Polanyi, Karl (1944 [1957]) *The Great Transformation.*
Capítulo 12

12

BIRTH OF THE LIBERAL CREED

ECONOMIC LIBERALISM was the organizing principle of a society engaged in creating a market system. Born as a mere penchant for nonbureaucratic methods, it evolved into a veritable faith in man's secular salvation through a self-regulating market. Such fanaticism was the result of the sudden aggravation of the task it found itself committed to: the magnitude of the sufferings that were to be inflicted on innocent persons as well as the vast scope of the interlocking changes involved in the establishment of the new order. The liberal creed assumed its evangelical fervor only in response to the needs of a fully deployed market economy.

To antedate the policy of *laissez-faire*, as is often done, to the time when this catchword was first used in France in the middle of the eighteenth century would be entirely unhistorical; it can be safely said that not until two generations later was economic liberalism more than a spasmodic tendency. Only by the 1820's did it stand for the three classical tenets: that labor should find its price on the market; that the creation of money should be subject to an automatic mechanism; that goods should be free to flow from country to country without hindrance or preference; in short, for a labor market, the gold standard, and free trade.

To credit François Quesnay with having envisaged such a state of affairs would be little short of fantastic. All that the Physiocrats demanded in a mercantilistic world was the free export of grain in order to ensure a better income to farmers, tenants, and landlords. For the rest their *ordre naturel* was no more than a directive principle for the regulation of industry and agriculture by a supposedly all-powerful and omniscient government. Quesnay's *Maximes* were intended to provide such a government with the viewpoints needed to translate into practical policy the principles of the *Tableau* on the basis of statistical data which he offered to have furnished periodically. The idea of a self-regulating system of markets had never as much as entered his mind.

In England, too, *laissez-faire* was interpreted narrowly; it meant freedom from regulations in production; trade was not comprised. Cotton manufactures, the marvel of the time, had grown from insignificance into the leading export industry of the country—yet the import of printed cottons remained forbidden by positive statute. Notwithstanding the traditional monopoly of the home market an export bounty for calico or muslin was granted. Protectionism was so ingrained that Manchester cotton manufacturers demanded, in 1800, the prohibition of the export of yarn, though they were conscious of the fact that this meant loss of business to them. An Act passed in 1791 extended the penalties for the export of tools used in manufacturing cotton goods to the export of models or specifications. The free trade origins of the cotton industry are a myth. Freedom from regulation in the sphere of production was all the industry wanted; freedom in the sphere of exchange was still deemed a danger.

One might suppose that freedom of production would naturally spread from the purely technological field to that of the employment of labor. However, only comparatively late did Manchester raise the demand for free labor. The cotton industry had never been subject to the Statute of Artificers and was consequently not hampered either by yearly wage assessments or by rules of apprenticeship. The Old Poor Law, on the other hand, to which latter-day liberals so fiercely objected, was a help to the manufacturers; it not only supplied them with parish apprentices, but also permitted them to divest themselves of responsibility towards their dismissed employees, thus throwing much of the burden of unemployment on public funds. Not even the Speenhamland system was at first unpopular with the cotton manufacturers; as long as the moral effect of allowances did not reduce the productive capacity of the laborer, the industry might have well regarded family endowment as a help in sustaining that reserve army of labor which was urgently required to meet the tremendous fluctuations of trade. At a time when employment in agriculture was still on a year's term, it was of great importance that such a fund of mobile labor should be available to industry in periods of expansion. Hence the attacks of the manufacturers on the Act of Settlement which hampered the physical mobility of labor. Yet not before 1795 was the repeal of that Act carried—only to be replaced by more, not less, paternalism in regard to the Poor Law. Pauperism still remained the concern of squire and countryside; and even harsh critics of Speenhamland like Burke, Bentham, and Malthus regarded themselves less as representatives of in-

dustrial progress than as propounders of sound principles of rural administration.

Not until the 1830's did economic liberalism burst forth as a crusading passion, and *laissez-faire* become a militant creed. The manufacturing class was pressing for the amendment of the Poor Law, since it prevented the rise of an industrial working class which depended for its income on achievement. The magnitude of the venture implied in the creation of a free labor market now became apparent, as well as the extent of the misery to be inflicted on the victims of improvement. Accordingly, by the early 1830's a sharp change of mood was manifest. An 1817 reprint of Townsend's *Dissertation* contained a preface in praise of the foresight with which the author had borne down on the Poor Laws and demanded their complete abandonment; but the editors warned of his "rash and precipitate" suggestion that outdoor relief to the poor should be abolished within so short a term as *ten* years. Ricardo's *Principles*, which appeared in the same year, insisted on the necessity of abolishing the allowance system, but urged strongly that this should be done only very gradually. Pitt, a disciple of Adam Smith, had rejected such a course on account of the innocent suffering it would entail. And as late as 1829, Peel "doubted whether the allowance system could be safely removed otherwise than gradually." [1] Yet after the political victory of the middle class, in 1832, the Poor Law Amendment Bill was carried in its most extreme form and rushed into effect without any period of grace. *Laissez-faire* had been catalyzed into a drive of uncompromising ferocity.

A similar keying up of economic liberalism from academic interest to boundless activism occurred in the two other fields of industrial organization: currency and trade. In respect to both of these *laissez-faire* waxed into a fervently held creed when the uselessness of any other but extreme solutions became apparent.

The currency issue was first brought home to the English community in the form of a general rise in the cost of living. Between 1790 and 1815 prices doubled. Real wages fell and business was hit by a slump in foreign exchanges. Yet not until the 1825 panic did sound currency become a tenet of economic liberalism, *i.e.*, only when Ricardian principles were already so deeply impressed on the minds of politicians and businessmen alike that the "standard" was maintained in spite of the enormous number of financial casualties. This was the beginning of that unshakable belief in the automatic steering mecha-

[1] Webb, S. and B., *op. cit.*

nism of the gold standard without which the market system could never have got under way.

International free trade involved no less an act of faith. Its implications were entirely extravagant. It meant that England would depend for her food supply upon overseas sources; would sacrifice her agriculture, if necessary, and enter on a new form of life under which she would be part and parcel of some vaguely conceived world unity of the future; that this planetary community would have to be a peaceful one, or, if not, would have to be made safe for Great Britain by the power of the Navy; and that the English nation would face the prospects of continuous industrial dislocations in the firm belief in its superior inventive and productive ability. However, it was believed that if only the grain of all the world could flow freely to Britain, then her factories would be able to undersell all the world. Again, the measure of the determination needed was set by the magnitude of the proposition and the vastness of the risks involved in complete acceptance. Yet less than complete acceptance would have spelt certain ruin.

The utopian springs of the dogma of *laissez-faire* are but incompletely understood as long as they are viewed separately. The three tenets —competitive labor market, automatic gold standard, and international free trade—formed one whole. The sacrifices involved in achieving any one of them were useless, if not worse, unless the other two were equally secured. It was everything or nothing.

Anybody could see that the gold standard, for instance, meant danger of deadly deflation and, maybe, of fatal monetary stringency in a panic. The manufacturer could, therefore, hope to hold his own only if he was assured of an increasing scale of production at remunerative prices (in other words, only if wages fell at least in proportion to the general fall in prices, so as to allow the exploitation of an ever-expanding world market). Thus the Anti-Corn Law Bill of 1846 was the corollary of Peel's Bank Act of 1844, and both assumed a laboring class which, since the Poor Law Amendment Act of 1834, was forced to give their best under the threat of hunger, so that wages were regulated by the price of grain. The three great measures formed a coherent whole.

The global sweep of economic liberalism can now be taken in at a glance. Nothing less than a self-regulating market on a world scale could ensure the functioning of this stupendous mechanism. Unless the price of labor was dependent upon the cheapest grain available, there was no guarantee that the unprotected industries would not

succumb in the grip of the voluntarily accepted task-master, gold. The expansion of the market system in the nineteenth century was synonymous with the simultaneous spreading of international free trade, competitive labor market, and gold standard; they belonged together. No wonder that economic liberalism turned into a secular religion once the great perils of this venture were evident.

There was nothing natural about *laissez-faire;* free markets could never have come into being merely by allowing things to take their course. Just as cotton manufactures—the leading free trade industry—were created by the help of protective tariffs, export bounties, and indirect wage subsidies, *laissez-faire* itself was enforced by the state. The thirties and forties saw not only an outburst of legislation repealing restrictive regulations, but also an enormous increase in the administrative functions of the state, which was now being endowed with a central bureaucracy able to fulfill the tasks set by the adherents of liberalism. To the typical utilitarian, economic liberalism was a social project which should be put into effect for the greatest happiness of the greatest number; *laissez-faire* was not a method to achieve a thing, it was the thing to be achieved. True, legislation could do nothing directly, except by repealing harmful restrictions. But that did not mean that *government* could no nothing, especially indirectly. On the contrary, the utilitarian liberal saw in government the great agency for achieving happiness. In respect to material welfare, Bentham believed, the influence of legislation "is as nothing" in comparison with the unconscious contribution of the "minister of the police." Of the three things needed for economic success—inclination, knowledge, and power—the private person possessed only inclination. Knowledge and power, Bentham taught, can be administered much cheaper by government than by private persons. It was the task of the executive to collect statistics and information, to foster science and experiment, as well as to supply the innumerable instruments of final realization in the field of government. Benthamite liberalism meant the replacing of Parliamentary action by action through administrative organs.

For this there was ample scope. Reaction in England had not governed—as it did in France—through administrative methods but used exclusively Parliamentary legislation to put political repression into effect. "The revolutionary movements of 1785 and of 1815–1820 were combated, not by departmental action, but by Parliamentary legislation. The suspension of the Habeas Corpus Act, the passing of

the Libel Act, and of the 'Six Acts' of 1819, were severely coercive measures; but they contain no evidence of any attempt to give a Continental character to administration. Insofar as individual liberty was destroyed, it was destroyed by and in pursuance of Acts of Parliament." [2] Economic liberals had hardly gained influence on government, in 1832, when the position changed completely in favor of administrative methods. "The net result of the legislative activity which has characterized, though with different degrees of intensity, the period since 1832, has been the building up piecemeal of an administrative machine of great complexity which stands in as constant need of repair, renewal, reconstruction, and adaptation to new requirements as the plant of a modern manufactury." [3] This growth of administration reflected the spirit of utilitarianism. Bentham's fabulous Panopticon, his most personal utopia, was a star-shaped building from the center of which prison wardens could keep the greatest number of jailbirds under the most effective supervision at the smallest cost to the public. Similarly, in the utilitarian state his favorite principle of "inspectability" ensured that the Minister at the top should keep effective control over all local administration.

The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. To make Adam Smith's "simple and natural liberty" compatible with the needs of a human society was a most complicated affair. Witness the complexity of the provisions in the innumerable enclosure laws; the amount of bureaucratic control involved in the administration of the New Poor Laws which for the first time since Queen Elizabeth's reign were effectively supervised by central authority; or the increase in governmental administration entailed in the meritorious task of municipal reform. And yet all these strongholds of governmental interference were erected with a view to the organizing of some simple freedom—such as that of land, labor, or municipal administration. Just as, contrary to expectation, the invention of labor-saving machinery had not diminished but actually increased the uses of human labor, the introduction of free markets, far from doing away with the need for control, regulation, and intervention, enormously increased their range. Administrators had to be constantly on the watch to ensure the free working of the system. Thus even those who wished most

[2] Redlich and Hirst, J., *Local Government in England,* Vol. II, p. 240, quoted Dicey, A. V., *Law and Opinion in England,* p. 305.

[3] Ilbert, *Legislative Methods,* pp. 212–3, quoted Dicey, A. V., *op. cit.*

ardently to free the state from all unnecessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with the new powers, organs, and instruments required for the establishment of *laissez-faire*.

This paradox was topped by another. While *laissez-faire* economy was the product of deliberate state action, subsequent restrictions on *laissez-faire* started in a spontaneous way. *Laissez-faire* was planned; planning was not. The first half of this assertion was shown above to be true. If ever there was conscious use of the executive in the service of a deliberate government-controlled policy, it was on the part of the Benthamites in the heroic period of *laissez-faire*. The other half was first mooted by that eminent liberal, Dicey, who made it his task to inquire into the origins of the "anti-*laissez-faire*" or, as he called it, the "collectivist" trend in English public opinion, the existence of which was manifest since the late 1860's. He was surprised to find that no evidence of the existence of such a trend could be traced *save the acts of legislation themselves*. More exactly, no evidence of a "collectivist trend" in public opinion *prior* to the laws which appeared to represent such a trend could be found. As to later "collectivist" opinion, Dicey inferred that the "collectivist" legislation itself might have been its prime source. The upshot of his penetrating inquiry was that there had been complete absence of any deliberate intention to extend the functions of the state, or to restrict the freedom of the individual, on the part of those who were directly responsible for the restrictive enactments of the 1870's and 1880's. The legislative spearhead of the countermovement against a self-regulating market as it developed in the half century following 1860 turned out to be spontaneous, undirected by opinion, and actuated by a purely pragmatic spirit.

Economic liberals must strongly take exception to this view. Their whole social philosophy hinges on the idea that *laissez-faire* was a natural development, while subsequent anti-*laissez-faire* legislation was the result of a purposeful action on the part of the opponents of liberal principles. In these two mutually exclusive interpretations of the double movement, it is not too much to say, the truth or untruth of the liberal position is involved today.

Liberal writers like Spencer and Sumner, Mises and Lippmann offer an account of the double movement substantially similar to our own, but they put an entirely different interpretation on it. While in our view the concept of a self-regulating market was utopian, and its progress was stopped by the realistic self-protection of society, in their

view all protectionism was a mistake due to impatience, greed, and shortsightedness, but for which the market would have resolved its difficulties. The question as to which of these two views is correct is perhaps the most important problem of recent social history, involving as it does no less than a decision on the claim of economic liberalism to be the basic organizing principle in society. Before we turn to the testimony of the facts, a more precise formulation of the issue is needed.

In retrospect our age will be credited with having seen the end of the self-regulating market. The 1920's saw the prestige of economic liberalism at its height. Hundreds of millions of people had been afflicted by the scourge of inflation; whole social classes, whole nations had been expropriated. Stabilization of currencies became the focal point in the political thought of peoples and governments; the restoration of the gold standard became the supreme aim of all organized effort in the economic field. The repayment of foreign loans and the return to stable currencies were recognized as the touchstones of rationality in politics; and no private suffering, no infringement of sovereignty, was deemed too great a sacrifice for the recovery of monetary integrity. The privations of the unemployed made jobless by deflation; the destitution of public servants dismissed without a pittance; even the relinquishment of national rights and the loss of constitutional liberties were judged a fair price to pay for the fulfillment of the requirement of sound budgets and sound currencies, these *a priori* of economic liberalism.

The thirties lived to see the absolutes of the twenties called in question. After several years during which currencies were practically restored and budgets balanced, the two most powerful countries, Great Britain and the United States, found themselves in difficulties, dismissed the gold standard, and started out on the management of their currencies. International debts were repudiated wholesale and the tenets of economic liberalism were disregarded by the wealthiest and most respectable. By the middle of the thirties France and some other states still adhering to gold were actually forced off the standard by the Treasuries of Great Britain and the United States, formerly jealous guardians of the liberal creed.

In the forties economic liberalism suffered an even worse defeat. Although Great Britain and the United States departed from monetary orthodoxy, they retained the principles and methods of liberalism in industry and commerce, the general organization of their economic life. This was to prove a factor in precipitating the war and a handicap

in fighting it, since economic liberalism had created and fostered the illusion that dictatorships were bound for economic catastrophe. By virtue of this creed democratic governments were the last to understand the implications of managed currencies and directed trade, even when they happened by force of circumstances to be practicing these methods themselves; also, the legacy of economic liberalism barred the way to timely rearmament in the name of balanced budgets and free enterprise, which were supposed to provide the only secure foundations of economic strength in war. In Great Britain budgetary and monetary orthodoxy induced adherence to the traditional strategic principle of limited commitments upon a country actually faced with total war; in the United States vested interests—such as oil and aluminum—entrenched themselves behind the taboos of liberal business and successfully resisted preparations for an industrial emergency. But for the stubborn and impassioned insistence of economic liberals on their fallacies, the leaders of the race as well as the masses of free men would have been better equipped for the ordeal of the age and might perhaps even have been able to avoid it altogether.

Secular tenets of social organization embracing the whole civilized world are not dislodged by the events of a decade. Both in Great Britain and in the United States millions of independent business units derived their existence from the principle of *laissez-faire*. Its spectacular failure in one field did not destroy its authority in all. Indeed, its partial eclipse may have even strengthened its hold since it enabled its defenders to argue that the incomplete application of its principles was the reason for every and any difficulty laid to its charge.

This, indeed, is the last remaining argument of economic liberalism today. Its apologists are repeating in endless variations that but for the policies advocated by its critics, liberalism would have delivered the goods; that not the competitive system and the self-regulating market, but interference with that system and interventions with that market are responsible for our ills. And this argument does not find support in innumerable recent infringements of economic freedom only, but also in the indubitable fact that the movement to spread the system of self-regulating markets was met in the second half of the nineteenth century by a persistent countermove obstructing the free working of such an economy.

The economic liberal is thus enabled to formulate a case which links the present with the past in one coherent whole. For who could deny that government intervention in business may undermine confidence?

Who could deny that unemployment would sometimes be less if it were not for out-of-work benefit provided by law? That private business is injured by the competition of public works? That deficit finance may endanger private investments? That paternalism tends to damp business initiative? This being so in the present, surely it was no different in the past. When around the 1870's a general protectionist movement—social and national—started in Europe, who can doubt that it hampered and restricted trade? Who can doubt that factory laws, social insurance, municipal trading, health services, public utilities, tariffs, bounties and subsidies, cartels and trusts, embargoes on immigration, on capital movements, on imports—not to speak of less open restrictions on the movements of men, goods, and payments—must have acted as so many hindrances to the functioning of the competitive system, protracting business depressions, aggravating unemployment, deepening financial slumps, diminishing trade, and damaging severely the self-regulating mechanism of the market? The root of all evil, the liberal insists, was precisely this interference with the freedom of employment, trade and currencies practiced by the various schools of social, national, and monopolistic protectionism since the third quarter of the nineteenth century; but for the unholy alliance of trade unions and labor parties with monopolistic manufacturers and agrarian interests, which in their shortsighted greed joined forces to frustrate economic liberty, the world would be enjoying today the fruits of an almost automatic system of creating material welfare. Liberal leaders never weary of repeating that the tragedy of the nineteenth century sprang from the incapacity of man to remain faithful to the inspiration of the early liberals; that the generous initiative of our ancestors was frustrated by the passions of nationalism and class war, vested interests, and monopolists, and above all, by the blindness of the working people to the ultimate beneficence of unrestricted economic freedom to all human interests, including their own. A great intellectual and moral advance was thus, it is claimed, frustrated by the intellectual and moral weaknesses of the mass of the people; what the spirit of Enlightenment had achieved was put to nought by the forces of selfishness In a nutshell, this is the economic liberal's defense. Unless it is refuted, he will continue to hold the floor in the contest of arguments.

Let us focus the issue. It is agreed that the liberal movement, intent on the spreading of the market system, was met by a protective countermovement tending towards its restriction; such an assumption, indeed, underlies our own thesis of the double movement. But while we assert

that the inherent absurdity of the idea of a self-regulating market system would have eventually destroyed society, the liberal accuses the most various elements of having wrecked a great initiative. Unable to adduce evidence of any such concerted effort to thwart the liberal movement, he falls back on the practically irrefutable hypothesis of covert action. This is the myth of the antiliberal conspiracy which in one form or another is common to all liberal interpretations of the events of the 1870's and 1880's. Commonly the rise of nationalism and of socialism is credited with having been the chief agent in that shifting of the scene; manufacturers' associations and monopolists, agrarian interests and trade unions are the villains of the piece. Thus in its most spiritualized form the liberal doctrine hypostasizes the working of some dialectical law in modern society stultifying the endeavors of enlightened reason, while in its crudest version it reduces itself to an attack on political democracy, as the alleged mainspring of interventionism.

The testimony of the facts contradicts the liberal thesis decisively. The antiliberal conspiracy is a pure invention. The great variety of forms in which the "collectivist" countermovement appeared was not due to any preference for socialism or nationalism on the part of concerted interests, but exclusively to the broader range of the vital social interests affected by the expanding market mechanism. This accounts for the all but universal reactions of predominantly practical character called forth by the expansion of that mechanism. Intellectual fashions played no role whatever in this process; there was, accordingly, no room for the prejudice which the liberal regards as the ideological force behind the antiliberal development. Although it is true that the 1870's and 1880's saw the end of orthodox liberalism, and that all crucial problems of the present can be traced back to that period, it is incorrect to say that the change to social and national protectionism was due to any other cause than the manifestation of the weaknesses and perils inherent in a self-regulating market system. This can be shown in more than one way.

First, there is the amazing diversity of the matters on which action was taken. This alone would exclude the possibility of concerted action. Let us cite from a list of interventions which Herbert Spencer compiled in 1884, when charging liberals with having deserted their principles for the sake of "restrictive legislation." [4] The variety of the subjects could hardly be greater. In 1860, authority was given to provide "ana-

[4] Spencer, H., *The Man vs. the State*, 1884.

lysts of food and drink to be paid out of local rates"; there followed an Act providing "the inspection of gas works"; an extension of the Mines Act "making it penal to employ boys under twelve not attending schools and unable to read or write." In 1861, power was given "to poor law guardians to enforce vaccination"; local boards were authorized "to fix rates of hire for means of conveyance"; and certain locally formed bodies "had given them powers of taxing the locality for rural drainage and irrigation works, and for supplying water to cattle." In 1862, an Act was passed making illegal "a coal-mine with a single shaft"; an Act giving the Council of Medical Education exclusive right "to furnish a Pharmacopoeia, the price of which is to be fixed by the Treasury." Spencer, horror-struck, filled several pages with an enumeration of these and similar measures. In 1863, came the "extension of compulsory vaccination to Scotland and Ireland." There was also an Act appointing inspectors for the "wholesomeness, or unwholesomeness of food"; a Chimney-Sweeper's Act, to prevent the torture and eventual death of children set to sweep too narrow slots; a Contagious Diseases Act; a Public Libraries Act, giving local powers "by which a majority can tax a minority for their books." Spencer adduced them as so much irrefutable evidence of an antiliberal conspiracy. And yet each of these Acts dealt with some problem arising out of modern industrial conditions and was aimed at the safeguarding of some public interest against dangers inherent either in such conditions or, at any rate, in the market method of dealing with them. To an unbiased mind they proved the purely practical and pragmatic nature of the "collectivist" countermove. Most of those who carried these measures were convinced supporters of *laissez-faire*, and certainly did not wish their consent to the establishment of a fire brigade in London to imply a protest against the principles of economic liberalism. On the contrary, the sponsors of these legislative acts were as a rule uncompromising opponents of socialism, or any other form of collectivism.

Second, the change from liberal to "collectivist" solutions happened sometimes over night and without any consciousness on the part of those engaged in the process of legislative rumination. Dicey adduced the classic instance of the Workmen's Compensation Act dealing with the employers' liability for damage done to his workmen in the course of their employment. The history of the various acts embodying this idea, since 1880, showed consistent adherence to the individualist principle that the responsibility of the employer to his employee must be regulated in a manner strictly identical with that govern-

ing his responsibility to others, *e.g.*, strangers. With hardly any change in opinion, in 1897, the employer was suddenly made the insurer of his workmen against any damage incurred in the course of their employment, a "thoroughly collectivistic legislation," as Dicey justly remarked. No better proof could be adduced that no change either in the type of interests involved, or in the tendency of the opinions brought to bear on the matter, caused the supplanting of a liberal principle by an antiliberal one, but exclusively the evolving conditions under which the problem arose and a solution was sought.

Third, there is the indirect, but most striking proof provided by a comparison of the development in various countries of a widely dissimilar political and ideological configuration. Victorian England and the Prussia of Bismarck were poles apart, and both were very much unlike the France of the Third Republic or the Empire of the Hapsburgs. Yet each of them passed through a period of free trade and *laissez-faire*, followed by a period of antiliberal legislation in regard to public health, factory conditions, municipal trading, social insurance, shipping subsidies, public utilities, trade associations, and so on. It would be easy to produce a regular calendar setting out the years in which analogous changes occurred in the various countries. Workmen's compensation was enacted in England in 1880 and 1897, in Germany in 1879, in Austria in 1887, in France in 1899; factory inspection was introduced in England in 1833, in Prussia in 1853, in Austria in 1883; in France in 1874 and 1883; muncipal trading, including the running of public utilities, was introduced by Joseph Chamberlain, a Dissenter and a capitalist, in Birmingham in the 1870's; by the Catholic "Socialist" and Jew-baiter, Karl Lueger, in the Imperial Vienna of the 1890's; in German and French municipalities by a variety of local coalitions. The supporting forces were in some cases violently reactionary and antisocialist as in Vienna, at other times "radical imperialist" as in Birmingham, or of the purest liberal hue as with the Frenchman, Edouard Herriot, Mayor of Lyons. In Protestant England, Conservative and Liberal cabinets labored intermittently at the completion of factory legislation. In Germany, Roman Catholics and Social Democrats took part in its achievement; in Austria, the Church and its most militant supporters; in France, enemies of the Church and ardent anticlericals were responsible for the enactment of almost identical laws. Thus under the most varied slogans, with very different motivations a multitude of parties and social strata put into effect almost exactly the same measures in a series of countries in

respect to a large number of complicated subjects. There is, on the face of it, nothing more absurd than to infer that they were secretly actuated by the same ideological preconceptions or narrow group interests as the legend of the antiliberal conspiracy would have it. On the contrary, everything tends to support the assumption that objective reasons of a stringent nature forced the hands of the legislators.

Fourth, there is the significant fact that at various times economic liberals themselves advocated restrictions on the freedom of contract and on *laissez-faire* in a number of well-defined cases of great theoretical and practical importance. Antiliberal prejudice could, naturally, not have been their motive. We have in mind the principle of the association of labor on the one hand, the law of business corporations on the other. The first refers to the right of workers to combine for the purpose of raising their wages; the latter, to the right of trusts, cartels, or other forms of capitalistic combines, to raise prices. It was justly charged in both cases that freedom of contract or *laissez-faire* was being used in restraint of trade. Whether workers' associations to raise wages, or trade associations to raise prices were in question, the principle of *laissez-faire* could be obviously employed by interested parties to narrow the market for labor or other commodities. It is highly significant that in either case consistent liberals from Lloyd George and Theodore Roosevelt to Thurman Arnold and Walter Lippmann subordinated *laissez-faire* to the demand for a free competitive market; they pressed for regulations and restrictions, for penal laws and compulsion, arguing as any "collectivist" would that the freedom of contract was being "abused" by trade unions, or corporations, whichever it was. Theoretically, *laissez-faire* or freedom of contract implied the freedom of workers to withhold their labor either individually or jointly, if they so decided; it implied also the freedom of businessmen to concert on selling prices irrespective of the wishes of the consumers. But in practice such freedom conflicted with the institution of a self-regulating market, and *in such a conflict the self-regulating market was invariably accorded precedence.* In other words, if the needs of a self-regulating market proved incompatible with the demands of *laissez-faire*, the economic liberal turned against *laissez-faire* and preferred—as any antiliberal would have done—the so-called collectivist methods of regulation and restriction. Trade union law as well as antitrust legislation sprang from this attitude. No more conclusive proof could be offered of the inevitability of antiliberal or "collectivist" methods under the conditions of modern industrial society than the fact that

even economic liberals themselves regularly used such methods in decisively important fields of industrial organization.

Incidentally, this helps to clarify the true meaning of the term "interventionism" by which economic liberals like to denote the opposite of their own policy, but merely betray confusion of thought. The opposite of interventionism is *laissez-faire* and we have just seen that economic liberalism cannot be identified with *laissez-faire* (although in common parlance there is no harm in using them interchangeably). Strictly, economic liberalism is the organizing principle of a society in which industry is based on the institution of a self-regulating market. True, once such a system is approximately achieved, less intervention of one type is needed. However, this is far from saying that market system and intervention are mutually exclusive terms. For as long as that system is not established, economic liberals must and will unhesitatingly call for the intervention of the state in order to establish it, and once established, in order to maintain it. The economic liberal can, therefore, without any inconsistency call upon the state to use the force of law; he can even appeal to the violent forces of civil war to set up the preconditions of a self-regulating market. In America the South appealed to the arguments of *laissez-faire* to justify slavery; the North appealed to the intervention of arms to establish a free labor market. The accusation of interventionism on the part of liberal writers is thus an empty slogan, implying the denunciation of one and the same set of actions according to whether they happen to approve of them or not. The only principle economic liberals can maintain without inconsistency is that of the self-regulating market, whether it involves them in interventions or not.

To sum up. The countermove against economic liberalism and *laissez-faire* possessed all the unmistakable characteristics of a spontaneous reaction. At innumerable disconnected points it set in without any traceable links between the interests directly affected or any ideological conformity between them. Even in the settlement of one and the same problem as in the case of workmen's compensation, solutions switched over from individualistic to "collectivistic," from liberal to antiliberal, from *"laissez-faire"* to interventionist forms without any change in the economic interest, the ideological influences or political forces in play, merely as a result of the increasing realization of the nature of the problem in question. Also it could be shown that a closely similar change from *laissez-faire* to "collectivism" took place in various countries at a definite stage of their industrial development, pointing to

the depth and independence of the underlying causes of the process so superficially credited by economic liberals to changing moods or sundry interests. Finally, analysis reveals that not even radical adherents of economic liberalism could escape the rule which makes *laissez-faire* inapplicable to advanced industrial conditions; for in the critical case of trade union law and antitrust regulations extreme liberals themselves had to call for manifold interventions of the state, in order to secure against monopolistic compacts the preconditions for the working of a self-regulating market. Even free trade and competition required intervention to be workable. The liberal myth of the "collectivist" conspiracy of the 1870's and 1880's is contrary to all the facts.

Our own interpretation of the double movement is, we find, borne out by the evidence. For if market economy was a threat to the human and natural components of the social fabric, as we insisted, what else would one expect than an urge on the part of a great variety of people to press for some sort of protection? This was what we found. Also, one would expect this to happen without any theoretical or intellectual preconceptions on their part, and irrespective of their attitudes towards the principles underlying a market economy. Again, this was the case. Moreover, we suggested that comparative history of governments might offer quasi-experimental support of our thesis if particular interests could be shown to be independent of the specific ideologies present in a number of different countries. For this also we could adduce striking evidence. Finally, the behavior of liberals themselves proved that the maintenance of freedom of trade—in our terms, of a self-regulating market—far from excluding intervention, in effect, demanded such action, and that liberals themselves regularly called for compulsory action on the part of the state as in the case of trade union law and antitrust laws. Thus nothing could be more decisive than the evidence of history as to which of the two contending interpretations of the double movement was correct: that of the economic liberal who maintained that his policy never had a chance, but was strangled by shortsighted trade unionists, Marxist intellectuals, greedy manufacturers, and reactionary landlords; or that of his critics, who can point to the universal "collectivist" reaction against the expansion of market economy in the second half of the nineteenth century as conclusive proof of the peril to society inherent in the utopian principle of a self-regulating market.