A HUMANE ECONOMY

would be in a bad way indeed if there did not, fortunately, exist groups which have a material interest in it and thereby form a natural counterweight to the fatal combination of protectionist interests and political passions such as nationalism and socialism. To help such groups may be regarded as a legitimate duty by the economist who weighs the opposing forces against each other.

The economist has all the less right to evade the duty of bringing his authority to bear on the controversies of economic policy since this duty has an important characteristic in common with every genuine duty. This is that it tends to be beset by vexations, and to withstand these vexations requires that same courage which is indispensable for defending the “dignity of truth.” By putting his view onto one of the scales, he lessens the relative weight of the other, and the interest and passions involved on the other side will feel provoked. They have a perfect right to resist by trying to prove that the reasons, assumptions, and conclusions of the inconvenient scientific verdict are wrong and that the scientific judgment against them is a misjudgment. The scholar would be foolish if he thought himself in possession of objective truth, and it is no dishonor for him to be disproved. But he has a right to expect that his search for truth, his intellectual integrity, is not suspected. Like the judge, he has an absolute claim, which should be effectively protected, to the assurance that factual criticism of his sentence will not be replaced by an attempt to smear his reputation with accusations of bribery, cowardice, or political prejudice.

Bad experiences of this kind do not seem to have been spared even Adam Smith, the father of economics and contemporary of Samuel Johnson. In a famous passage of his Wealth of Nations (Book IV, Chapter 2), he says that anyone who opposes unconquerable private interests or has authority enough to be able to thwart them must expect that “neither the most acknowledged probity, nor the highest rank, nor the greatest public services can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger.”

THE CONDITIONS AND LIMITS OF THE MARKET

The Asymmetry of the Market Economy

The role of natural nobility in general, and of science in particular, is seen with special clarity if we consider a very important circumstance which often does not receive sufficient attention. I have in mind what we might call the asymmetry of the market.

We know well enough that it would be foolish to regard the market, competition, and the play of supply and demand as institutions of which we can always expect the best in all circumstances. Nobody has better reasons to bear this in mind than the friend of the market economy. This general recognition leads us to a more particular one. The market frequently weights the scales in vital questions because it favors activities which are the source of gain and does not give sufficient scope to reasons which oppose these activities and should, in the general interest, have the greatest weight. The market thereby loses its authority in the ultimately most important decisions. It would be shortsighted of us to invoke the market or rely on it in such cases, and it becomes inevitable that we should seek decisions outside the market, beyond supply and demand. It is precisely for this purpose that the weight of authoritative opinions is needed. The highest interests of the community and the indispensable things of life have no exchange value and are neglected if supply and demand are allowed to dominate the field. We shall illustrate this point with a few particularly important examples.

The first example is advertising, a matter which repeatedly demands attention because it separates our era from all earlier ones as little else does, so much so that we might well call our century the age of advertising. A vast industry with enormous turnover figures lives on advertising, and it has generated such a colossus of influence and vested interests that it is hard to raise one’s voice against it except in a book, all other instruments of public opinion having moved so close to the colossus that, to say the least, they can no longer be regarded as free agents.
A HUMANE ECONOMY

We do not have to be told that advertising fulfills indispensable functions. Far be it from us to inveigh against it. But only the blind could fail to notice that commercialism, that is, the luxuriance of the market and its principles, causes the beauty of the landscape and the harmony of cities to be sacrificed to advertising. The reason that the danger is so great is that although money can be made from advertising, it cannot be made from resistance to advertising's excesses and perversions. Thousands get hard cash out of advertising, but the unsalable beauty and harmony of a country give to all a sense of well-being which cannot be measured by the market. Yet the non-marketable value, while incomparably higher than the marketable one, is bound to lose unless we come to its assistance and put on its scale enough moral weight to make up for the deficiency of mercantile weight. The market's asymmetry opens a gap which has to be closed from without, from beyond the market, and it would be sheer suicide on the part of the market economy's friends to leave to others the cheap triumph of this discovery. In one of the loveliest parts of Germany there lives an old man who has dedicated his life to fighting against the excesses of advertising; it is a downright desperate fight against ignorance, greed, and obtuseness, and he carries on this struggle out of love for beauty and harmony and out of devotion. This old man is a living embodiment of our proposition that the market economy is not enough and, at the same time, proof that it needs such wise and public-spirited men as much as competition and the free play of supply and demand.

Another closely related example is installment buying, of which we have already spoken in another context. Again, there is no symmetry in the market economy between the forces favoring this extraordinarily widespread modern form of sales promotion and the forces which impede it. Yet the warmest supporter of installment buying will not deny that it is in danger of excess and degeneration. As in the first case, the asymmetry is due to the fact that the impulses originating in the market work to the benefit of consumer credit because the interests of those who want to sell their wares are joined by the special interests of the finance institutes making money out of installment-plan sales. But no money is to be made by organizing cash purchases because they need no organization. Nevertheless, not to make debts is the sound practice and the one which should primarily be encouraged. So the cause of reasonable conduct, which is threatened from all sides, needs our support and encouragement, and we should do well to reinforce the brakes, which are none too strong. We can count ourselves fortunate that this almost abandoned cause still finds some active supporters in a few economic groups, such as the savings banks and isolated industrial and trading companies, whose own interests seem to lie there. Even so, cash trade will remain in a bad enough way, thanks to the above-mentioned asymmetry of the market.

One last example, the free world's trade with the Communist countries, euphemistically called East-West trade. Here we meet a familiar state of affairs. This trade is highly dangerous and objectionable and is apt to strengthen the power which the free world, if it is not to delude itself, must recognize as its own worst enemy and which, indeed, never misses an opportunity of stating this with brutal frankness or of making it clear by its attitude. But money can be made only by expanding East-West trade, not by restricting it. We have a paradoxical situation: on the one side, Moscow is anxious to make good the deficiencies of the Communist economic system by getting supplies of the most wanted goods from the market economies of the free world while, at the same time, plotting these economies' destruction; on the other side, Moscow has no stauncher allies in these designs than the Western businessmen, precisely the people who represent an economic system that is the diametric opposite of Communism and who would be the first to be eliminated if Communism were to win.

The cultural and political ideal for which the West fights and the defense of which is the meaning of its struggle against Communism is the ideal of freedom in the precise sense that politics
must not encroach upon the whole of life and society but must leave a large part of them independent. In other words, the West opposes its own pluralistic system to Communism’s monolithic one. This is the pride and the strength of the West and one of the essential conditions of the world of freedom in which alone we can breathe. The freedom of society resides in its pluralism and is defined by it; and one of the areas which must remain independent is, of course, the economy. By contrast, it is of the essence of the Communist empire that its economy and also its economic relations, as well as its cultural and all other relations with the Western world, are subordinated to the paramount purposes of politics.

We are faced with a totalitarian world empire which draws all matters, and above all the economy, into politics. It follows that each and every economic transaction with the Communist empire is an act of international politics, for the simple reason that the other party regards it as such. For this reason, any appeal to separate East-West trade discussions from politics reveals either unusual ignorance or an intention to further Communist aims, for it admirably suits Moscow’s game to represent the matter as harmless. It is a weakness of the West that the decisively political character of East-West trade is easy to obscure by invoking the principle of pluralistic liberty. For monolithic Communism, trade with the West is primarily a political act: for the pluralistic West, it is primarily an opportunity for business and profit. It is precisely the habit of respecting business interests which leads Western politicians to lend their ears to businessmen who profit from East-West trade and want to transpose into this political mine field the functions of business which are legitimate and proved in our own economic and social order. There are but few who stop to think whether in this case their business interests are not in conflict with overall political interests and with political interests, at that, which are a matter of life and death for all of us and most of all for Western “capitalists.”

The fact that the wind of private business interests fills the sails
These questions touch upon a very sore spot. It is one to which we cannot pay too much attention in this field beyond supply and demand. To put it briefly, the problem is whether, in a mass democracy, with its many kinds of perversions, it is at all possible for policy to serve the common interest. In effect, policy has to withstand not only the pressure of powerful interest groups but also mass opinions, mass emotions, and mass passions that are guided, inflamed, and exploited by pressure groups, demagogues, and party machines alike. All these influences are more dangerous than ever when the decisions in question, to be reasonable, require unusual factual knowledge and the just assessment of all circumstances and interests involved. This applies above all to the wide field of economic policy.29

Of these influences, we shall first single out interest groups. We shall have to be careful not to throw out the baby with the bath water. Such groups had no place in the original concept of the modern democratic state. The idea was that there was no room for legitimate separate interests beside what was called the common interest. The state was supposed to represent an indivisible common interest through co-operation between the executive, organized in the civil service, and parliamentary parties, which, in their turn, were to be divided by ideas rather than by material interests.30 It is well known that actual developments were less and less in line with this concept. Governments and political parties everywhere progressively became subject to the influence of groups and associations either pressing their particular claims upon both the legislative body and the administration or at least obstructing what did not suit them. One result is that political parties are swayed more by interests than by ideas; another, that the internal authority of the state and its claim to represent the common interest are impaired.

Thus the monistic state of democratic doctrine has developed into the pluralistic state of democratic practice. Although the written constitution proclaims the theory, it is complemented by the un-written paraconstitutional influence of particular groups embodied in vast mass organizations and interest groupings, in powerful concerns and cartels, in farmers’ unions and labor unions. The Capitol is besieged by pressure groups, lobbyists, and veto groups, to use the American political jargon. The structure of the modern state is the result of this interplay of constitutional institutions and paraconstitutional economic and social power. It is obvious that the discrepancy between democratic idea and constitutional law on the one hand and the hard facts of reality on the other puts a heavy strain on the modern democratic state. The idea itself appears compromised, and any responsible government must examine carefully all the possible means of resisting this pluralistic disintegration of the state. This process has accompanied the development of the modern state since its origins; more than a hundred years ago, Benjamin Constant, the great theoretician of constitutional government, warned against its dangers.31 But it was only in the last quarter of the nineteenth century that it gained conspicuously in extent and pace, and in our day it has reached a degree critical for democracy and for rational economic policy. No legislative act, no import duty, no important administrative measure escapes the attention of the pressure groups and their frequently successful attempts to deflect the government’s action to their own advantage.

It would be preaching to the converted to inveigh against the dangers of this development, but a few dispassionate remarks may be all the more useful.

The first circumstance which should give us cause for reflection is that the expression “pluralism,” which is here used in a derogatory sense, has a positive meaning in the Anglo-Saxon countries and has been used by ourselves more than once in that meaning. In this positive sense it implies something which is a source of pride and satisfaction; the salutary existence of counterweights to the overpowering power of the democratic doctrine’s monistic state, the république une et indivisible. Has not Montesquieu, too, spoken of the corps intermédiaires, whose necessary function it is to loosen
THE CONDITIONS AND LIMITS OF THE MARKET

minimize the number of those competing for the conquest and exploitation of that power. This ideal is achieved in the collectivist state, with the important difference, however, that it is usual in this case for an entirely new power group to triumph, which cheats all others of the booty.

These characteristics of unhealthy (offensive) pluralism explain why, during the last thirty or forty years, it has gained ground in exactly the same measure in which liberal economic policy has been displaced by centralist socialist policies. In the same measure, too, the opposite, defensive and sound pluralism, which we welcome, has lost influence and weight. State power on the one hand and economic and social power on the other have grown continuously and have progressively merged. The counterweights against this accumulation and alliance of power are federalism, local government, family, market economy, ownership, private enterprise, well-earned rights, corps intermédiaires—but they have become ever lighter during that period and by virtue of the same development. If we want to understand fully the nefarious effects of offensive interest groups, we must consider what I have called “pluralism of the second degree” (The Social Crisis of Our Time, p. 131). By this I mean that the mass organizations of interested parties dangerously increase the already alarming power of separate interests, to the detriment of the common interest. Moreover, the representation of these interests tends to stray into dubious paths because the officials of these organizations make a living from the representation of interests and therefore have a particular concern to justify their profession as ostentatiously as possible. They therefore not only tend to be more ruthless than those whose interests it is their business to defend, but they are constantly tempted to do so in a manner which demonstrates the useful and indispensable nature of their office as clearly as possible. It is obvious that this professional vested interest of the representatives of particular interests tends to interpret the latter in the light of the former and that the two

the giant unity of the state by geographical or professional separatism? Is it not our own conviction that the centralist monistic state is to be rejected? Is it not one of the distinguishing marks of a sound state to allow as much social, political, and intellectual independence as possible and to leave room for local government and autonomy, institutions and corporations, private groups with particular interests and particular rights? Is this not desirable in order to contain the state’s own striving for power, especially the democratic state’s, which is the more dangerous for posing as the representative of the “will of the people”? Are we, then, not entangling ourselves in a grave contradiction when we criticize “pluralism”?

The contradiction is resolved if we distinguish two kinds of pluralism, one justified and one unjustified, one sound and one unhealthy.

By sound pluralism we mean the case of particular groups defending themselves and their rights against the power of the state and the claims of other groups represented therein. This is a salutary limitation. A clear case in point is the landlords’ effort to prevent themselves, a politically weak minority, from being expropriated by the votes of the politically strong majority of tenants. Unhealthy pluralism, on the other hand, is not defensive but offensive. It does not limit the power of the state but tries to use it for its own purposes and make it subservient to these purposes. The state is opposed only when it crosses the interests of this kind of pluralism, which, for the rest, merely tries to exploit its power.

The immense danger of this unhealthy pluralism is that pressure groups covetously beset the state—the modern suitors of Penelope. The wider the limits of the state’s competence and the greater its power, the more interesting it becomes as an object of desire. The fewer the groups sharing the booty, the better it is for the participants in the marauding expedition. The ideal of such pluralism would be to maximize the power of the state in the economy and to
need not necessarily coincide. There is a refraction of the interests represented as they pass through the prism of the officials’ own particular interest.

The matter can be illustrated by an example which is of paramount importance today, namely, trade-unions. The prime interest of trade-union leaders is a continuous rise in money wages because this is a tangible and patent result of their efforts; they generally have only a secondary interest in raising real wages through price reductions or in other purposes which, for the well-being and happiness of workers and employees, may well be more important than wage increases. It is quite possible for price reductions to further the true interests of trade-union members better than wage increases, but from the point of view of the trade-union leaders themselves, price reductions have the disadvantage of obscuring their own merits. We shall see presently that this is undoubtedly one of the chief sources of the permanent inflation which characterizes the Western world today and also the reason why a “labour standard,” as Hicks says, has come to replace the old gold standard—though not at all to our benefit.8

So much for the power of pressure groups. If we now add the power of mass opinions, mass emotions, and mass passions, the combined effect of these forces and influences on economic policy will hardly seem surprising. A first result is that economic policy will tend to be irrational, that is, determined by what is “politically feasible” rather than by what is economically rational and just. The most spectacular example is that rent control, an irrational, ill-considered, and at the same time unsocial and inequitable intervention if ever there was one, can carry the day against unexceptionable arguments and against the better judgment of honest and intelligent politicians. Rent control is really nothing but the protection of one privileged special kind of tenants, those with old leases, at the expense of the landlords and later tenants alike. Yet it persists, and the explanation is no doubt that, on the one hand, it does need a little reflection and intelligence to see its full implica-

tions and that, on the other hand, politicians are afraid to renounce this object of cheap demagogy.33

A second result is that the power of pressure groups and the power of mass opinions, emotions, and passions mutually support each other and that group interests can be furthered by exploiting and mobilizing the ignorance, thoughtlessness, and vague feelings of the masses. This leads to the third result: that economic policy suffers from contradictions and degenerates into a sum of disconnected measures lacking a consistent principle. A telling example of the ensuing makeshift opportunism is that of a French finance minister who recently attacked, not the causes of inflation, but only its statistics, namely, the cost-of-living index, which determines the wage level in France. Where there are no principles or where principles cannot be effectively implemented, economic policy is at the mercy of the day’s political whims and so becomes a dangerous source of uncertainty, which merely aggravates nervousness and vacillation. All of this together is bound to impart to economic policy one overriding quality: it will follow political expediency, the line of least social resistance, the motto après nous le déluge (or, to quote Keynes again: “In the long run, we are all dead.”)

This means that contemporary economic policy tends to prefer what Walter Lippmann calls “soft” solutions, solutions which appear cheapest and most convenient at the moment, even if at the expense of the future. One of these is protectionism; to bar inconvenient foreign competition is often the solution which comes to mind first, among other reasons because it is, politically, the easiest. A second type of “soft” solution is reliance on the public treasury, powerfully supported by the “fiscalism” of our times. This reliance, incidentally, is, like the demand for protective tariffs and other import restrictions, nourished by the people’s obstinate inclination to believe in a sort of “fourth dimension” of economic and social policy and to forget that someone has to foot the bill, in one case the consumer, in the other the taxpayer. The consumer and the taxpayer become the “forgotten men” of our age—together with
the saver and the other victims of the erosion of the value of money. The third “soft” solution, as everybody knows, is inflation—and the “softer” for starting more mildly. This is the real key to the Western countries’ chronic inflation, which therefore, for reasons still to be discussed, deserves the name of “democratic-social inflation.”

This diagnosis must be pronounced with ruthless honesty because recognition of the danger is the first condition of overcoming it and also because this is the best service that can be rendered to a democracy threatened by its own excesses. The danger can be countered only by a long-term and comprehensive program.

A solution must be found to the problem of how the executive can gain in strength and independence so that it can become the safeguard of continuity and common interest without curtailing the essentials of democracy, namely, the dependence of government upon the consent of those governed, which alone makes government legitimate, and without giving rise to bureaucratic arbitrariness and omnipotence. It is urgently necessary to strengthen the feeling for the imponderable nature of community surpassing all separate interests and immediate claims and commanding the individual’s loyalty, even unto death; it is equally necessary to strengthen the feeling for the unchallengeable authority and power of government legitimately entrusted with managing the affairs of the community. At the same time, however, people must be liberated from the fear—only too justified in our days—of being at the mercy of a Leviathan. It is an enormously difficult problem. There can be no solution unless the state’s overgrown functions are drastically pruned and its economic, financial, and social policies are once more made subject to firm, simple, and universally understood rules inspired by the common interest and by a free economic order, without which there can be no protection against arbitrary power.

The most important aspect is, again, the spiritual and moral one. Individualism and utilitarianism, which give the individual’s inter-

ests and material profit so damaging a predominance, and legal positivism, which sees no further than the written law, must be counterbalanced by all the imponderables which ultimately are the basis of the nation as a permanent entity and without which disintegration is inevitable: the immutable standards of natural law, continuity, tradition, historical awareness, love of country, all the things which anchor a community in the hearts of men. The younger the state is and the more provisional it appears, the more pressingly must all efforts be directed toward this aim.

To this end, it is invaluable to have independent institutions beyond the arena of conflicts of interests—nstitutions possessing the authority of guardians of universal and lasting values which cannot be bought. I have in mind the judiciary, the central bank, the churches, universities, and foundations, a few newspapers and periodicals of unimpeachable integrity, an educational system which, by cultivating the universal and the classical, puts up a barrier to the teachings of utilitarianism and the specialization of knowledge, and, finally, that natural nobility of which we have already spoken.

In conclusion, I want to say a little more about the tasks and responsibilities falling to the academic representatives of economics in an age in which the conditions of rational economic policy serving the interests of the community and of a free society are more than ever threatened by the forces of mass democracy. Some people seem to think that the principal function of economics is to prepare the domination of society by “specialists” in economics, statistics, and planning, that is, a situation which I propose to describe as economocracy—a horrible word for a horrible thing. We have already gone quite far along this path, although it is no less dangerous to deliver state and society into the hands of such economists than into the hands of generals.

The true task of economics appears to me to be quite different, especially in a modern mass democracy. Its unglamorous but all the more useful mission is to make the logic of things heard in the midst of the passions and interests of public life, to bring to light
inconvenient facts and relationships, to weigh everything and assign it its due place, to prick bubbles and expose illusions and confusions, and to counter political enthusiasm and its possible aberrations with economic reason and demagogy with truth. Economics should be an anti-ideological, anti-utopian, disillusioning science. It could then render society the invaluable service of lowering the temperature of political passions, counteracting mass myths, and making life difficult for demagogues, financial wizards, and economic magicians. But economics must not itself become the willing servant of passions, of whose stultifying effects Dante says in Canto 13 of his Paradiso: “E poi l’affetto lo intelletto lega.”

The mission of economics is understood even better if we consider a problem which is peculiar to modern democracy and keeps recurring in economic policy. I have in mind the delay between some economic or social claim and its demagogic exploitation, on the one hand, and the moment, on the other, when the price of its fulfillment can no longer be concealed. If the economist repeatedly succeeds in reducing this delay by timely and effective explanation, he renders society a service which cannot be valued too highly, for in economic policy, as elsewhere, Chateaubriand’s words are true: “Le crime n’est pas toujours puni dans ce monde; les fautes le sont toujours.”

This does not by any means imply that we economists may retire into the ivory tower of scientific neutrality. Least of all can social scientists be spared a decision at the cross-roads of our civilization; we must not only be able to read the signs, but we must know which way to point and lead: the road to freedom, humanity, and unswerving truth or the road to servitude, violation of human nature, and falsehood. To evade this decision would be just as much trahison des clercs as to sacrifice the dignity of our science, which is truth, to the political and social passions of our time.

CHAPTER IV

Welfare State and Chronic Inflation

Communism is no immediate danger to the countries of the free Western world, nor does the specter of totalitarianism rear its ugly head among us, however great may be the threat of slow internal corruption and unscrupulous attack from outside. Neither a fully planned economy and general socialization nor the totalitarian state which necessarily goes with both are purposes for which the broad masses of the electorate can be successfully roused. What threatens the structure of our economy and society from within is something else: chronic diseases, spreading secretly and thereby all the more malignant. Their causes are hard to discover and their true nature is concealed from the superficial or thoughtless observer; they tempt individuals and groups with immediate advantages, while their fatal consequences take a long time to manifest themselves and are widely dispersed. This is precisely why these diseases are so greatly to be feared.

Among these slowly spreading cancers of our Western economy and society, two stand out: the apparently irresistible advance of the welfare state and the erosion of the value of money, which is called creeping inflation. There is a close link between the two through their common causes and mutual reinforcement. Both start slowly, but after a while the pace quickens until the deterioration is hard to arrest, and this multiplies the danger. If people knew