other contributing factors. Here is the place where the responsibility to be attributed to certain trends in general and in economic policy, to proletarianization³ and the big factory, and to many technological, educational and purely intellectual forces has to be examined.

This is also the place to emphasize that the formation of masses has by no means been a process affecting the whole of society, but rather one relating primarily to dominant groups, large sections of the population remaining untouched for a very long time and even to-day constituting in many countries a solid block from which a policy of unmaking mass society may make a promising start. It would be a very interesting and gratifying subject of fact-finding research guided by sociological principles to find out exactly the numerical importance of those sections in comparison with those already engulfed by capitalistic mass society. It is to be presumed that such an enquiry would reveal not only large differences between countries and parts of countries, but also a much greater average extent of the unaffected or little-affected section of the population than is commonly supposed to exist. While such a result would make the task of unmaking our mass society appear less discouraging, the reasons for being pessimistic would

³ See on this subject especially G. Briefs, *The Proletariat*, New York, 1937. A discussion of the sociological functions of individual property and independence should also find its place here. Cf. H. Belloc, *An Essay on the Restoration of Property*, London, 1936; G. K. Chesterton, *The Outline of Sanity* (Tauchnitz edition); R. S. and H. M. Lynd, *Middletown*, New York, 1929; L. Romier, *Explication de notre temps*, Paris, 1925; A. Vierkandt, "Der labile Charakter der modernen bürgerlich-kapitalistischen Gesellschaft," *Schmollers Jahrbücher*, October, 1936. Though, without long explanations, the term "proletarianization" is apt to lead to misunderstandings due to too narrow conceptions, it is hardly possible on this occasion to be more explicit. This much may be said, however. A country is to be regarded as highly proletarianized if a concentration of business, enterprise and property has resulted in a large part of the population becoming dependent and urbanized receivers of derived incomes (wages and salaries), who are practically without property and the essential liberty provided by property, and who have become instead regimented members of the industrial-commercial business hierarchy. This result is tantamount to that economic and social formation of masses ("Vermassung") which is characteristic of those countries to-day. It may clarify matters still more if we add that what is commonly conceived of as Socialism means merely the completion of this process, in the double sense that it grows out of it and that it continues it to the ultimate consequences. Finally, it is characteristic of a proletarianized world that people assume the habit of thinking almost entirely in market values and in derived money and income aggregates.

be still further diminished by a study of the accumulating intellectual and moral forces working against mass civilization. In every country one can see the more or less articulate expressions of growing dissatisfaction with capitalistic mass society, and the small number of those who are no longer blind to what is happening is slowly increasing and becoming more active every day. This dissatisfaction is apt to take violent, socially dangerous outlets if it is left to the influence of vague instincts and emotions and to exploitation by clever but irresponsible demagogues. To prevent this and to turn the destructive force of mass emotions into constructive energy directed toward a policy of unmaking mass society itself, mankind needs the enlightened guidance of social science, which by rationally analysing what is wrong with our present society gains an insight into the remedies required.

Social science must also make it clear that *economic collectivism* and *nationalism*, far from providing any remedy at all for the malaise of capitalism and mass society, are only too apt to make things worse by depriving society still further of its spontaneous forces, of its inherent vitality and adaptability, and of that organic structure which is the opposite of mass society. Totalitarianism and that trend toward collectivism which is paving the way to totalitarianism are, of course, not in the least solutions of the problem of mass society. They are merely the ultimate result in which the destructive and dissolving effects of the process of the formation of masses culminate. In totalitarianism we are only touching rock-bottom of the development started during the nineteenth century after the counterbalancing reserves had been used up; that it poses as revolutionary is no proof to the contrary; it is the nineteenth century at its worst. What will be really new and constructive lies ahead in the future, though its promising germs are already with us. To prepare this real renaissance of society will be a slow process, the first condition of which is that we do away with illusory interpretations and with the prevailing prudery by looking these all-important problems in the face instead of leaving them to the demagogues and the dilettanti. That the slackening rate of population increase is, *per se* and without regard to the national aspects of population, a great help for the future task of unmaking mass society can hardly be denied, notwithstanding the new economic and social problems which it entails.

After the general interpretation of the pathological changes in the structure of occidental society and after the analysis of its origin and causes, there remains to be shown in detail in what

numerous ways *this process is influencing the factors determining economic policy*. There is indeed no aspect of present collectivist and nationalist economic policies which does not, on closer scrutiny, appear as ultimately dependent on forces released by mass society and by the mass rebellion against our traditional economic and social system which, as we saw, is the outcome of mass society. This has already been stressed so often during the course of the present enquiry that it does not seem necessary to illustrate it further here. Let us add, however, that one of the most important causal links between the nationalist-collectivist economic policies of to-day and the pathological changes of society are the changes which have occurred in the structure of the state and in the working of governments. Political Activism (revolutionary radicalism of the extreme left or right) is rivalling with sectional pressure groups in dissolving the authority, the impartiality, and the unity of the state and of the government, while at the same time the state becomes more mechanized and less organic in its structure because of the growing centralization of government at the cost of federal articulation and of local or regional self-government. This is all the more serious and apt to lead to a "crisis of democracy" as the growing interventionism and collectivism becomes plainly incompatible with a democratic-liberal structure of the state. It has been long since recognized that the crisis of democracy is largely due to the growth of interventionism and collectivism, but what we must realize now is the fact that it is also the crisis of democracy—i.e. the dissolution of the state and government in and by modern mass society—which is fostering interventionism and collectivism.

It is hardly possible to say more on this subject within the compass of this survey and at this stage of investigation. All that was required was to leave no doubt on the dominating importance of the problems discussed in this part, to show the ends toward which research should be directed, and to make clear the nature of the problems involved.

CHAPTER XXVII

EPILOGUE

1. THE AGE OF TYRANNY

"My conception of the *terribles simplificateurs* who will come over our old Europe is not pleasant, and now and then in my imagination I can see these ruffians already in flesh and blood before my eyes. I will describe them to you when we drink our pint of beer in September."

Jacob Burckhardt, letter to F. von Preen, 24th July, 1889.

THE manuscript of this book had reached the present point when the catastrophe of war fell upon Europe. Almost overnight the question presented itself how the world picture sketched in the preceding pages was affected by that disturbing event and what the author, from his point of view, might contribute towards establishing the deeper significance of the calamity.

The uncanny, nerve-racking thing about the present situation is that not a single proved formula for interpreting experience holds good any longer. The war which has come upon us is not of the kind familiar in history nor a conflict in which the aims of both sides are as clear as their opposing national fronts; it is almost—though not completely—a world-wide civil war in which the horizontal and the vertical fronts criss-cross confusedly. The very conduct of the war shows no longer any clear outline: the sole characteristic it would seem like developing is that of conforming to no recognized norms. There can be no doubt, however, that this second world war is the manifestation of a stupendous social catastrophe that is working itself out in the whole Western World and can be understood only in the light of the special internal structure of certain countries.

What is that structure and how did it come about? To answer that question satisfactorily is to hold the key to any understanding of the pass to which the world has come to-day, and, therewith, to its lasting liberation and pacification.

E. Halévy, the great French historian and sociologist, in his interesting work, *l'Ere des Tyrannies*, maintains that since 1914 the Western World has entered upon "the age of tyrannies," and that, contrary to the liberal, humanitarian ideals of most socialists, it is socialism that has brought us, by a logic seemingly inexorable, along that road.

Quite deliberately, Halévy chose the word "tyranny" to characterize in the clearest possible way what seems essential in the structure of the new collectivist governments and to draw a sharp distinction between that state structure on the one hand and dictatorship or despotism on the other. If a fairly clear, widespread knowledge of the forms assumed by the Greek tyrannies, or even of the passages in which Aristotle describes them, might be taken for granted, then the expression chosen would certainly not be bad. The structure of the modern collectivist state has indeed a quite amazing resemblance to that of some city states of antiquity in the period of despotisms known to us as tyrannies, such as Corinth or Megara, in their geneses, their main characteristics and perhaps, too, in the way they came to an end.¹ In each case there is the same reckless, violent usurpation of the functions of the state by a minority rising from the masses and leaning upon them while flattering and at the same time intimidating them. This minority is headed by a "charismatic"² leader and, in contrast with genuine dictatorship, considers its rule by force as the normal, permanent form of state organization, and not as a temporary mandate to be restored to the legitimate authority once the emergency for the state is over. It is, then, a very dangerous, though none the less prevalent, misuse of words to label the blatant instances of tyranny found to-day "dictatorship."

Every well-knit state comprises some more or less powerful elements of a hierarchic and authoritarian nature, and it would serve no useful purpose to consider as characteristic of the modern "ochlocratic" tyranny a peculiar form of authoritarian government like dictatorship. Kemal Atatürk, for instance, was certainly a dictator in the sense of being the head of a state that he governed practically without opposition. However, it would be quite false and a grave injustice, alike to that great man and to the Turkey he created, to place him, as so many unreflecting journalists have done, among the modern usurpers risen from the masses. His historical rôle is much more that of the "Dictator" of ancient

¹ The Swedish philologist, M. P. Nilsson, in his essay, *The Age of the Early Greek Tyrants* (Belfast, 1936), has recently contributed much to a better understanding of the social structure of tyranny in antiquity. The analogy between ancient and modern tyrannies must not, of course, be exaggerated, nor must it be overlooked that in ancient times it assumed very varied forms. The same applies to the well-known tyrants of the Italian Renaissance like Cola di Rienzi or Malatesta.

² The great German sociologist, Max Weber (*Wirtschaft und Gesellschaft, Grundriss der Sozialökonomik*, vol. iii, Tübingen, 1921, pp. 140-148), coined the term and analysed the conception of the "charismatic Führer." This chapter of Max Weber on "charismatic" government remains a *locus classicus* for an understanding of the modern collectivist state, and is extraordinarily relevant to-day.

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Rome, as opposed to the real tyrants, Sulla or Caesar, who, significantly enough, gave themselves the title of "Dictator Perpetuus." Thus, after Kemal's death, the direction of the state could indeed pass without any breach of continuity into the intelligent, moderate hands of Ismet İnönü. In the Turkey of Kemal there is no praetorian guard, no hierarchic, exclusive party alone allowed to bear arms and insolently identifying itself with the state. Neither is there any high-pitched self-advertisement, no striving after new ways of stimulating the masses so as to prevent their slipping back to the humdrum daily round, to the balanced, normal, steady community life. This normal course of life is, indeed, rightly considered the gravest menace to a régime reposing on an ever intenser excitement of the people's nerves, an excitement which, as Max Weber discerns with great clarity in the passage already quoted, is the outstanding characteristic of "charismatic" government. Where, as in Turkey and in other modern dictatorships, such as Portugal or Greece, those essential signs are lacking, we cannot speak of tyranny, but at most of dictatorships, whether we refer to ancient or to modern times.³

If the ancient, like the modern tyrannies, are clearly different from dictatorship, it is not less false to confound them with the idea of a government that is hierarchic, aristocratic or authoritarian or to set them up as the opposites of democracy. It is hard to imagine any more grave or fateful confusion. It is, of course, easy to understand—since modern democracy grew out of an ardent, passionate fight against arbitrary rule and despotism—that the idea of democracy should awaken in our minds certain associations that are not quite in accord with its real nature and inherent possibilities. Surely no one could read without the deepest emotion Abraham Lincoln's famous oration on the battlefield of Gettysburg, one worthy to rank with that Pericles pronounced two thousand years ago over the Athenian dead. And is it not real blasphemy for Oscar Wilde to parody Lincoln in the words: "bludgeoning of the people by the people for the people"? Surely with regard to Abraham Lincoln; but also with regard to the conception of pure democracy and to its inherent dangers? Tocqueville, John Stuart Mill, Calhoun, and many others who cannot be suspect of reactionary leanings, acknowledge that democracy can lead to the

³ This necessary distinction between dictatorship ("commissarial" dictatorship, to be more exact) and tyranny disposes also of the pessimistic prophecy that a war against tyrannies would force the democracies, if they want to be equal to their opponents, to adopt collectivism (tyranny). It is obvious that in such a case of extreme emergency a more or less authoritative direction of the state becomes unavoidable, as the present experience proves. But between such a "commissarial" dictatorship and tyranny there is a world of difference.

worst despotism and intolerance unless it is limited by other principles and institutions, and it is such limitations, taken as a whole, that may be called the liberal element of the state.⁴ There is little need to recall the germs of the modern collectivist doctrine found in Rousseau or in the more extreme theorists among the Jacobins to explain why collectivism—the “tyranny,” according to Halévy—is rooted in a democracy that is unrestricted and not sufficiently counterbalanced by liberalism, a genuine aristocracy, or federalism. The characteristic, in fact, of tyranny ancient or modern is that it is always borne along on the tide of great mass movements, and can only thus survive. Mobilizing all its energy, its inventiveness and propaganda technique to show itself to the masses in a favourable light, it adopts by preference the most plebeian methods, knowing well that in the long run its domination cannot be assured by even the most refined terrorism. It was then, not unreasonable to maintain, as did Ortega y Gasset, that tyranny is the form of government in which the revolt of the masses against the moral and intellectual *élite* finds expression. Wherever a tyranny has come to power it has governed with the masses, preferably with the *crapule*, against the *élite* that carries civilization on, and is on the look-out for their reactions in every slightest word or gesture. The antithesis of tyranny is not democracy—a word that only indicates where power is vested—but the liberal principle which, now as always, imposes on every government, however constituted, the limits required by tolerance and respect for inalienable rights of the individual. It is thus compatible with different forms of state structure: it is the principle symbolized in Magna Charta, in the Bill of Rights, and in the Declaration of the “*droits de l’homme et du citoyen*.” That is doubtless what most people have in mind when they speak of democracy as the antithesis of tyranny, but it would be well that they should realize the dangers of the ambiguity. Clearly nobody would wish to expose himself to ridicule by arguing that the so-called democracies to-day are not the leading antagonists of tyranny: that they are, however, is due less to the democratic principle than to that other which is still best described as liberal. It would not,

⁴ This is very clearly put in Benjamin Constant’s pamphlet: *De l’esprit de conquête et de l’usurpation* (1st edn., Hanover, 1814), which is as up to date now as when it was written. This astonishing piece of writing is a reliable guide through all the confusion of our time which—on an infinitely lower level, granted—has so much in common with the Napoleonic period and which may indeed be regarded as its ultimate consequence. Constant rightly draws attention to the fact that genuine democracy can thrive without degenerating only in a restricted circle, one that permits the active collaboration of all the citizens and an effective integration of society—hence the great importance of the federal organization of democracy and of local self-government.

on the other hand, occur to us to speak of any tyranny as a democracy; but that we shrink from doing so is due far more to the absence of liberal than of democratic characteristics. The masses may well feel more or less at ease for a while under such a régime, but not the *élite*. Whether or not a given individual does feel at ease under it is purely and simply a question of whether he belongs really to the mass or to the *élite*; and those who know anything about sociology need not be told that "mass" minds may be found among university professors just as workers, artisans and peasants may belong to the *élite*. If that be the case and if, in fact, tyranny strikes root among the masses and can do so only in a state of society that may, sociologically speaking, be called a mass-society, if in history tyranny invariably follows the maxim: "panem et circenses"—as who can doubt?—then we arrive at precisely the conclusion for which Halévy's thesis had prepared us, the intimate connexion between tyranny and socialism.

Finally the question arises wherein lies the difference between the tyrannies, old and new, and the despotic reign, let us say, of Louis XIV. That there must be a world of difference we cannot for a moment doubt. To begin with, the lack of liberty, seemingly common to both, must not only have been less in degree, but also of quite a different kind. How otherwise explain the magnificent blossoming of the arts and sciences in the one case and the striking sterility in the other? Some explanation of that difference in spiritual atmosphere may be found in what has just been said about the mass-society character of tyranny. Moreover, tyranny differs fundamentally from all other forms of monarchist absolutism in that it is an illegitimate, usurping power, and is consequently devoid of a certain feeling on which the most indolent or incapable king can depend—the feeling of its being rooted in tradition.⁵ It can proffer no sort of established legal title, and so must regard as the supreme end of the whole art of government, an end camouflaged in every word and deed, to find some substitute for that legal title and for that hold on the affections of the governed which the government entirely lacks. Hence the need to enforce uniformity of opinion and the unscrupulous imposition of the will of the state; hence, too, the nervous desire to please, the continuous quest of ostensible success, and then the anxious watching for the crowd's approbation; the absence of that calm poise that is the appanage of legitimate government

⁵ See Constant's *De l'esprit de conquête et de l'usurpation* for the best statement of the distinction between the legitimate and the usurped authority of the state.

and excessive susceptibility to approval and reproach, coupled with an inferiority complex over-compensated by bombast. Not less characteristic of all tyrannies is a weakness for dissimulating their illegitimate, ephemeral tenure of power in monuments which strain to make up for the centuries they lack in the past, in architecture suggesting magnificent centuries ahead. That is the source also of their dread of routine, recognized so clearly by Max Weber and familiar to every student of contemporary collectivism, their search for ever-new contrivances to prevent the deliberately over-stimulated population from calming down or looking at things soberly with the eyes of common sense. So will a top maintain its balance only so long as you keep it spinning round and round.⁶

So far we have followed Halévy; all that we have said about the essence of tyranny is just a series of variations on the simple thesis sketched in his book. It would appear, however, that there still is lacking from the picture of tyranny one essential trait that Halévy does not mention, although the experiences of his time had already taught a lesson. To the essential characteristics of tyranny that he observed must be added the complete disappearance of norms and ultimate values, without which our society or any society cannot in the long run survive—the pernicious moral anaemia, the cynical caprice in the choice of means that for lack of genuine aims become an end in itself—in short, that attitude that can be deliberately called the political pragmatism characteristic of every real tyranny.

Everything breaks up and falls into ruin until at last there remains the one constant aim of tyranny to which are unscrupulously sacrificed all moral principles, all promises, treaties, guarantees and ideals: the naked lust of power (“libido dominandi” of Sallust—*Cataline War*, Chapter I); the endeavour to keep and to increase the power that is for ever challenged and that, in the last resort, serves no other purpose than to be relished with unreserved gusto. That being so, there is no limit to the violence or falsehood to be expected of such a government. All the ideals and sentiments appealed to and precisely those deserving the deepest respect—social justice, the solidarity of the nation, peace, religion, the purity of family life, the well-being of the masses, the claims of

⁶ “Un usurpateur est exposé à toutes les comparaisons que suggèrent les regrets, les jalousies ou les espérances; il est obligé de justifier son élévation: il a contracté l’engagement tacite d’attacher de grands résultats à une si grande fortune: il doit craindre de tromper l’attente du public, qu’il a si puissamment éveillé. L’inaction la plus raisonnable, la mieux motivée, lui devient un danger. *Il faut donner aux Français tous les trois mois, disait un homme qui s’y entend bien, quelque chose de nouveau: il a tenu sa parole.*” (Constant, op. cit., Part II, Chap. II.)

international law, the return to simpler, more natural ways of life, the cultivation of art, science, and literature—all reveal themselves in the end only as glaringly painted and interchangeable coulisses of propaganda. The tyrant becomes the most unscrupulous publicity agent, always and only concerned with effect. The worst of it is perhaps that it soon changes no small part of the population into scoffing cynics—as Benjamin Constant has shown with striking clarity when dealing with the events of the Napoleonic era in the work already cited.⁸ It is easy to understand why a form of government with the characteristics described thus far is at the same time the embodiment of such moral nihilism: no nation can fall a victim to such government until it is itself in an advanced stage of social and moral disintegration, and apparently only he can become a tyrant and maintain his power for long who is a political nihilist possessed of a searing *libido dominandi*. Other qualities are, no doubt, required, but this is assuredly an essential condition. Thus considered, tyranny appears as the most appalling manifestation of the breakdown of the society it attacks. Any society that lets tyranny get into its system must already be extremely enfeebled, and once tyranny has the mastery it quickly transforms the moral decay into galloping consumption. If, then, the real tyranny is to-day in such evidence and so widespread that we can speak (with some exaggeration) of an “age of tyranny,” we can realize now to its full extent the alarming character of this statement. For, after all, tyranny is clearly no more than the most naked manifestation of a process of moral dissolution whose origins reach very far back and which threatens to engulf our whole civilization. We must recognize that the countries that have fallen to tyranny are those which—for reasons still to be elucidated—first lost their inner cohesion whilst the others were still enjoying more or less considerable reserves that gave them the force to resist.⁹ No one will nurse the illusion, however, that the process of disintegration is not going

⁸ “Des sujets qui soupçonnent leurs maîtres de duplicité et de perfidie se forment à la perfidie et à la duplicité: celui qui entend nommer le chef qui le gouverne un grand politique parce que chaque ligne qu’il publie est une imposture vent être à son tour un grand politique, dans une sphère plus subalterne; la vérité lui semble naïveté, la fraude habileté. . . . Si cette contagion gagne un peuple essentiellement imitateur, un peuple où chacun craigne par-dessus tout de passer pour dupe, la morale privée tardera-t-elle à être engloutie dans le naufrage de la morale publique?” (Constant, *op. cit.*, Part I, Chap. VIII.)

⁹ It appears relevant to point out here that the extent of the exhaustion of the moral and spiritual reserves varies from one collectivist state to another—a fact which makes it possible to classify them in a certain descending order. The greater the moral and cultural reserves remaining, the greater the inner resistance of the population to the tyranny; the less uncompromising the nature of the tyranny, the greater its moderation in international affairs; and in consequence all the greater will appear the possibility of a smooth return to a more normal form of government.

on everywhere or that anything short of the most vigorous reaction can possibly stave it off.

Now, there is no modern tyranny which—whether from the outset or in a slow development, or even while combating socialist ideas—has not subjected the economic life of the nation to a system which, if words are to retain their meaning, can only be called socialistic. More than that—these are the only countries in which socialism has so far been completely established. All the tyrannies of to-day are socialistic, and, conversely, complete socialism has never been realized anywhere if not in the form of a tyranny.

Is not that in itself a convincing proof of the thesis that complete socialism and modern tyranny are of necessity most closely related? Just here lies the inner tragedy of socialism, known to anybody who at any time of his life has shared socialist ideas, and torturing all socialists who are as sincere as they are intelligent. It is the tragedy of the insoluble inner contradiction inherent in a movement which wants to complete radically the liberation of men started by democracy and liberalism, but in doing so must transform the state into a Leviathan. In other words, complete socialism cannot but be anti-liberal in the worst and fullest sense of the term. While it wants to ensure for the individual complete emancipation, all that in reality it can do is to impose on him the most exacting and intolerable form of slavery.

Not all socialists are prepared, like the anti-democratic socialists, to get round this contradiction by pretending, with Lenin, that liberty is a bourgeois prejudice. For the liberal-democratic socialists, however, the antinomy of socialism is a real stumbling-block. They make every imaginable effort to refute the disagreeable truth, yet experience and reflection alike argue so irresistibly against them that it only remains for them, if they want to be honest with themselves, to choose between the liberal principle of freedom and the socialist principle of "organization" (and all that euphemism covers). The reasons for the dilemma have been put forward so often and clearly of late that we may confine ourselves here to a few observations.

It is necessary to start from the irrefutable proposition that complete socialism, of whatever shade, always involves a complete planned economy. The economy of what plan? we must at once ask. Who draws up the plan and who plans the planners? A plan for the whole national economy means that the productive forces of the community are disposed of in a certain way. That is to say, the plan decides in detail which goods shall be produced and in what quantity. In the present economic system, production (apart

from the public sector) is essentially determined by those to whom this right cannot very well be denied, namely the consumers. The economic process based on the competitive market is, so to speak, a "plébiscite de tous les jours" in which every shilling spent by the consumer represents a ballot-paper and in which the producer, by advertising, does election propaganda for an undetermined number of parties (i.e., classes of goods). This consumers' democracy has, it is true, the disadvantage, largely remediable, however, of distributing the ballot-papers very inequitably; it has also the great advantage of securing complete proportional representation. The minority is not eliminated, each voting paper retaining its value. A socialist planned economy means nothing other than that the democracy of the consumers is done away with and replaced by command from above. Decision as to the use of the productive factors of the community would be transferred from the market to the office of a government authority and become a matter of politics. The unfortunate population would have to submit to such use of those factors as might be deemed right by the group dominating the state for the time being. Can it be seriously believed that not only the selection of this group, but also the millions of decisions to be taken can be done with democratic machinery and with respect for the liberty of each individual? Is it deemed possible to extend this method to gramophone records and hot-water bottles? Is it credible that a socialist government would expose its economic plans to the caprices of a changing majority? However categorically these questions may be answered in the negative, it is not less certain that such a dictatorship in charge of national production can only be acquired and maintained by a group resolved to use it unscrupulously to the utmost limit of its political power and to trample over all rights and liberties to maintain itself in power. "The probability of the people in power being individuals who would dislike the possession and exercise of power is on the level with the probability that an extremely tender-hearted person would get the job of whipping-master on a slave plantation."¹

The impossibility of drawing up an economic plan by democratic methods is due not to technical reasons alone, but resides rather in the nature of the thing itself. Everybody knows that democracy can really function properly only when there is a certain minimum of agreement about all the essential problems of national life. Only on the basis of such "unitas in necessariis," such a unity between all classes, ranks and parties in the essential national problems and

¹ Frank H. Knight, in a review of Lippmann's book, *Journal of Political Economy*, December, 1938, p. 869.

in the ultimate aims of policy, are the consultations and discussions that are the characteristic of liberal democracy possible. If that essential integration of the nation no longer exists, democracy necessarily falls victim either to anarchy or to collectivism (tyranny). But how is it possible to reach even half agreement about all the details of an economic plan affecting directly and painfully all private interests? Since the decisions to be taken always profit one group of interests and injure another—how can the democratic method effect the compromise called for? Those decisions cannot in fact be taken except in an authoritarian way, arbitrarily, that is to say, and under the pressure of an interested minority. But since the suspicion of arbitrariness or even of favouritism would injure the government's prestige, it adorns its decision with the halo of some principle and gets its propaganda going. It will do all it can to degrade in the public mind the victims of its arbitrary decisions and grossly abuse what it chooses to call the public interest.

But there is yet another and more decisive consideration. The competitive market system is a process made up of innumerable, individual economic acts. These are under the control of the market which affords to those concerned indications for the most rational use of productive capacity. An automatic system of rewards and punishments in the form of profit and loss ensures early and rapid action on those indications. Our economic system punishes disobedience to market rules by sanctions extending from negligible losses to bankruptcy, that is to say, to the exclusion of the offender from the body of those responsible for the process of production. Socialism (collectivism or communism) implies that the democratic sovereign, the Market, has been replaced by the autocratic sovereign, the State. This new sovereign assures respect for itself by the means proper to its political character: draconian penalties for a long list of "economic crimes," secret police, concentration camps and executions. Actions which in the reign of the old sovereign were inoffensive from the penal point of view, since they carried within themselves their own very effective penalties, become the gravest of crimes. Suddenly hosts of "economic traitors," "profiteers," "parasites," people guilty of "sabotage," "devisen crooks," and other riff-raff are discovered. What is happening in reality is that the attraction of the old sovereign is so great that the new is at the utmost pains to ensure respect for his orders. If we recall how often in history—from Diocletian to the French revolution—capital punishment itself

has proved incapable of combating rising prices, one will understand the extraordinary power of the old sovereign of economic life, the Market. From all this might be drawn the conclusion, self-evident and confirmed by experience through history, that socialism is an economic system in which the headsman beats the time. The headsman is in fact for this economic system a figure quite as important as the bailiff in the economic system where the Market is sovereign.²

There is no reasonable room for doubt. Socialism and tyranny are correlated to each other, notwithstanding all the emphasis of socialist theorists who dream of realizing a socialist state without infringing liberty in any but the economic sphere and notwithstanding the promises of tyrants at the beginning of their career to preserve liberty at least in the economic sphere. Whether a state sets out from anti-tyrannical socialism or from anti-socialist tyranny, the natural logic of events will finally lead the two states to the same end: thorough-going tyranny that leaves its impress on every sphere of social life and has all the charming traits we have already described. Like peace, tyranny is indivisible, and in the long run economic dictatorship cannot any more exclude political and intellectual dictatorship, than the other way around. It is in fact unpardonable naïveté to believe that a state can be collectivist in economic matters without being so in political and spiritual matters also and vice versa. "If there are Governments armed with economic power, if in a word we are to have Industrial Tyrannies, then the last state of man will be worse than the first" (Oscar Wilde). Then what Hölderlin wrote a century ago would come true: in wishing to make the state paradise, man has made it hell.

The structure of tyranny and its close relations with socialism having been examined, it still remains to characterize briefly its relations with the war and with the international disintegration now in progress. If the connexion between socialism and tyranny is a reciprocal one, so is that which exists between tyranny and the present international disintegration. On the one hand it was the world war that ripened the seeds of modern tyranny; on the other—and this is more important still—the very structure of tyranny tends towards imperialistic expansions and finally to war, again notwithstanding all the more or less sincere assertions to the contrary.

² See especially Walter Lippmann: *The Good Society*, Boston, 1937, and F. A. von Hayek: *Freedom and the Economic System*, Chicago, 1939. Similar considerations had been developed in my article, "Sozialismus und politische Diktatur," *Neue Zürcher Zeitung*, 18th and 19th January, 1937.

Indeed, each characteristic of tyranny that has been analysed so far involves the inclination to war.

2. THE ECONOMIC OUTLOOK AFTER THE PRESENT WAR.

About the ultimate fate of the Western liberal system in a world confronted by collectivist states, there has grown up in recent years a sort of fatalistic opinion which, under the impact of war, now seems to carry even more conviction. There seemed to be strong grounds for believing that the liberal world found itself on the defensive, resisting more and more feebly and rapidly succumbing to the tempting idea of an autarkic-collectivist economy. The collectivist states seemed to be setting the pace and, partly by their example and partly through the reaction of world economy to their policies, to be preparing the way to economic collectivism and international economic disintegration. For a time it could hardly be doubted that tendencies of the kind were very strong.

Does not the present situation prove, in fact, that the war leaves no longer any choice and that the liberal countries, belligerent or neutral, are simply obliged to adapt themselves to the economic structure of the collectivist countries? And is not therefore the danger very real that this war, whatever the issue may be, favours the ultimate triumph of the modern collectivist principle in economic and possibly also in political life? It is questions of just that kind that—unless we are fundamentally mistaken—are distressing people everywhere, perplexing their feelings and judgments, and robbing them perhaps of that very minimum of confidence in the future that men require if they are to find any sense at all in making the present sacrifice.

An examination of this point must certainly begin by acknowledging that war presents an exceptional situation which at the same time calls for extraordinary measures in both the economic and political spheres. Yet anyone who would maintain that the authoritarian direction of state and economic life—rendered more necessary than heretofore by the war—represents an approximation to the collectivist principle of society, makes it thereby clear that he cannot distinguish between dictatorship and the collectivist state and has understood nothing about the real structure of the latter. The question was considered in an earlier section. When a democracy in time of need places a dictator at its head, it in no way surrenders itself: much more is it obeying the counsel of necessity and the precept of history. Apart from all else it is, in

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the case of a democratic dictatorship, a matter of transmitting a mandate which is restored after the period of state emergency has passed, but not a normal, permanent form of the direction of state and economic life. This is shown precisely by the fact that it required first of all the dire necessities of war and the highest concordance of individual aims and feelings brought about by that necessity, to render possible a democratic dictatorship of the state and its economy. Conversely, it appears probable that it will liquidate itself with the ending of the state of emergency, unless a real revolution in state or economic life has taken place in the meantime.

Let us be as clear as possible on this point by adding a more general consideration. In fact, the philosophers of all ages have been unanimous in pointing out the contradictory character of the relationship between the individual and the community. Two souls are residing in his breast, one tending towards the community, the other seeking segregation. As Kant has said, there is "an antagonism of the unsocial sociability of man" which puts society under a constant strain, the strain between the tendency towards social integration and the other towards individual segregation. Man is neither an ant nor a beast of prey; he has chosen instead the more difficult course of that constant strain which his unsocial sociability engenders, but which is the origin of all civilization. There is no denying the stubborn fact that man is always seeking a normal moderate measure of contact with society, not too much but also not too little. It is this normal degree of integration—the wish to "belong somewhere," the sense of social duties, the mild patriotism, the sentiment to be part of a larger whole and to fill one's place there—which neither the individual nor society itself can afford to lose without getting "socially ill." On the other hand, however, our nature is such that we have not the least inclination to be used as mere stones in the structure of society. We are ready to render unto Caesar what is Caesar's, provided we may keep the rest for God, for our family, for our neighbour, for ourselves. Whereas, in the first case, we shall suffer from social under-integration, in the second we shall suffer from social over-integration, and in the end the one is just as intolerable to us as the other. What *social under-integration* means will be clear to the reader, for it is that pathological condition of western society which developed during the last hundred years and led finally to our present mass society. We also know that social under-integration makes man extremely unhappy, and there exists even an interesting theory which explains suicide as a mass phenomenon of our civiliza-

tion by what the French sociologist Halbwachs calls social "désencadrement." In this hunger for social reintegration, man becomes ready for almost any rescue, but, of course, it may easily happen to him as happened to the frogs in the fable who wanted a king and were finally devoured by a crane.

As far as the other extreme of *social over-integration* is concerned, we observe that it occurs like the fever of the human body in a quite normal and beneficent manner whenever an emergency like an earthquake or a great fire requires all the defensive forces of society. At once, as it were, the temperature of society goes up, and quite naturally we are sacrificing our privacy in order to be absorbed by the community and to give our best wherever we are needed. Without asking any questions we obey whoever assumes undisputed authority, and we think it quite normal if in an earthquake district martial law is declared. Exactly the same, though on a much larger scale, happens in the case of war. Society at once reaches feverish degrees of integration, and that is the reason why it becomes possible not only to suspend civic liberties protecting the private sphere of the individual, but also to carry through socialist measures which are nothing else than the economic counterpart of social over-integration. All that appears quite natural so as to give no reason for alarm. It makes all the difference, however, if socialism is to be kept as a permanent peace-time institution, for this would mean that the social over-integration which is the prerequisite of socialism must be made the normal condition of society. To achieve this is a gigantic task which must be carried through against human nature. If it is at all possible it is only by ruthless terror and by a policy which, artificially, is keeping the population in that abnormal feverish condition which is the result of earthquakes and wars. In other words, the war atmosphere must be made permanent. Now, whereas there is comfort in the thought that for the normal degree of social integration the *positive* moral sentiments of mild patriotism and benevolence are enough, it seems that these are quite insufficient for the excessive integration of a collectivist society. In order to extinguish individuality to the degree demanded by collectivism, the collectivist government must inflame sentiments which are *negative*, i.e., directed against something or somebody, and if there are no real targets for the hatred of the masses or no real sources of fright they must be invented. Consequently, if socialism is to be made a permanent condition, it supposes a state which, in the absence of war, earthquakes or other calamities, is keeping up by artificial means the necessary over-integration of society.

From that the following conclusions may be drawn. It is a dangerous fundamental error to think that the introduction of an authoritarian régime, such as has now happened under the overwhelming pressure of war in the countries most involved, has given a definite turn to the later development in economic or political life. The error is so exceedingly dangerous because it encourages fatalism and will only render easier the task of the forces that are everywhere making for collectivism. Yet not only do these tendencies in the liberal countries have nothing really in common with collectivism; what is much more true is that it is of their very essence to become superfluous and disappear when normal conditions return. Nobody can for a moment doubt that it is far from the intention of the leading democratic countries to consider as a permanent arrangement the exchange control which, contrary to the fundamental character of their peace-time economy, they have introduced to-day. To do so in peace time would in fact carry their political and economic life irresistibly down the slippery slope of collectivist authoritarian totalitarianism. At a time, however, when the whole population able to bear arms is called on to risk its life for the defence of its dearest possessions, it may well be expected to accept also, without concentration camps or secret police, prescribed limitations concerning exchange transactions, production, price fixing or the purchase of consumers' goods. Is it, on the other hand, conceivable that, short of revolution, this coercive system could be made permanent after the war?

It is doubtful whether those considerations will quite satisfy our pessimists. Must we not take it for granted, they will still ask, that economic conditions after the war will render more than probable a victory for the collectivist principle? Must we not expect a very serious economic depression which would call for precisely a planned economy? How can we think of imposing on humanity, while everything is lying in ruin, the sacrifices that would follow the restoration of normal economic conditions, particularly in international trade? In a word, do we not run the risk once the war is over of having such confusion, impoverishment and paralysis as to make next to hopeless any attempt at restoring an essentially liberal economic structure?

These are depressing questions that cannot be easily answered. Nobody knows the future or can foretell the factors on which it will depend. Nor can anyone say where the impossible begins. There are considerations, however, which, *given certain conditions*, make

it by no means probable that there must be a particularly long and serious depression after the war.

To understand those considerations we must get back to fundamentals, a thing which ought to be done far more to-day. Let us start from a truth which is not very palatable to some people, i.e. that the real ultimate cause of the breakdown of international economic life as well as of the functional disorders of the liberal economic system is to be found in the far-reaching disturbances, moral and material, caused by the collectivist principle. The modern collectivist principle is such a complete assault in every way upon our world of values, ideas and feelings and the practical policy of the collectivist states has been so upsetting and disturbing in its effect, that the psychic reactions on which the liberal economic system rests were almost bound to fail. All the more or less intelligent analyses of the economic crisis of the last decade that seek the causes in purely economic factors leave out the principal one, namely, the collapse of the moral and political bases of our economic system.

Once the developments of recent years are seen and understood from that angle, the conclusions to be drawn for the present situation seem obvious. The conflict between the modern collectivist and the liberal principles has entered to-day on its last decisive phase. The opposition in question, we need not emphasize, is only partly military; it is much more spiritual. That is why it is so hard to predict anything whatsoever as to the ultimate issue. Making, however, at this point the not too bold assumption that the liberal world will succeed in stemming the collectivist deluge, we are entitled to expect after the war a much less strained situation that would give rise to an economic upward movement of a quite inconceivable range. The torpor that for years has frustrated the world would be relaxed and a new, more hopeful life pulse through all its veins. The natural reflexes and the old elasticity of the economic system again come into play and enable it to dispense with patent medicines. We can hazard this optimistic view, it should be noted, since what is at stake in the present war is, above all, the fate of the liberal economic and cultural system: is it to be crippled or restored to health? That view will be more justified if reasonable steps are taken to see that the war-time inflation and the consequent post-war deflation are kept within reasonable bounds, as, e.g., by such measures as those recently recommended by Mr. Keynes.³

³ As Mr. Keynes has sometimes been criticized, implicitly and explicitly, in the course of the present book, the author wants to emphasize all the more that with regard to that recent suggestion he is essentially on the side of Mr. Keynes and against his critics.

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What has just been said should not be taken for facile, soothing optimism, but rather as a very serious warning. The easing of the strain referred to can only occur when the nature of the present, uncompromising clash between the liberal and the collectivist-anti-liberal principles has been clearly grasped and brought to an end. The non-collectivist world must to-day realize all the conditions on which the cessation of strain depends—the principal one being not to flirt with collectivism nor to make any concessions to it which go beyond the necessities of war economy. This is surely not an unreasonable demand, especially if it can be proved that the phantoms of economic chaos and paralysing depression after this war need not be dreaded, provided the line between the liberal and the collectivist anti-liberal principles is drawn with utmost firmness. The conviction that this confidence is well founded will contribute in no small measure to its being sanctioned by events, whereas a fatalist lack of faith in the future cannot but sustain the forces of collectivism and, by so doing, seem increasingly justified.

If our view is justified at all, it will also be necessary to drop the idea that the world must sink back after the war to the primitive poverty of centuries past; that should be taken for the exaggeration it is, even if the war were to last for years and entail heavy material destruction. Every modern war—and not least the earlier world war—demonstrates the extraordinarily swift powers of regeneration inherent in our economic system, provided that its inner driving energy and ultimate material forces are left intact and that the actual loss in man-power does not amount to a sort of anaemia in the body of the nation. The heavy debts that must be expected to burden the countries most involved in the war need not prevent the enormous productive capacity of the capitalist world, little as it could be used during the depression of the last ten years, from getting into full swing once the tension is over, and coping with the gigantic demand for reconstruction following the war and ensuring more than adequate supplies for the whole population.

In all these directions we can easily worry unduly. The real problem lies elsewhere. We cannot really hope to oppose the collectivist anti-liberal doctrine successfully except by such a revival of the liberal principle as will offer a thoroughly satisfactory solution of all the recognized ills and defects of capitalism to-day without, however, impairing its essential working capacity. The liberal world will have done for good with international economic disintegration, with collectivism and the political tyranny bound up with it only when it shows it can solve in its own way the problems of the proletariat, the problems of big industry, monopoly, unem-

ployment, and exploitation and all those mechanizing and devitalizing effects of capitalist civilization. What the economic system of the post-war period shall be depends largely upon our success in confronting collectivism with some really satisfactory and attractive alternative. Once the ultimate consequences of collectivism in this concluding phase of the conflict have become obvious to everybody, is it too much to hope that the world will be ready to hail the alternative as the word which breaks the spell?

The alternative programme is that which I have termed the "Third Way." Its main outlines have already been indicated several times in this book. Let us conclude, however, by looking at it more closely and thus satisfying a desire which perhaps many readers will feel.

In order to see more clearly what is meant by the alternative programme of the *Third Way* we may do well first to examine the *negative pole*, i.e., that of economic and political collectivism. What we shall see there has become generally known by now: liberty and privacy being wiped out; mechanization and proletarianization driven to the extreme; society crushed into an amorphous mass; every individual held in unlimited subjection to the ruling group, with its arbitrary and ever-changing plans and programmes, for which man in his unique individuality and dignity counts for nothing, while power and the machinery of domination mean everything. No further explanation need be wasted on this general aspect of collectivism. There is an end to human dignity, liberty and justice, and to make the misery complete, there is material want and inefficiency into the bargain. We must recognize, however, that this collectivist condition of society is by no means an entirely new and revolutionary one. It is rather the last stage and consequence of a long *pre-collectivist* development characterized by increasing mechanization and proletarianization, by ever-greater concentration and centralization, by the growing domination of men by the "apparatus," by the spread of monopolist octopuses, by the continuous decrease of independent modest existences and of vitally satisfactory forms of life and work, by more and more regimentation and organization. While the full story of this process cannot be recounted here, let us add that the whole western world has been living for a century on the cultural and moral reserves carefully accumulated like humus on farm land, and now social erosion is doing its pitiless work until in the worst cases—the collectivist countries—society has been turned into a social Dust-Bowl. The general features of this process are, indeed, common to the whole western world, although the degree to which

it has advanced varies widely from country to country, and provides the criterion by which the power of resistance and the constitutional soundness of any given country can be judged. In some countries, however, the development had before the war already reached that last pre-collectivist stage which is characterized by an unhealthy degree of urbanization, a paralysing increase of monopolies, indiscriminate state control, and the infiltration of interest groups as ruthless and insolent as the wooers of Penelope—so much so that even the sensitive system of markets and prices began to fail to perform its constant and silent service.

It is no use denying that this process of creeping arteriosclerosis, which will finally end in the apoplexy of collectivism, has been going on during the period of the "liberal" world order. Nor is it possible for us Liberals to present the apologetic argument that the development in question could have happened only because the liberal programme of economic liberty was not carried through radically enough. Is economic liberty really the decisive issue? It is true enough that economic liberty is a *necessary* condition of the "Good Society," but it would be too much to maintain that it is also a *sufficient* condition. Economic liberty is extremely important, but there is some danger in concentrating attention too exclusively on this point and thereby missing the decisive issue.

This decisive point becomes apparent if we now ask what the *opposite pole of collectivism* really is. Economic liberty? Hardly. Were the world to return to economic liberty nationally and internationally this would surely imply the end of all collectivism and of most monopolies, but would the other symptoms of disease be much affected? Would a country having scarcely any peasant proprietors, artisans or urban middle-class elements get them by economic liberty? Would the proletariat disappear? Would society become stable economically and socially? Would it be "just" in the most elementary sense? Would work and life recapture more sense and dignity? And if economic liberty cannot claim to achieve these aims, how can it be expected to arouse enthusiasm? Must we not offer something else?

Economic liberty is certainly an essential aspect and condition of personal liberty; it is impossible to imagine a society which is without economic liberty and not collectivist at the same time. Economic liberty, therefore, is an essential part of that constitution of society which is diametrically opposed to collectivism. But it is not the opposite pole itself.

The opposite pole lies in a society where the greatest possible number of men are leading a life based on private property, the

sort of life which, providing real independence, enables men to be truly free and to regard economic liberty as a matter of course. At the same time it is a society to which the tone is given, not by pitiable proletarians (with or without white collars), not by the vassals of a new industrial feudalism or by state prebendaries, but by men who, thanks to the specific form of their life and work, have that poise and mental balance which we see in the best types of peasant farmers, craftsmen, small entrepreneurs in commerce and industry, men of the liberal professions, and honest and public-spirited soldiers and civil servants. These give the tone to society, not because they have usurped a dominating influence as a minority, but because they are so numerous as to shape the physiognomy of society. Whatever we may think of such a society, it ought to be impossible to deny that this is the real opposite pole of a modern collectivist society. A society, however, which is agglomerated in over-sized cities and industries, in trusts and monopolies and all the rest of it, is, in spite of economic liberty, already far on the road to collectivism. In the long run, it will hardly escape the fate of drifting to the end of this fatal road. It is the misery of "capitalism" not that some have capital, but that others have not, and for that reason are proletarianized. There are enough millenaries of recorded history behind us to teach us in the most unequivocal manner that whenever in their dark course the light of freedom, progress and humanity shines it was a period when a sufficient number of people had private property to enable them to throw off their economic dependence on the feudal lord, or—even worse perhaps—the state. Those periods of emancipation and enlightenment would have been impossible without the existence of a large bourgeoisie in that noble but now almost forgotten sense which brings it into a more than philological relationship with the term "civilization." It lies with us whether or not one of the longest and most brilliant of these periods shall now come to an end like all its predecessors.

It is hoped that these remarks will have made clearer the kind of measures with which a policy of defending and restoring economic liberty after this war must be *combined* if we want to follow the Third Way. They will give a better idea of the salient points, of the underlying philosophy, and of the legitimate claims of men which are so often overlooked but which should at last be satisfied. Economic liberty, competition, private initiative, free trade, and the other principles of traditional liberalism are indispensable parts of any policy combating collectivism and monopolies, but there is hardly any hope, or perhaps even justification,

for realizing those aims unless they are combined with a programme of a much wider range.

Such a programme must be comprehensive, multifarious, and elastic, independent of any cut-and-dried formula; and let nobody deceive himself that it will not take a long time before the pathological condition of Western society visibly improves. It is easy to clear a country of forests, but once the humus has been washed away, reforestation is a task which is by necessity slow and difficult and in extreme cases next to impossible. For more than a century we have thoughtlessly and wastefully exploited the mysterious "soil reserves" of society, and finally what happens to the soil has happened to society: it has become crusty and lumpy, the micro-cosmic organic life has disappeared, there is hyperacidity, and the humus accumulated in the course of centuries has gone. In some countries even the bare granite has come to the surface, but what about the others?

Let nobody deceive himself either as to the very radical nature of such a programme. To believe in collectivism of whatever variety has become rather a matter for indolent and unimaginative reactionaries to-day. It means standing for yesterday and for to-day, but not for to-morrow. It means carrying through to its end a development which has already been going on for a long time, which has given more than doubtful results, but which almost everywhere is being taken for granted in a fatalistic and unreflecting spirit. Collectivism is the exact opposite of something radical in the sense that it is something revolutionary stirring our imagination and making it worth while to set our heart and energy upon its realization; proceeding as it does without our assistance it reduces us to the inglorious rôle of the chorus in a Greek tragedy. It is the last ripple of the nineteenth century in its intellectual and material development, and it has always been somewhat surprising to see collectivism associated with the spirit of youth and intellectual adventure.

To develop in *detail* a *programme of the Third Way* would require a whole volume.⁴ That, however, is no excuse for silence. In addition to what has been said on this programme time and again in the course of the present book, let us, at the risk of tedious repetition, make a rapid survey of what it is all about: decentralization in the most comprehensive sense and in all conceivable fields; a policy of encouraging all natural tendencies working in favour of the smaller units of production and of the sociologically sound forms

⁴ The author will become more explicit on this point in a book shortly to be published by the Eugen Rentsch Verlag at Zurich.

of life and work; reform of laws and of jurisdiction for the purpose of preventing monopolies and concentration (by a radical revision of the laws on corporations, patents, bankruptcy, &c.); developing new non-proletarian forms of industry; reducing all dimensions and relations from the monstrous and superhuman to the human level; correcting all excesses in organization, specialization, and division of labour; restoration of property wherever and however possible; rational limitation of state intervention according to the rules and the sense of the market economy ("conformable" or "liberal" interventionism)—these are at least some hints giving a more concrete idea of the general direction in which we should march.

In confining ourselves perforce to mere hints at this point, we are fully aware of the danger of being understood only vaguely or even misunderstood. This danger will be the least in the case of readers living in countries where the economic and social structure is, in fundamental respects, rather near to what we have in mind. In this respect, *Switzerland* suggests itself as a particularly convenient example. It is well known that the conditions in this country are far from being ideal, but the fact should be stressed that the foundations are still essentially sound and that what is wrong and unhealthy appears still capable of being cured without difficulty—in contrast to the heavily pathological conditions in the leading industrial countries. Lately, the political structure of Switzerland in its democratic, multi-national and federal character has attracted the attention of those who are looking for a model to be used in the political reconstruction of Europe after this war. Why should we not similarly regard the economic and social constitution of this country as a model at least as useful for the *economic* and *social* reconstruction of the West?

This line of thought could be pursued much further. Let us never forget, however, that even more important than all strictly economic programmes and actions is the gigantic task of the moral, psychological and political "reconditioning" of society—a society which, everywhere, needs to remember the right order of values and the inexorable and universal character of the fundamental norms of human community. We may look forward with confidence to the result of this task if we see to it that society does not consist of men who, compressed by an unfit economic and social environment, have been disfigured to subhuman cripples. To say this may seem a strange way of ending a book on international economic disintegration, but only, we hope, to those who are in the habit of reading no more than the end of a book.

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GENERAL SOCIOLOGICAL CAUSES OF THE ECONOMIC DISINTEGRATION AND POSSIBILITIES OF RECONSTRUCTION

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By an impressive convergence of evidence the whole preceding investigation has led to the conclusion that the present catastrophic disintegration of world economy is only a manifestation of a more general disintegration of the whole economic structure and, at the same time, only a symptom of a general social and psychological decomposition. The author has repeatedly emphasized that a true understanding (and therefore also an effective treatment) of the pathological state of society can be attained only if this is clearly recognized. But the limits set by an essentially economic inquiry naturally made it difficult to treat in detail the more deep-seated causes of the disease, which are of a non-economic nature.

These social and psychological causes of the disease constitute the subject of my own investigation: "Zur geistesgeschichtlichen Ortsbestimmung der Gegenwart, Versuch einer Zwischenbilanz unserer Zeit" (The Present Age in the Light of the History of Thought: A Provisional Appraisal of Our Times¹). While Professor Röpke's treatise and mine are in complete harmony in regard to fundamental concepts, they supplement one another in regard to the different fields of research. The same problem confronted us both, only inversely: whereas Professor Röpke emphasized the economic aspects, only touching upon the sociological questions, I concentrated upon the sphere of sociology and the history of thought, being unable to deal more than cursorily with the economic aspects of my problem.

It was, therefore, with the greatest pleasure that I accepted Professor Röpke's kind invitation to add a chapter to his book. In this chapter I shall attempt to connect our respective studies, to present more coherently and explicitly some of the interrelations between the fields of economics,

¹ The original (German) edition of this book will be published during the current year, while an English translation is under preparation. Two sections have been previously published in the *Friedenswarte* (ed. by Professor Hans Wehberg, Geneva): "Bedingungen des Weltfriedens," 1938, vol. xxxviii, No. 1, and "Zur soziologischen Ortsbestimmung des Krieges," 1939, vol. xxxix, No. 3. Cf. also my contribution to the *Colloque Walter Lippmann* (held in August, 1938, in Paris at the International Institute of Intellectual Co-operation), published by the Librarie de Médecis, Paris, 1939.

sociology, and the history of thought, to which he could refer only more or less incidentally, and, finally, to sketch the positive programme which we envisage.

DEFICIENCIES OF LIBERALISM : THEIR SOURCE IN THE HISTORY OF THOUGHT

Liberalism was the dominant philosophy of life in the Western World during the nineteenth century. We shall use the term to denote liberalism of the commonplace and "popular" kind rather than the more refined forms of liberal philosophy which were expounded by certain eminent thinkers and scientists but remained without much influence. Even among the founders of economic liberalism, especially in the writings of Adam Smith himself—whose breadth of vision and balance of judgment provoke again and again our admiration—there are numerous germs of ideas which, if further developed, would have prevented the fatal development to be described below. It was perhaps not a mere accident, however, that those ideas bore no fruit and remained without noticeable influence on the subsequent development.

This common liberalism was the principal determinant of the course of economic policy and was dominant to an extent and degree commensurate with the expansion and progress of the modern economic system.

This connexion with common liberalism was first a blessing, but later a curse for the economic system. Professor Röpke's enquiries in this volume point out time and again that the present disintegration of world economy, as well as of the social structure supporting it, is based, to a large extent, upon certain deficiencies of liberalism itself.

Liberalism is, in its essence, a general human attitude which can and does find expression in all spheres of human activity. But it is characteristic of the historical development of the liberalism of the eighteenth and nineteenth centuries that its fundamental concepts were applied essentially only in the economic sphere. In practice, liberalism meant for the nineteenth century predominantly economic liberty, i.e. freedom of the market system based upon predominant competition.

This position of economics in relation to the whole system of liberalism arose to a large degree from the developments in the field of thought and, more particularly, in that of science. This was so because liberalism as a science had made its epoch-making discovery in the sphere of economic theory. This discovery was that of the automatism of the market economy, of the self-adjustment which takes place in the competitive system by means of the mechanism of supply and demand, and of the harmony which is established and maintained by means of this subconscious adjustment between the egoism of the individual and the greatest welfare of all.

Although Adam Smith may be credited with having been the first to disclose this economic law with precision, we must realize that the general conception of such an invisible harmony has its origin in the more

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distant past. In the history of the philosophy of the Western World, the idea of an invisible harmony appears for the first time in the cosmological conception of Pythagoras and the Pythagoreans and also in the teachings of the Ionian philosopher Heraclitus of Ephesus which were expressly applied to the sociological and political sphere. For the latter it is the divine Logos, the world reason, which pervades and guides everything, from the whole course of the universe down to the actions of men, and which blends everything into the magnificent harmony of one great cycle. However little man, with his traditional lack of understanding, is aware of it, he is nevertheless part of it in all his being and in all his actions. He is bearer and executor of this will which he himself does not apprehend. Only the philosopher, the wise man, and above all Heraclitus himself are—in contrast to the primitive, blind, and deaf multitude—conscious of this invisible harmony and of its hidden sense. The special application of this idea to economics is, it is true, far from the mind of this ancient philosopher. But, as a citizen of one of the leading commercial cities of his time, he uses the monetary flow in trade, the exchange of goods for gold and of gold for goods, as a means of illustrating the circuit-process in the macrocosm.

These teachings of Heraclitus were taken over by the Stoics, who made them the basis of their philosophical system and particularly of their anthropology, their ethics, and their politics. Since the popular Stoic philosophy exerted a tremendous influence upon the whole Hellenic-Roman world, Heraclitus' theory became an important element in all ancient learning including the early Christian. Although it could hardly be harmonized with Christian dogma and Christian ethics, it spread and gained new influence, beginning with the Renaissance, and played an important part in the development of Western rationalism. On account of this development, the doctrine of the divine harmony found its way to the Physiocrats, and the economic circuit of their *ordre naturel*, which they conceived as being a miracle of perfection and wisdom, is undoubtedly derived from the Stoics and therefore finally from Heraclitus. At the same time, in the teachings of the Physiocrats appears a second, equally theologico-metaphysical line of thought, viz. that of Chinese Taoism.²

² These most important connexions have been studied in detail by L. A. Maverist: "Chinese Influence upon the Physiocrats," *Economic History*, February, 1938; and "The Chinese and the Physiocrats," *Economic History*, February, 1940. Since, moreover, a monograph on this problem has been announced (E. Schorer-Laforêt: "L'influence de la Chine dans la genèse et le développement de la doctrine physiocrate," *Pirou Etudes*, VIII, Paris, Sirey), there is no need to go into it here more thoroughly. It should be noted, however, that Láo-tse, the founder of Taoism, was an elder contemporary of Heraclitus. Both belong—like Buddha and Mahavira—to the sixth century B.C., the magnificent and fatal century of metaphysics. The question suggests itself whether this striking coincidence in time also implies, in spite of geographical separation, some kind of reciprocal influences. If so, there would have met again in the eighteenth century trends in the history of thought which had taken separate roads two and a half millenniums before.

Adam Smith's doctrine of the automatism of the market economy, which was to become the corner-stone of modern liberalism, is the perfection of the Physiocratic conception of the *ordre naturel*. The "invisible hand" of his doctrine unmistakably contains a vestige of Pythagorean mysticism, and the beneficial harmony which it guides is nothing more than the Logos of Heraclitus and the Stoics and the Tao of Lâo-tse, except that it is converted into the Christian anthropomorphic language of deism. The laws of Market economy which Adam Smith rationally demonstrated—in order not to say revealed—were at the same time divine and natural laws in the sense of Spinoza's formula, which is also valid for deism: *deus sive natura*.³ It is the task of man to comprehend—with insight, gratitude, and reverence—these divine laws which govern economics; to remove the obstacles which stupid traditionalism or unenlightened selfishness has put in their way and which prevent them from having their beneficial effects; and to realize thereby, to the advantage of all, the highest possible benefit which a benevolent providence has provided.

The mercantilism which Adam Smith encountered as the governing economic policy had set itself, as the goal of attainment, the greatest possible national wealth. But it had, for lack of enlightenment, tried to attain this end by means which were insufficient and indeed defeated their own ends. It had only disturbed the beneficial automatism of the economic laws by its officious meddling. It was now confronted by the call, "*Laissez-faire! Laissez-passer!*" which at the same time was a summons to honour God and an adjuration not to allow short-sighted human anxieties to interfere with the eternal wisdom of the natural laws.

But if the market mechanism of the free competitive economy partook of divine dignity and benevolence and of the severity and universal validity of a natural law, then it would manifestly be presumptuous as well as fruitless to act as if the validity and benevolence of the market mechanism might depend upon sociological conditions belonging to the humble human sphere. Such an attitude would have been totally incompatible with those views and doctrines. The eye, dazzled by the mystic light of rational economic revelation, was blind to problems lying in the obscurity of sociology.

This then was the most fundamental reason for the "sociological blindness," to characterize it briefly, of liberal economics (and of all

³ The metaphysical dignity of economic theory was further enhanced by the fact that it is the only branch of *Geisteswissenschaft* which is capable of deductive treatment *more mathematico*. This fact was of utmost importance for a period when mathematics was considered the only true science and the only legitimate model for other sciences; a period, moreover, when mathematics—and everything that was capable of rising to its height—was still encircled by the *numinous nimbus* with which Pythagoras and Plato had surrounded it. Cf. the well-known investigations by Wilhelm Hasbach: *Die philosophischen Grundlagen der von François Quesnay und Adam Smith begründeten politischen Oekonomie*, Jena, 1890, and *Untersuchungen über Adam Smith und die Entwicklung der politischen Oekonomie*, Leipzig, 1891.

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unenlightened liberalism)—its blindness to the extreme importance of sociological needs and requirements which lay outside its sphere, as well as to its own sociological conditions. Both of these will have to be examined more closely in the course of our studies.

Liberalism did not retain for long, however, the deistic providentialism and optimism of Adam Smith, although Bastiat took it up again later on. It became secularized by Say with classical French lucidity, was made a matter of middle-class ethics by the Prussian followers of Kant and was transformed in England into Manchester utilitarianism. But the theologico-metaphysical note was not by any means lost in the turn toward pessimism which Malthus and Ricardo gave to the doctrine.

The traces of theology and metaphysics, still apparent in Adam Smith's doctrine, gradually disappeared from economic theory. The natural consequence is that we have become accustomed to look at the founders and classics of our own theory from the point of view of rationalists and to neglect their theologico-metaphysical characteristics as mere superficialities of the fashion of the times, much in the same way as we now regard the wig of Adam Smith's portraits. It was therefore all the more necessary, in contrast to the usual attitude, to emphasize and throw light upon this point and to bring out the last traces of older ideas even where they were undoubtedly in the process of disappearing.

Care-free optimism and pusillanimity, which characterized a large part of the propaganda of liberal economics to the end, were persistent and fateful emotional consequences of the theological optimism which at first inspired liberalism and liberal economics. In every game there must be losers as well as winners, and the game of the market economy is no exception to this rule. This game demands, like any other, a certain stamina, a readiness to accept setbacks and losses should they occur. Instead of being frank about the fact that the extraordinary chances of gain which the game of the market economy offers for the good players are accompanied by chances of loss for those who are less capable or less fortunate, and that all those who want to participate in this game are obliged to take their chance, the propaganda promised prosperity and happiness to all without exception. But what is the inevitable result of an education which promises everything and demands nothing? The result in this case was that a type of player was bred, particularly in countries where the hardening tradition of Calvinism was non-existent, who enjoys playing a game only as long as he wins, but who, the moment he begins to lose, runs off in a huff and refuses to continue playing. This behaviour of the bad loser could be observed in the attitude of many entrepreneurs who went begging to the government to protect them against even the smallest losses.

But the most important intellectual form in which the original theologico-metaphysical character of liberal economics continued to exist was the belief in the autonomy, the unconditional validity of the economic

laws. As we shall see later in greater detail, this superstitious belief prevented the necessary sociological conditions from being secured in economic life, so that, beginning with the last decades of the nineteenth century, an unmistakable degeneration of the market economy set in. A further consequence was that the manifestations of degeneration which had grown out of the sacred *laissez-faire* were regarded by economic theory as endogenous, unavoidable, and characteristic of economic liberty. This conviction, which can be understood only in the light of its theologico-metaphysical origin, was so powerful that it was regarded as self-evident and beyond all discussion; the liberal defenders and the socialist assailants of economic liberty were in perfect agreement on this point. The liberals were of the opinion that the disadvantages had to be borne because they were unavoidable and that very little could be done, out of humanitarian considerations, to mitigate their worst consequences by means of social reform. The socialists, on the contrary, defended the view that this economic system, which was inherently incapable of improvement, had to be completely abolished and replaced by an entirely different system which, for the sole reason that it was different, would also be better. As the degeneration of the free economy progressed and as its consequences became more and more unbearable, the belief in the inevitability of this development led to the conviction that the revolutionary escape of socialism was the only possibility. All were agreed that "aut sit ut est—aut non sit" applied to capitalist economy, the only difference being that the liberals accepted the first and the socialists the second part of the alternative.

It had been expected that the spread of the free economy would bring about positive ethical and sociological results as well as an improvement in moral standards, a humanization, and an integration of society. But competition as such, appealing as it does solely to selfishness as a motivating force, can neither improve the morals of individuals nor assist social integration; it is for this reason all the more dependent upon other ethical and sociological forces of coherence.

On the basis of the mistaken idea of the central position of economics, which it had inherited from liberalism, socialism was inevitably forced to demand that the necessary social integration should take place within economic life itself and on this basis to reject the competitive system altogether. But it is a fact that there are more numerous and more effective means of integration of a political, ethical, and religious nature outside the realm of economics itself. These must be utilized with particular vigour if it is decided, for sound reasons, to desist from integration within the economic system itself.

Liberalism overlooked the sociological necessity of searching outside the market for that integration which was lacking within it. Instead, it proclaimed that the competition should be applied as a universal principle even in non-economic fields, and as a consequence of this attitude

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a progressive disintegration and atomization of the body politic set in as soon as the fund of the inherited integration had been spent.

During the early period of liberalism, however, there existed a large fund of other ethical and sociological forces of integration which were taken over from earlier periods and were capable of securing the necessary conditions for a smooth functioning of the free economic system. These forces were supported by the same classes of society that supported liberalism and the independence of economics. The rightly famous religio-sociological studies of Max Weber do not prove all they try to prove, but they show at least a close historical connexion between the pietistic-Christian ethics of the lower middle class and the advancing capitalistic-liberal conception of economics. These two parallel trends had to assert themselves against the degenerated morals of feudalism, based upon force and privilege on the one hand and the laziness of fossilized beneficiaries of guild privileges on the other. It is indisputable that the victorious advance of the new over both these trends meant an advance in human morality and integration. But this advance occurred because of the ethical-religious content of this mixture, and not because of the economic freedom to which it was ascribed.

If all this related mainly to the internal economic development of the various states, it must not be overlooked that parallel developments took place, though at a later stage, in the field of international trade. In this field Bentham had already emphasized that free trade brought about an international solidarity, and his pupil, Cobden, had taken this belief as the basis of his propaganda for free trade, which almost resembled a secular crusade. In fact, international solidarity increased noticeably during this period of expanding free trade even though, measured on an absolute scale, it always remained unsatisfactory. To ascribe this internationally integrating effect to free trade and to consider it to be a fulfilment of the prophecies of Bentham and Cobden was an error in perspective similar to that which we have mentioned in the preceding analysis of the conditions of national economic life.

The real contribution to international integration in this period arose from the fact that the liberal philosophy was dominant in all the major participating countries, and from the Pax Britannica in its last, Victorian humanized, and *diluted* phase.⁴ These international ideologies formed the latent basis for the development of international law during the nineteenth century—the simultaneous breakdown of the sub- and superstructure, which has taken place in recent years before our eyes, has made this relation clear to us contemporaries. These ideologies, not

⁴ Crude disciples of Friedrich List, who himself was not too refined intellectually, have thereby characterized the whole free trade propaganda as a devilish trick on the part of England, which, like a wolf in sheep's clothing, tried to persuade the others to open their gates to the English trade expansion. In the meantime, it has become obvious that these people only searched for others behind a door which they themselves wanted to use for their own concealment.

the free trade which expanded at the same time, were the integrating element. They alone created that degree of international integration which free trade needed as a basis and without which it would not have been possible. As a network of international commercial treaties was the form in which free trade was realized, it was imperative that the ethical maxim "*pacta sunt servanda*," which was their indispensable condition, should be recognized. This maxim was at that time still guaranteed by the above-mentioned ideologies. The most-favoured-nation system of that time would have been just as impossible if one could not have been perfectly certain, in contrast to the now predominant abuse of commercial treaties as weapons of an aggressive foreign policy, that such treaties would be regarded as of purely commercial concern, a means of increasing foreign trade.

Even though internal and external integrating effects, which really should have been credited to certain other contemporary factors, were mistakenly ascribed to economic freedom, this remained a mistake of a purely theoretical nature as long as these accompanying conditions were effectively maintained along with economic liberty. But when these accompanying conditions disappeared, and with them their beneficial effects, this error of theory became disaster in practice, because it helped to prevent correct diagnosis and effective treatment of the serious deficiencies which now made their appearance.

We know to-day, indeed, that the satisfactory functioning of the market mechanism does not take place autonomously, but is completely dependent upon the fulfilment of certain sociological and institutional conditions. Self-interest and common interest, the coincidence of which it was the great accomplishment of classical liberalism to have discovered, are co-existent only in that part of the social sphere in which these conditions can be and are fulfilled.

The first and most essential of these sociological conditions is the strict limitation of the freedom of the market to pure efficiency competition, and at the same time complete and unconditional maintenance of the freedom of this efficiency competition. We shall see later what this condition demands of the structure and attitude of the state. One consequence is that every kind of cut-throat competition, as well as every attempt to gain a competitive advantage outside the market itself or by other means than through a corresponding service, must be excluded as being disloyal. Efficiency competition alone places the selfish interests of the producer inevitably in the service of the consumer and leaves him no other means of gaining an advantage over his competitor than by supplying the consumer with better or cheaper goods. The most important and dangerous forms of these means of procuring an advantage outside the market are monopolies and subsidies or their equivalents.

Monopolism makes efficiency competition impossible, whether by means of law, or by legally secured agreement, or also, in rare cases, by the

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utilization of natural or technical circumstances. By political means, subsidizing (or its equivalents) provides a group of producers with public advantages which are not available to other producers and whose costs have to be borne by consumers and other producers. In practice, monopoly is based, as a rule, either completely or partially upon state intervention, because it is either specially created by law or made possible and even favoured by the actions or the attitude of the state. The beneficiaries, to be sure, usually conceal or even deny this.

Such phenomena, which interfere with the efficiency of the market economy, spread increasingly from the last quarter of the nineteenth century onwards, and led to a progressive degeneration of the market economy. State and public opinion, whose task it should have been pitilessly to kill every such manifestation in the germ, in order to protect the freedom of the market and so to make a fair efficiency competition possible, not only did nothing of the kind, but even assisted this development in many ways—by legislation, jurisdiction, administration, trade policies, customs, freight tariffs, &c. To the basic blindness and fallacious ideas of the theorists which we have already discussed, must be added numerous other motivating factors: ignorance of public opinion and of the masses about the functioning of the market system; megalomania, the desire to establish records; and both hidden and evident influences of financially powerful pressure-groups upon the state, politics and public opinion. Wherever, under the pressure of injured competitors, legislative measures were taken against monopolism, as, for instance, in the case of the anti-trust laws in the United States and of the German *Kartellverordnung*,⁵ they remained generally ineffective and principally served the purpose of silencing importunate petitioners. Effective results will be achieved by eliminating monopolies and not merely by controlling them.

Following the same lines was the trend, connected for the most part with monopolistic tendencies, towards over-concentration of factories and the grouping of businesses into mammoth enterprises. This, too, occurred under the protection of the superstitious belief in the inevitability of the development, and was accompanied by the enthusiastic applause of the megalomaniac public. It was justified only to a minor degree by technical and economic considerations, while in most cases the maximum size compatible with these considerations was surpassed.

In the face of all these fateful tendencies, the state needed, in addition to the insight which it lacked, the force and independence necessary to fulfil its rigorous duties of policing the market. But as weak a state as possible was the ideal state for liberalism. The weaker the state and the more it was forced to confine itself to the maintenance

⁵ The present author, who was then one of the responsible officials of the German Ministry of Economy, shares in the paternity of this law. From the beginning he was under no illusion as to its real character as explained above.

of order and security, the less would it be tempted, so it was thought, to encroach upon the sphere of the free economic system. The ideal which liberalism set itself was a weak but at the same time neutral and independent state; no one noticed that these two requirements were contradictory or grasped the obvious sociological truth that the strength and independence of a state are interdependent variables, and that only a strong state is powerful enough to preserve its own independence.

The failure to recognize this sociological truth soon became fateful. Long before the state let its powers be reduced to the sole function of maintaining public security it had passed that critical point where its force and authority became insufficient for the maintenance of its independence and where, therefore, it began to succumb to the attacks of pressure-groups, whose lust for subsidies knew no bounds. These pressure-groups could, when they were not agrarians, be generally identified as monopolists or would-be monopolists who need the assistance of the state to realize their purpose. A little later they were joined by the unionized workers.

The democratic, parliamentary structure of some of the economically leading states caused the economic corruption to spread to the internal policy of the state, to the political parties, and to the *parliamentarism* itself. The political parties were slowly transformed into parliamentary agencies of economic pressure-groups and were financed by them. Not a single one of these parties and not a single one of the groups which supported them was at first able to win a parliamentary majority by its own strength alone. (This is particularly true for the multi-party systems modelled after the French system. The same phenomena were observed within the Anglo-Saxon two-party system, but more under the surface and within the parties themselves, and were therefore somewhat weaker.) A coalition of several parties was therefore necessary for the formation of a majority, and this coalition came into existence in the compromise form of the so-called log-rolling and spoils system. Even the opposition parties were able to find a way of sharing the spoils by means of blackmail. A crisis of *parliamentarism*, a crisis indeed of the state itself, was the unavoidable consequence. Italy and Germany, and France, too, became victims of such crises.

The pathological form of government which developed in this way was that of pluralism, the history of which has not yet been written, though this would be very desirable, as it would make it possible to learn at least something from this unfortunate experience. The date of the beginning of pluralism in Europe may be fixed: the time of Bismarck's decisive change in internal policy in 1878-79 and his shift to a policy of tariff protection, as a result of which Germany became the leader of this fateful road. We have here the rare case of a responsible statesman initiating a development with consciously bad intentions. The traditional parties, which were based on sentiment and conviction,

had refused to follow Bismarck's brutal *Realpolitik*; with complete cynicism he therefore decided to transform and break them up into separate groups distinguished by their interests, believing that he could keep these under his control by feeding them from the state trough. His successors found that a state which begins to feed the beasts of organized business interests will finally be devoured by them.

This fateful policy did not remain confined to Germany. Even such healthy and in many ways exemplary little democracies as Switzerland⁶ and Sweden were not able to resist it. It is one of the most serious reproaches to the New Deal in the United States that it has generalized and intensified, to an alarming extent, this feeding from the state trough, which had, however, already begun with the tariff policy, the silver policy, &c.

Such a decay of democracy, which its supporters and opponents alike regarded as an endogenous and unavoidable development, caused tendencies and parties to appear which were fundamentally anti-democratic. Their parliamentary tactics consisted in abusing the rules of liberal *parliamentarism* for the purpose of weakening democracy and its organs. Such an attitude should have been regarded as hostile to the state, and should have logically brought about the proscription and expulsion of its protagonists. But, instead, the liberal principles of tolerance were meekly and inappropriately applied even here. The superstitious belief in the universal applicability of the liberal principles, which always prevented the recognition of the way in which sociological conditions limited the validity of those principles, was called upon to justify this attitude. In this way anti-democratic parties were allowed to grow up like mushrooms. They demagogically exploited the degeneration of the market economy and its injurious consequences and, in a most unscrupulous manner, took part in the corrupt game of *parliamentarism*. The consequence was that in Italy and Germany those parliamentary parties which had at first made possible the entry of anti-parliamentarians into the government were soon elbowed out by their unscrupulous colleagues, so that the game of pluralism ended in a totalitarian one-party dictatorship.

The same fateful mistake of admitting innately foul players on an equal footing was made, not only in the internal policy of the states, but also in their foreign policy. Its explanation can be found in the same blindness of liberalism to the limited applicability of the liberal principles; a blindness arising out of the sub-theological pseudo-universalism, the catastrophical consequences of which we have repeatedly encountered.

Even the rough outline of this brief review shows to what extent the present world catastrophe in all the affected spheres—economics, internal

⁶ Cf. William E. Rappard, *L'individu et l'Etat dans l'évolution constitutionnelle de la Suisse*, Zürich, 1938.

and external politics—has been caused by the same fatal weaknesses and mistakes of liberalism. The most serious mistake lies with its pseudo-universalism, its blindness to the conditioning framework and to the sociological pre-requisites which limit its own validity. This otherwise hardly conceivable blindness was, as we have seen, caused by the theologico-metaphysical origin of the liberal philosophy of life and of economics. This theologico-metaphysical origin gave liberalism and liberal economics, at a time when the world was still dominated by theology, a tremendous missionary force and a formidable impetus. Its apostles felt themselves carried by the conviction: *Dieu le veut!* But it contained a fateful defect, and finally contributed to the breakdown of liberalism and to our present world catastrophe.

POSSIBILITIES OF REINTEGRATION: THE "THIRD WAY"

The mistaken sub-theological pseudo-universalism of liberalism was, as we have seen, also responsible for the rise of radical anti-liberal collectivism. If liberalism is by nature unconditional and unlimited, and if the fatal consequences of these characteristics are unavoidable and unchangeable, then, it was argued, the only salvation lay in the resolute renunciation of the liberal principle itself and the acceptance of collectivism and totalitarianism.

As long as collectivism remained the credo of an aggressive and proselyting minority it was possible for its supporters to promise themselves and others that its realization would bring the millenium, the heaven on earth. But since various types of collectivism have become fearful realities in several great countries, thereby showing the true character of collectivism to the outside world, every judicious and well-meaning person must find himself between the devil and the deep sea when confronted with the alternative: liberalism or collectivism. Nothing remains for us but to search with the courage of despair, for the "Third way," which will lead us away from broken-down liberalism on the one hand and collectivism on the other towards a new life of human dignity.

This "third way" has already been implied in our criticism of the weaknesses and mistakes of the old liberalism, and it was also the yardstick with which Professor Röpke has measured the disintegration of world economy and the aberrations which have brought it about. For this reason we shall attempt to sketch once more the programme of the "third way" as far as this is possible in the short space at our disposal.⁷ As it consists essentially in a fundamental revision and renaissance of liberalism, it will be simplest to retain the previously applied method of criticizing the old liberalism and its realization in capitalism. That is precisely the point in historical evolution at which we find ourselves in the non-totalitarian states at present.

⁷ For a more thorough exposition and causal explanation I must refer again to my *Ortsbestimmung der Gegenwart*.

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If we have confined ourselves more or less to economics, we have done so solely because Professor Röpke's thesis concerns itself mainly with this field. We are of the opinion, in opposition to the traditional conception which is still widely held to-day, that the boundless over-evaluation of economics is one of the symptoms of the disease of the nineteenth century and one of the mistakes of the old liberalism. It is time that economic activity, in spite of its evident importance, is relegated to the subordinate position which it has always held except in the nineteenth century. Man does not live by bread alone. It must also be recognized that even within the economic sphere itself the vital and anthropological aspects which cannot be measured are more important than the essentially economic one which can. Because the economic machinery exists to serve man and not vice versa—what a time that was when such an evident truth had to be pointed out!—the "vital situation" of man is a non-economic value within the economic sphere. Economics is merely a means, the "vital situation" the end.

This fundamental truth is one of those which the old liberalism overlooked because of its "sociological blindness," and from this oversight arose the belief of the liberals, which was taken over by the socialists, that the happiness of the working individual was proportionate to his wage and in inverse relation to the number of working hours. But the deep discontent of the modern industrial labourer is in reality caused by his "vital situation," unworthy of human beings, by the artificial existence in the big cities which are so far removed from nature, by the decay of the family, by life in the slums, by conditions in factories where workers are herded together, by the mechanical specialization of their work, by the speed of mass-production, and by the equal tempo and bewildering futility of the amusement and diversion of big city life. That the industrial workers in Dutch, Swiss, German, and other countries, driven by instinctive self-help, managed to have a suburban garden, however small and mean, is a touching proof of the fact that "the good man, in his unconscious urge, has well an instinct of the one true way"—and this in spite of wrong theories instilled into him. The suburban garden is nothing more than the attempt, undertaken at a small cost, to return, at least to some extent, to the "vital situation" of the peasant.

It is, however, much more effective and satisfactory when the industrial worker is placed in semi-peasant conditions, when he lives with his family in his own small home in the country, and when he owns his own plot, which absorbs his and his family's hours of leisure or days of unemployment, and from which he derives a revenue, thus making it possible for him to provide to a greater or less extent for his own sustenance (as is the case in some districts of France, Switzerland, Württemberg, &c.). This semi-peasant condition gives him, above all, the feeling of attachment to the soil, of closeness to nature, and of unity with his family and with past and future generations. The same applies to rural home

industry (*fabrique dispersé*) and to home work wherever these are organized under fairly satisfactory conditions.

The fullest realization of all these factors is naturally attained by the peasant himself and by the rural artisan or tradesman. It is therefore a great comfort to know that more than half of humanity is still to be found in this "vital situation" which is truly compatible with human dignity.

Urban artisans, small tradespeople, shopkeepers, and people in the so-called liberal professions take part in the sociological advantages of this "vital situation," and particularly in its independence, dignity, and close family life.

When one starts from the other end of this scale of values and regards the "vital situation" of the city proletariat as that which is essentially unsatisfactory, one is glad to find that this inhuman condition is the lot of only a fraction of humanity. But even this fraction can and must be substantially reduced; the "vital situation" of those who nevertheless remain in the proletarian condition must be radically improved. It must be recognized that here lies the main task of social policy which should be resolutely taken in hand. In doing so we must get rid of a superstitious fatalism which believes that the position of the industrial worker of the big cities is the inevitable fate of all of humanity.

It goes without saying that such a task is linked up with the other one to devise an agricultural policy which takes account of the peasant and his standard of life.

This leads us to the problem of economic concentration and the size of enterprises. It was shown above that more often than not the degree of concentration which has been attained in the industrial countries far surpasses, for pathological reasons, the real optimum size. It follows that as the size of enterprise which is most profitable has been surpassed because of unsound non-economic considerations, sound non-economic considerations justify the reduction of the size of enterprises below that at which the maximum profit is attained. An economic policy tending in this direction could attain surprising results in the reduction of the size of enterprises and in a corresponding increase in the number of independent plants of small and medium size. The decentralization of industry and its dispersion to rural areas could be greatly facilitated by such measures. It should be mentioned that this would also make the whole economic structure more elastic.

The desire for monopolistic positions was an important motive for excessive concentration. It has already been shown that it would be desirable to forbid all private monopolies by law. We cannot concern ourselves here with proposing methods of realizing this aim. Industries enjoying natural, technical, or other inevitable monopoly conditions should be taken over by the state; this has already been done in many cases, for instance in public utilities.

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A strong and prudent state policy of policing the market should be instituted, with the corresponding legislation, jurisdiction and administration, so that a fair degree of efficiency competition can be strictly maintained in the whole realm of private market economy. Every form of cut-throat competition should be made punishable by law.

Just as a free economic system needs a market police, with strong state authority for its protection and maintenance—in complete contradiction to the views of *laissez-faire* liberalism—so is the same state intervention necessary in other spheres of economic life—for economic as well as for non-economic reasons. A strong and independent state is the prime condition in every case, but state intervention must be restricted to the indispensable minimum; it must not be in opposition to the functioning of the market mechanism or disturb the structure of the market; it must, on the contrary, maintain them. Above all, the state must anticipate the final outcome of large structural changes which would entail frictional losses and hardships during the transition if they were left to take care of themselves, and must see that they are made quickly without such losses and sufferings. I have called this kind of intervention, which contrasts strongly with what has so far been practised, “liberal interventionism.”⁸

The problem of crises would very likely be reduced to the tolerable, not to say idyllic, proportions of the pre-war period. It is nevertheless not out of place to consider ways and means of securing a minimum standard for times of crises should the proposed system be accepted. Such measures, however, must be based, in contrast to the contradictory minimum wage policy which has so far been in effect, upon an adjustment between fat and lean years. The same idea is expressed in the most recent proposal of Mr. Keynes, with which we are in complete agreement.

Although all these measures of economic policy will lead to a considerable reduction of the greatest inequalities in the distribution of income and wealth, it is nevertheless necessary to satisfy the demand for economic justice in the most fundamental and radical manner. Only those inequalities of income which arise from inequalities of accomplishment and from the conditions of efficiency competition are compatible with this demand for justice. Most unjust of all are the inequalities in the conditions existing at the start of economic life, derived in part from unequal inheritances, which depend only upon how carefully one chooses one's parents. This being the case, we are led to demand equal opportunity and just initial conditions for all. The fulfilment of this demand is closely related to the problem of the size of enterprises. An equal economic start is almost automatically provided in family

⁸ In my paper, “Freie Wirtschaft—starker Staat” (Free Economy—Strong State), delivered at the last annual conference of the Verein für Sozialpolitik at Dresden, 1932. *Schriften des Vereins für Sozialpolitik*, vol. 187, Munich, 1932. pp. 62-69.

enterprises of farmers, of artisans, and of small traders (if the population remains stationary), and therefore necessitates little state intervention; no one inherits more than one enterprise, and enterprises which are not absorbed in this way must be distributed to those who possess none. In the case of large enterprises, the same result can be obtained by a division of the property titles, which must be treated by inheritance laws in the same way as small enterprises (the problem of a growing population can in this way be taken into consideration).

As such a distribution of inheritance for the purpose of providing an equal economic start benefits only those of a more mature age, it must be supplemented by equality of educational opportunity. No one must be deprived of an education which corresponds to his gifts and character. Scholarships which are at present provided for gifted persons with insufficient means tend in this direction, but they must be systematically extended.

A true maximum of economic and social justice could be attained by means of such a combination of just initial conditions and free efficiency competition. Because of a sociological blindness and reluctance to interfere, as well as egoism and feudal sentiment, one did not realize that the traditionally unlimited right of inheritance was a feudal element which gave its semi-feudal-plutocratic character to capitalism. This was the source of the bad conscience which was so typical of latter-day liberalism in face of the indisputably reasonable demands for justice made by the socialists. But the collectivist economy which the socialists desired presents, as we know to-day, an even greater violation of these demands for justice. The purely fictitious equal-share-for-everyone in the socialized wealth of the community does not prevent the factual exercise of property rights and of economic direction from being transferred to fewer hands in a system of state economy, and from becoming more concentrated than it would ever be under private capitalism. The practical application of socialism means, therefore, an even greater violation of social justice which socialism itself so rightly demands than that existing under the capitalist liberalism which we know. These demands can be satisfied, therefore, not in a collectivist but in an individualistic manner.

Such a radically liberal and individualistic economic system is not only the sole system among those from which we can choose which can bring about a realization of the demands for economic justice, but also the only one which guarantees a maximum of liberty and human dignity. We know to-day how liberty and human dignity fare in totalitarian economic systems. When justly and generally divided, individual property is the only solid basis known to us upon which liberty, independence, and the human dignity of all individuals can be built. In this lies the only real, essential and non-economic justification of private property. It was again a fatal rationalistic generalization

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that the passionate ethical and social attacks upon private property have been directed by the socialists against private property as such, instead of against the unjust inequality of its distribution, which was solely a consequence of the traditional law of inheritance.

These two highest non-economic values, justice and liberty, would even justify great economic sacrifices. Such sacrifices are, however, not necessary, as the same economic system which safeguards these values is, strangely enough, also the most productive of all economic systems known to us. The competitive system is the only system which can use the strongest and most common of all human forces of everyday life—the egoism of man—as an unrestricted agent for its own benefit, while all the other systems are forced to lead a permanent, exhaustive fight against it. The competitive system thus provides justice and liberty on the one hand and the highest economic benefit on the other.

The phenomenon of the disintegration of world economy presents itself as such an overwhelming and bewildering mass of factors that any order brought into it would mean an enormous progress over the present state of thought on the subject, the most conspicuous feature of which is the general sense of bewilderment and lack of real orientation. Not knowing, however, how to disentangle the causal threads in this phenomenon and how to comprehend it in causal terms is generally only the first step to accepting it as the result of historical "fate" which simply happens for unfathomable reasons and in face of which man feels completely helpless. Lack of mental order and comprehension breeds pessimism and resignation and thus becomes an important causal factor in the further drift of international disintegration. A successful reduction of this host of factors to a limited number of strategic problems is, therefore, the first requisite of constructive action.

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