

Mr. J. M. Keynes, the most celebrated of them, writes, "The workers must not make a greater immediate demand on the national resources than hitherto; the community may have to ask of them a reduction. But this is no reason why they should not be rewarded by a claim on future resources... The remedy is to distinguish two kinds of money-rewards for present effort—money which can be used, if desired, and money the use of which must be deferred until the emergency is over and we again enjoy a surplus of productive resources." [14] This scheme fits perfectly, as an American complained, "in the growing passion for coercion and regimentation", but it must amuse even the schemers, as they know quite well that Mr. Keynes' high-sounding language will not substitute for the whip which will back up the command to work more and eat less. For "at no point in a realistic discussion of how in particular those British citizens who suffer war losses to person and property are to be compensated can it be assumed that anyone but the British public will foot the bill. This obviously means that the attempt will be made to keep the bill small. [15] The bill can be kept small only at the expense of the workers. And if it was only just to ask why a worker should be paid more than a soldier, it is not unjust to ask further why he should live longer than a soldier?"

The more the struggle for democracy spreads and the longer it lasts, the more rapidly will the world be fascized. Beginning with the complete subordination of labor, the process ends with a newly-entrenched ruling class controlling all of society. Neither capital nor labor will escape; nor will there be left a democratic island to which the intellectuals may escape to preserve the "culture" of yesterday that is, their status as intellectuals in a moribund world. "If this war leads Europe to adopt the totalitarian economic system", concluded a round table conference of American experts, [16] "in which government directs production and foreign trade, the United States might move in the same direction, for reason of self-defense."

Though war accelerates the spread of fascism, it does not cause it. How fast fascism will march cannot be correctly predicted. However, a defeat of the "democratic countries" would lead to the immediate completion of the fascist revolution now in progress. Countries in which private property in the old sense has still sufficient weight, will for that reason—in self-defense—be on the side of

[14] *London Times*: 11 14; 11-15; 11-28-1939.

[15] *The Economist*, London; 12-2-1939, p. 320.

[16] *Fortune* January 1940, p. 71.

France and England. An alliance of a country like the United States with Germany would presuppose a fascist revolution in America. Only when the private property elements would be sufficiently driven back, would the question of choice in war-partners arise. At present, the United States, is interested only in either a speedy defeat of Germany necessitating its early entrance in the war on the side of the Allies, or in a compromise solution, in a truce rather than peace, to win time for a re-alignment of forces less favorable to Germany than the present one. In short capitalism wants both war and no war. This Hamlet attitude corresponds to the opposition of private capital to the fascist tendencies in the "democratic" countries. It constitutes their weakness and augurs their possible defeat unless they, too, become as one-sidedly totalitarian as the fascist countries. But if they do—and eventually they must, war or no war—there, then, should be apparent to any worker now under the spell of ideologies, the senselessness of all national questions and all struggles for national purposes.

The more difficult the situation becomes for the Allies, the more pressing becomes the need for America to help them, the more fascistic these countries will become, and the more they will drive Germany towards the final elimination of the last remnants of the old capitalism. If the fascization does not continue in the democratic countries, there is no chance for their military success; and violent fascist revolutions will attempt to save what can be saved in the diverse fatherlands. All roads lead to the totalitarian state.

It is no less than backward thinking to assume that a truce at present would improve the position of the Allies, on the chance that the Allied diplomacy of Pound and Dollar could then defeat the German diplomacy of troops and cannons. Money was everything only as long as it was respected as the ideal and universal form of wealth and power. The old Blanqui slogan, that "those who have iron, will have bread," bears more weight today. What of it, if Germany cannot secure iron ore from Sweden or the oil from Rumania because she lacks exchange? It can take the mines of Sweden and the fields of Rumania by force if no counterforce exists to stop her. The gold in the hills of Kentucky is no such counterforce; to become transmitted into force, means the arming of Sweden and Rumania, or the militarization of America. The first takes time, the second means fascism. Dollar diplomacy is not enough; the truce will be used rather to militarize the "democracies" to the extent that will reimburse the fascists with the proper respect for cash. "We can defeat Germany only", states the *Economist*, "by accumula-

ting an unquestioned preponderance of all the materials of war. The only way in which we can be sure of winning the war is by looking ahead to a time when we shall be able to take the offensive side with at least an equality of manpower and a crashing superiority of material—in short, do to the Germans something of what they did to the Poles in the month of September". [17] If this was true when printed it is even truer today. It implies that the anti-German forces will be increasingly forced to adopt that system which they are out to fight.

It is the wishful thinking of the anti-fascists that the blockade and brewing financial troubles will surely bring about the defeat of Germany without much effort on the part of the Allies, but in this hope the movers and shakers of yesterday will be utterly disappointed. Those "Marxists" a la Sternberg who by counting the economic weaknesses of their old fatherland on their ten fingers will have to do much re-counting. Their "economic approach" is already today a sort of propaganda in the Goebbels manner. By fostering the war they help to bring about a world-wide fascism; and even if their hopes come true, they will have merely aided in bringing about a change of fascist commissars in Germany, but no more. Such "Marxists" who propose others to fight against Hitler assuring them of success in advance, have become themselves fascist in spite of Hitler's unwillingness to grant them that privilege.

THE FASCIST WORLD REVOLUTION

If Germany wins, warn the antifascists, it will rule the world. No more possible in reality is the other hobgoblin that haunts many an antifascist, which is that out of this war, there might arise a world-embracing system of fascism under one centralized ruling body. The present half-hearted economic union of France and England and its possibility of continuation after the war, the hypocritical talk of pacifists, antifascists, labor leaders, and other well-meaning people about using this war to establish some sort of European Federation which would come to an understanding with the rest of the world, returning with it to economic freedom, gives rise anew to the dream of internationally regulated exploitation.

During the period of social reform it was argued by the socialist worshippers of capital that the so-called tendency in each nation towards the General Cartel—the one big trust—would be only the stepping stone to an international cartel, that therein was to be seen

[17] *The Economic Front*, December 9, 1939; p. 363.

the conscious and peaceful transformation of international society into socialism. The League of Nations was later envisioned as the first major step in this process, but the world crisis, the collapse of innumerable schemes and real attempts for international cooperation, changed the dream into the nightmare of a world-embracing fascism after the Russian model, so that the only ones remaining joyful in these fantasies were the Bolsheviks.

The ruling classes of the nation-states have historically developed in a way which excludes the possibility of sharing in the world exploitation by agreements. The organization of world economy with its highly developed division of labor, bound as it is to a multitude of interests not directly concerned with its needs and consequences, continually evolves frictions between the pressing real needs of world production and distribution, and the class needs and limited interests of the atomized bourgeoisie. This contradiction exposes the capitalist mode of production as a hindrance to the further unfolding of the productive forces of mankind.

Theoretically and abstractly it is conceivable that wars could be avoided if all ruling classes in all countries, or in a decisive number of important countries, would unite themselves into one ruling body to organize world exploitation on a truly world economic basis. What would be still left then would be the class war between the world exploiters and the world exploited. However, though the human mind could construct such a situation, history is more and something else than the human mind. First of all, the actualization of this concept would mean the disregarding of all previous history, which has created a set of conditions in which decisive changes can be made only by way of struggle. Furthermore, in the very process of centralizing the rule over the workers in each and all countries class positions are shifted, fortunes destroyed, capitalists eliminated. To effect a centralized world rule which would realize an exploitative world economy ending the necessity of war, not one but uncountable wars would have to be fought to destroy a multitude of special interests opposed to this centralization process. But each of these wars is likely to create conditions allowing or forcing the working class, to destroy the now reactionary class rule. Being the only class whose interests do not oppose a real and conscious world collaboration, a truly world economy which would release the productive forces now latent can be successfully realized only by this class.

The present war demonstrates as does all previous capitalist history, the impossibility for capitalism nationally and internationally considered, either to satisfy the real needs of world production or of mastering it in its own capitalistic way to safeguard itself. Even nationally where through political methods capital concentration has reached unity with the state, it has been proven impossible to eliminate the struggles within the ruling class. And it is unthinkable that these could ever be eliminated (their form only can change) without the eradication of classes altogether. The very existence of class relations continuously engenders frictions and struggles within the ruling class. So long as the economy is not able to satisfy the relative wants of the great masses of people—and the existence of class relations is indicated by just this situation—it cannot satisfy the wants of the ruling class, which in itself is divided into many categories of economic and political importance. The control of the controllers remains a necessity, and distinctions are made in all layers of such society. Each shift in the productivity of labor, and each reversal the economy suffers, dislocates entire sections and changes their positions within the ruling class. The struggle of the exploited to enter the exploiting class leads to a continuous struggle within the latter, as the struggle in the exploiting class finds its arguments in the misery or the aspirations of the exploited.

That it is impossible for the sectional struggles within a national ruling class to be eliminated, is proven quite dramatically by the various purges in Russia and Germany, and since this intra-class peace cannot be attained in countries where political and economic control are practically unified, its possibility is all the more fantastic in the case of an international ruling caste. All this is independent from the more important consideration of whether a greater productivity and better general welfare would be possible at all on the basis of such centralized control, which nevertheless continues the old class relations between capital and labor. Neither Russia nor Germany has as yet proven that this greater "prosperity" is feasible, and the proof will be forthcoming only when this real world of opposed capitalist units is superseded by the prophet's paradise of a war-free world cartel.

But the war-free world cartel, in which by international agreement the different shares of the world-created profits are allotted to the different political-economic combines according to the needs of international fascism, will not become a reality. Not even the unification of Europe will result from the present war, for this would presuppose the complete defeat of one or the other set of the belli-

gerents. However, the fight is not over European but over world issues. A unified fascist Europe would mean, furthermore, the continuation of war; no longer between blocs of powers but between whole continents. And it would make no difference here whether the fascist United States of Europe would be determined by German-Russian or by English-French imperialism. The American imperialists, for instance, are well aware of the fact that whatever may be the outcome of the war, it would lead only to another war with still greater issues involved. Arguing for the increase in the Navy's budget, Secretary Charles Edison recently stated: "What we have asked for is not sufficient to defend our home waters, the Monroe doctrine, our possessions and our trade routes against a coalition of Japan, Russia, Germany and Italy. We must face the possibility of an Allied defeat and then measure the strength of the powers which might combine for action against the Americas. If our Navy is weaker than the combined strength of potential enemies, then our Navy is too small. It *is* too small [18]." But American imperialism would have to arm equally as well against an English dominated coalition.

Capital must expand or disintegrate. In either case nations, blocs of nations, or continents must with necessity encroach upon the interests of other nations and coalitions. Within this very process oppressed nations seize either the opportunity or face the necessity of revolt against their oppressors. National states will arise as others disappear. The world scene does not shift towards greater balance but to ever more chaos. Disorder is the basis of capitalism; the quest for order itself leads to greater disruption. By fighting for national "independence" the backward countries not only add to the general disorder but also bring to light the impossibility for a realization of their desires. Their struggle for independent national borders helps to destroy other nations. This is analogous to what happens in the attempt to safeguard competition in a world of monopolies. The fiercer one fights for competitive strength the more inexorable grow the forces of monopolization. The days of the capitalist market economy are numbered; so are the days of capitalistic nationalism. And yet, the victory of monopolization can never be complete, and the national question can never disappear unless the socio-economic setting is created for a conscious regulation of world economy. This task can be undertaken only by the world proletariat which must yet recognize that its life interests are internationally identical. Though these interests of the workers

[18] Quoted in "Time," 1-22-1940, p. 18.

are already objectively unified, the life interests of the ruling class will always remain nationally sundered no matter how close the nations should ever resemble each other.

To support today the struggles for national liberation means to support the growth of fascism and the prolongation of war. Because only by becoming more centralistic, more capitalistic, more aggressive than the older countries, such nations would be able to "free" themselves from one set of imperialists only to fall victims to another. But never can they free themselves from the capitalist misery ruling the world. Since all advantages are still on the side of the imperialist nations the fight for national liberation concerns no more than the choice between imperialist rivals benefiting not the mass of the oppressed people but only their rulers. To envision, for instance, that the independence of India, brought about because of the war or with the direct aid of German imperialism would create democratic conditions and further the capitalization of that country requires the loss of all sense for reality.

Though there is no longer a chance for the oppressed nations to free themselves, there too, is no longer any chance for the oppressors to maintain their rule, just as there is also little hope for the so-called have-not nations to overcome their present difficulties by seizing for themselves the possessions of the have-nations. After all, the favorable position of the have-nations did not spare them from economic depression and decline. They may fall later, but when their reserves are exhausted they fall nevertheless.

It is a rather pitiful show which is provided by English and French capital in their hedging on the Russian question. They cannot make up their minds whether or not to include Russia among their enemies. Not only Germany, or Germany and Russia, but the whole world is England's enemy, just as not only England but the whole world—despite the German overtures to France—is Germany's enemy. As a matter of fact, "Russia, not Germany, is Great Britain's historical antagonist in Asia; and Russia, not Germany holds the strategic threat to Britain's imperial life-line from Cairo to Calcutta. Germans see, beyond the wheat fields of the Ukraine and the oil wells of the Caucasus, the land route to India. Having already obtained Russia's pledge of economic help, they see the prospect of also obtaining Russian pressure on the vast reaches of Britain's empire [19]." If because of this, the British attempt to break the Russian-German alliance, they will find no reward. The "balance

[19] Barron's Financial Weekly, 2-12-1940, p. 3.

of power" strategy has reached its end. What was believed to have worked somehow in the last hundred years certainly does not work any longer. England's policy of preventing the establishment of a power or coalition able to challenge her supremacy did not save the Empire, but it was rather the relative prosperity all over the world which allowed credence to the value of this policy. Though apparently leading to the German defeat in the last war, its pursuance permitted a German comeback so that it could once more challenge English supremacy [20]. As the well-being of international capitalism allowed success to the policy of the "balance of power," the general crisis of capitalism excludes its working. Not this or that policy, but the deep economic pressure which moves the world today determines its future as well.

What if England does succeed to break the new alliance of fascist countries by bestowing upon Russia what it refuses to Germany, or giving to Italy what it denies Japan, or to Japan what it denies Russia, or to Germany what it denies Russia? Then new alliances will spring up as a result, new interests will arise, the war though shifted will remain because the hunger is general. What if by such moves one or the other country, whether Russia or Germany, is totally defeated and dismembered by the victors? "The days are over," mourns the *Economist* [21], "when the defeated enemy was expected to meet the expenses of the victor, and also to indemnify him for the inconveniences and suffering involved in fighting the war, . . . the understanding that the loser pays has gone the way of most of the sporting principles which were a minor feature of the wars of the distant past." What if in the course of the war German interests all over the world are eliminated? This war is not only unprofitable [22], but entirely meaningless from the viewpoint of national capitalistic interests. Not only is there a chance that non-belligerent powers may take advantage of the war situation, but those backward countries over which the war is really fought may yet raise their heads and secure for themselves the exclusive rights for the exploitation of their "people." In South America for instance,

[20] See "The World War in the Making," Living Marxism No. 5, pp. 132-peace agreement, with the possible consequences of attempts at ending the per-

[21] 12-2-1939, p. 320.

[22] The *Economist* of Dec. 9, 1939, p. 365, states: "There is now widespread recognition of the necessity to use the weapon of export and import competition against Germany in these markets that are still open to her and to us. We must be prepared to sell cheaply there, if by so doing we can make Germany also lower her prices; we must be prepared to pay extravagant prices for goods we do not want if Germany does want them... Export industries are not an alternative to munitions industries; they are munitions industries."

oil for Mexico and steel for Brazil are made the pretexts for the development of half privately, half state controlled economic systems the like of which rule today in Europe. Private capital will no longer be able to control those countries and no longer be willing to take the necessary risks. To continue the exploitation of countries like those in South America a fascist North America must arise.

The economic war disrupts further the already badly disorganized world-trade and threatens the foreign business of all "neutral" nations including the Americans. The English, for instance, have brought pressure upon Argentina to buy British products to the exclusion of goods from the United States. The Germans have increased their exports to all acquirable markets. They have a price policy dedicated to economic warfare and are producing on a scale that will not only keep an army in the field, but on the largest scale to which their industrial machine can be driven. The non-belligerents are not profiting from the war; they report increasing unemployment and growing economic stagnation. As history cannot be turned back-interests which must in turn be defeated since they will not voluntarily retreat.

One must laugh upon reading Mr. Welles' proposal to the French government that a war goal must be the removal of the newly established trade barriers. The Welles statement [23] listed three points: "1.) Healthy commercial relations must be the basis of political and economic peace. 2.) The prosperity of international commerce precludes exclusive discriminatory agreements between two countries. 3.) If world trade is to be reconstructed after the war, it must be without resentment or fear of any nations toward others." And it is only in keeping with the nature of these proposals when President Roosevelt added to them the need for "doing away with huge armies, and the need to permit free international exchange of ideas and to allow the worship of God."

The return to a free market as a war goal goes well with the hypocritical proclamation that no more than the defeat of Hitler and the re-establishment of borders violated by Germany are involved in this war. Neither one nor the other can be realized even if the statesmen for once in the history of statesmanship should mean what they say. The increasing fascization through war eliminates all respect for national borders, as fascist foreign policy means precisely the doing away of borders preventing the needed expansion. To maintain the security and the profitability of the present blocs of power new trade barriers have to be erected in conformance with their

[23] New York Times, 3-10-1940.

different needs. Planning will bring counter-planning, features of today's economic warfare will become permanent if the fascist plans succeed.

There are numerous additional arguments proving the practical impossibility for the realization of a fascist world cartel. The present war will not effect a capitalist international reorganization allowing for a new period of capitalist advancement. This war, as the permanent depression since 1929, is but another side of the decline process of the capitalist form of society.

Ending the War

The fascist "world-revolution" must then be understood as the reorganization of all countries on the basis of a fascist economy, accompanied by violent attempts to re-shuffle economic power positions in the interests of the dominant fascist countries and their satellites. The present war will not lead to another period of peace, but is a permanent war, as the depression of 1929 has become permanent. There will be no vanquished and no victors; defeat and victory would imply that the ending of the war exists already in its beginning. Whatever countries will still be involved in the war, and what re-alignments will take place, interesting as this speculation may be, are of no concern to us, nor to the working class at large. Neither victory nor defeat are any longer of importance to the ruling classes, though no choice exists but to work towards victory. They will never obtain the peace they desire; all they may reach is a temporary truce implying the defeat either for England—France, or for Germany. In either case the position of the countries forced into the truce will become untenable and their collapse would be only a question of time. They could not help but to initiate another armament race and to prepare for the resumption of the war. The respite would not be long for without the war internal conditions would culminate into social convulsions, leaving the uncertainties of war more preferable to the ruling classes. And yet, though war seems to be the only solution out of the capitalist dilemma, the system will not be able to carry war to the extent necessary for the solution of its contradictions.

We must recall at this point that capitalist accumulation comes to an end simply because it cannot produce the profits necessary for a continuous expansion. When capital becomes too gigantic, profits become too dwarfed in comparison for capital to be increased at the previous rate of growth, a rate necessary, though no longer possible, for the existence of prosperity. In other words: the profits

created, however large they may be, are too small to be employed with any significance in relation to the increased requirements of an increased mass of capital; the largest unemployed army indicates no more than a real lack of labor power relative to the profit-needs determined by a progressive expansion. In a similar way, the war which may be necessary for that re-organization of capitalism necessary for its further existence, may require energies which can no longer be created by capitalism. The war machinery needed by each of the belligerent countries to crush the other may be beyond their reach. Just as capital lies idle, appearing as a surplus though in reality representing a shortage of capital because it is not sufficient for a profitable expansion, armies and war machinery lie immobile because—enormous as they may appear—are still insufficient to make probable the success of an offensive. Idle capital indicates the permanent depression—the idle soldiers on the Rhine illustrate the permanency of war. Ridiculous as it would be, from a capitalist point of view, to activate a capital that would be sterile of profit, it would be just as ridiculous to set in motion armies incapable of shifting the balance. However, capital weighs heavier than human lives, and capitalists will sooner risk their soldiers than invest their capital unprofitably. But even if the offensive will eventually occur, through the despair caused by the increasing economic and social pressure, still they must of necessity take place within the structure of a limited war unable to fulfill its birthright: the total defeat of the enemy.

The cost of equipping and maintaining a division in the field has been almost doubled since the last war. The cost of aeronautical equipment per man in the English air force alone is about 2,000 Pounds per annum. The technological advance of the war-machinery has increased the cost of military operations enormously, and it can be said that for each soldier at least 10 workers are needed to assure his efficiency under modern war-conditions.

The enormous armies kept in constant readiness, the production for purely destructive purposes increasing continuously, the need for carrying on the economic warfare, and the necessity to provide sustenance for the workers laboring at high speed, all eat into the surplus value as never before and lead to an increasing pauperization of all countries, and still this process cannot be intercepted by a sudden gigantic effort on the part of one of the belligerent powers. For such an effort all the available energies are not enough. Thus arises a situation which necessitates the permanence of a war grow-

ing out of the permanent depression—a crisis which cannot be ended unless ended by the soldiers themselves, the soldiers both on the fronts and in the factories, for in the course of war any distinction between these divisions of the laboring class will disappear [24].

THE END OF BOURGEOIS ECONOMICS

The beginning of theoretical economy as an independent science is generally traced to the time of Adam Smith. Though this "beginning" may be more correctly considered a turning point in economic thought, nevertheless there began with "The Wealth of Nations" an entirely new period for economic theory, the period of the "Classical" theory, which reached its highest development with David Ricardo. After that it seemed that all that could be said about political economy had been said. The followers of the Classicists came to be known as the Orthodox School; their aspirations encompassed only the interpretation and elaboration of the Classical viewpoint.

The Classical theories and the Orthodox School both developed in England. There they had their greatest influence. For England was then the most industrially advanced country. True, other countries following England's form of industrialization were strongly inclined to import those economic theories, since they were a concomitant of the industrial development. However, because the results of this industrialization process did not for a long time correspond to the high expectations of its advocates, scepticism arose to challenge the desirability of following in the footsteps of English capitalism and of accepting its economic theories.

Because it was the first of the new capitalistic powers England had many advantages, and these resulted in a corresponding number of disadvantages for countries less advanced. Free trade, a principle of the Classical School and its followers, expressed in reality a prerogative of England and hampered the industrialization process in countries not so highly developed. The general theory did not fit different circumstances; to object to English monopoly meant also to object to its laissez-faire philosophy.

[24] This article, continuing in the next issue, will deal with the further consequences of the permanent war, with the meaning of an eventual temporary peace agreement, with the possible consequences of attempts to end the permanency of war through turning the whole world into a battle field, and, finally, with the possibilities for a change of society to be made by the international working class. Included in the continuation of this article will be a critical discussion of the arguments presented by *Alpha* in this issue of *Living Marxism*.

The opinion of the Classical theorists and of the Orthodox School was that it was best not to interfere with the "automatic" regulation of economic affairs, which was affected by a market law as inexorable as a "natural law." According to this opinion, the law of *supply and demand* brought order into social production and distribution: An invisible hand was guiding the social relations of men in a just and effective manner. By competition, each tried to get the most for himself, and, because this competition was a general one, no one could acquire privileges nor be taken at a disadvantage. Each would receive what corresponded to the value of his product—a price that expressed the labor time incorporated in the commodity that he offered. If no one interfered with the automatic market laws, there would be active and continuous tendencies toward an equilibrium between supply and demand, and therefore the best possible harmony and welfare.

It is easily understandable that whoever prospered under the conditions of *laissez-faire* [which was more of an ideology than an actuality], was bound to believe that the theory of the Classicists satisfactorily explained the economic laws, and that whoever did not fare so well under those conditions would be inclined to rebel against this philosophy, as well as against the practices associated with it. These two conflicting attitudes, however, only proved the validity of competition. Each group was fighting for specific interests, but with unequal possibilities. Free trade, recognized as an advantage to the more developed countries, could be opposed by the less developed countries only with additional political means, such as state-fostered industries and tariff regulations. But this activity could lead to nothing but a return to international free trade and a more equal participation therein. From the beginning, the turn against free trade was destined to be of only a temporary character calculated to win competitive strength and to counteract national economic disadvantages.

At first, the Classical theories met intensive criticism. A new school of economic thought developed in backward countries which were trying to industrialize themselves. In America its foremost exponent was Henry Carey. Although some of the ideas of his "National Economy" can be traced back to the teachings of the Mercantilists and the French Physiocrats, their influence and temporary popularity were based, not on the past, but on the immediate national needs of overcoming hindrances in the capitalization process. Carey and his followers pointed out that the theories developed by Smith, Malthus, and Ricardo had only limited validity, since they could serve only the historically determined interests of the English capitalists.

Each nation, they concluded, was bound to reason along lines of its own specific interests. The purely economic could not be the sole explanation of economy: extra-economic factors, historical, ethical, psychological, national, institutional, also played their part, and had to be taken into consideration. The movement of prices, for instance, did not need to be explained by general competition, as they were not so absolutely and abstractly determined by "supply and demand." Instead, a series of ethical, conscious, and institutional factors was able to determine and transform historically established price constellations. However, with the growth of American industry and its larger participation in world trade, the historical school of National Economy lost its popularity and gave way again to the Orthodox School as the most scientific explanation and approach.

II.

The Orthodox School believed that the principles of economic science had been established, and that all further activity must restrict itself to the search for additional arguments to support the established generalizations. As a matter of fact, it was difficult to conceive of a further important development of economic science, since the belief that the law of the market alone solved all problems made further research quite superfluous. However, conditions in society were not so satisfactory as they might have been, despite the prevailing theories, and because of the existing social distress there arose within the highly industrial countries, and also within the countries in a transitory stage, a criticism of the Classical concepts. The Marxian School of economic thought, for instance, discovered that the Classical theory had stopped short at a point where its further development would have brought to light the painful consequences of the class antagonism existing in society. The recognition of the class-relations led to the formulation of the theory of surplus value, that is, to the concept that a part of the value created by labor was appropriated in the forms of profit, interest, and rent by the entrepreneurs and the owners of the means of production. By a theoretical anticipation of the consequences of such a relationship in regard to capital formation was deduced the theory that the development of the capitalist society would necessarily be accompanied by an increasing exploitation of the laboring population, since the rate of profit had a tendency to decline, in view of the fact that the relationship between the capital invested into the productive apparatus and that invested into wages shifted in such a way that the former became always larger and the latter smaller. As all profits are created by the workers, the diminishing number of laborers must lead to a scarcity of profits in relation

to the total socially engaged capital. This condition, it was argued, would increase the competitive struggle for the division of the social product. Thus the entire social arrangement was brought into question.

This rather complex theory, although finding little support in the United States, was in a simplified fashion largely adopted by the European labor organizations as the theoretical justification of their struggle to improve labor conditions. This school was widely acknowledged to be, as indeed it considered itself to be, the heir of the Classical theory.

It was difficult for the proponents of the Classical theory to confute the Marxists' theories, as the Classicists and the Marxists based their arguments on the same objective value concept, that is, that the value of commodities is determined by the quantity of labor socially necessary to produce them, and that all economic phenomena can be traced to this fundamental relationship. Attempts were now made to replace this objective and dangerous concept with a psychological, and subjective one, which, developed by Jevons in England and a number of Austrian economists, came to be known as the Marginal Utility theory. For a time this new theory became very popular in America.

The ideas of this school originated from the simple observation of human reactions to the scarcity or abundance of useful things. The Classicists approached all economic problems from the side of the commodity producing process. The new school took as its starting point the demand for commodities. It was clear that the utility attributed to a commodity by individuals diminishes with its greater abundance. Supply and demand were no longer determined by what was brought to the market by the producers, but by the individual desires of the buyers, who measured the value of a commodity by what it meant to them. Price was no longer determined by labor, but by the marginal utility of a commodity, which was measured on the market by the strength of demand. The decrease in demand would effect a decrease in the prices, and, with this, a decrease in the production of the commodity, for then its results would bring less than the final, or marginal price. It was, however, difficult to explain consistently all the various economic phenomena with this theory; and though single concepts of this theory were adopted by many economists of other schools, still, as a general theory it was slowly abandoned in America and elsewhere. However, the schools of commerce and the advertising business profited to a large extent from the findings of this school.

Although temporarily overshadowed by the theory of Marginal Utility, the Orthodox School was still dominant in academic circles, especially because of its revival by the Neo-Classacists, whose foremost exponent was Alfred Marshall. The Neo-Classacists, or modern value theorists, combined their older cost of production theory with the marginal utility theory. The idea that the Classicists had neglected the demand aspect of the economic process seemed to come clearly to light in the fact that it was difficult to satisfy the needs of the people, and this despite the occasions when it became quite difficult to dispose of the produced commodities. The Neo-Classacists did not bother themselves any longer with questions as to the desirability of the prevailing economic system, they simply assumed that it was the best possible system, and they tried only to find means of making it more efficient. For one thing, laissez-faire did not function in the expected way, and recognizing that many of the arguments of the Historical School were justified, recognizing also that, theory or no theory, there were in reality constant interferences with the economic mechanism, they tried to find what possibilities there were of nullifying disturbances caused by state intervention, imperfect competition, and disequilibrium on the market. The static concept of the Classical School was replaced by one that allowed for evolution; absolute statements became relative ones, and the theory of value was now maintained only for the purpose of explaining the total and general social development. But for the explanation of market phenomena there was constructed a cost-of-production theory that no longer accepted labor as the sole value-producing unit, but postulated instead four factors of production, which, when transformed into market prices, determined the division of income. This new concept forced the Neo-Classacists to restrict their research to market and price investigations in order to discover possibilities of influencing the economic movement in a socially favorable way.

To attempt to influence the movement of the market it was necessary to assemble empiric data and to discover practical methods of utilizing them. Two main tendencies then developed out of the Neo-Classical revision: One, maintaining interests in "pure theory," developed the qualitative analysis; the other, interested solely in empiric research, conformed to the quantitative analysis. Both tendencies played their part in America, but the latter found preference. Out of it developed the school of Business Cycle Economists, who were interested mainly in discovering the factors that determine prosperity and depression. Their researches were helped along largely by the birth of the so-called Mathematical School, which believed it

could reduce fundamental economic relations and problems to matters of summation and equation. However, as this school had only a methodological character, it was not in opposition to the other schools of economic thought, but helpful to all of them to a certain extent, and especially helpful to the Cycle Analysts.

III.

In opposition to the Classical theorists, as well as to the other economic schools, there arose in America the Institutional School, whose foremost exponent was Thorstein Veblen. This school, which had its antecedents in the Historical School, thought that most of the arguments agitating the academic circles were largely of an artificial nature; that most of the problems raised could be ignored. Economic problems and relationships were to be regarded no longer from the viewpoint of general abstract theories, but approached by an investigation of the actual social conditions and institutions as they arose, functioned, and declined. The Institutional School accepted economic determinism and connected it with technological development. It believed that the rise of industry had brought into being many new problems that could be solved only by the adaptation of society to these new institutions. It rejected the psychological emphasis of both the Classicists and the followers of the Marginal Utility theory and pointed out that "human nature" does not explain social relations and the institutions of society, but that rather these latter form and change human nature.

Institutionalism has its philosophic parallel in Pragmatism, both of which may be explained by the general social and ideological conditions existing at the turn of the century. By rejecting totally or partially the old value concept of the Classicists, economic theory had ceased the attempt to explain all social phenomena by an objective general theory. All it could do was to follow the actual movements of the market, the price relations, and to try to discover afterwards why the one or the other event had occurred. Predictions became impossible; the economists found themselves drowning in their accumulated empirical material, or lost in abstract speculations remote from all reality. Business was certainly something other than economic theory, for business men never acted in accordance with economic theory. Instead, they followed their most immediate necessities, without questioning their social meanings, or else they based their activity on their own analysis of market conditions, independent of all theory and guided solely by actual or imagined facts. The inability to discover the economic laws of motion on the basis of

money and price considerations brought about a general despair as to the usefulness of all economic theory. Hopes arising in period of prosperity vanished again in ensuing depressions. The harmony assumed by the Classicists did not harmonize with the increasingly chaotic character of economic life; and just as the Pragmatists had ceased to believe in eternal, universal, unchangeable natural laws, so the Institutionalists ceased to believe that the Classical Concept could be regarded as corresponding to unchangeable economic processes. What had been taken as the "natural order of things" was now recognized as an abstraction serving specific ends; not corresponding to an objective reality, but serving as an instrument for a particular social practice. Not the insight into a general law, but the need for such a law to foster limited interests, was at the bottom of the Classical theory. As long as this ideology, accepted as a general law, served the function of its adherents, it was certainly justified; its validity was proved by its actual results. However, the discovery having been made that not an insight into the nature of things, but the will to reach certain results, determined the ideas and actions of men, it followed that all theory can serve merely as an instrument to fulfill desired purposes. It saw old psychological motivations as factors excluding conscious interference with the economic processes, and as fostering a will-less subordination under nonexistent, but simply assumed, "natural laws," and it believed it was necessary to intervene actively in the economic life of society, to make it function in a desirable way.

After the first great difficulties had been overcome in the process of industrialization, there arose very rapidly in America the tendency towards monopolization and trustification. "Big business" seemed to proceed under its own necessities and wishes toward the subordination of all other social layers. The assumed "mechanics" of the Classicists, or the determination of production by consumption, as assumed by the Marginal Utility theorists, no longer corresponded to the known facts. Concentration of capital, fostered by the development of the banking and credit system, seemed to give the big trusts and financial combinations dictatorial power over the whole of society. The principle of laissez-faire seemed to have served solely to camouflage a development that was progressively destroying even the outer resemblances of laissez-faire. The cry for intervention in the "automatic" laws of the market was no longer directed only against cheap foreign competition, as in the case of the Historical School of Carey and his following, but also against the growing power of the trusts and monopolies within the country,