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A HUMANE ECONOMY

The Social Framework of the Free Market

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CHAPTER III

The Conditions and Limits of the Market

The questionable things of this world come to grief on their nature, the good ones on their own excesses. Conservative respect for the past and its preservation are indispensable conditions of a sound society, but to cling exclusively to tradition, history, and established customs is an exaggeration leading to intolerable rigidity. The liberal predilection for movement and progress is an equally indispensable counterweight, but if it sets no limits and recognizes nothing as lasting and worth preserving, it ends in disintegration and destruction. The rights of the community are no less imperative than those of the individual, but exaggeration of the rights of the community in the form of collectivism is just as dangerous as exaggerated individualism and its extreme form, anarchism. Ownership ends up in plutocracy, authority in bondage and despotism, democracy in arbitrariness and demagogy. Whatever political tendencies or currents we choose as examples, it will be found that they always sow the seed of their own destruction when they lose their sense of proportion and overstep their limits. In this field, suicide is the normal cause of death.

The market economy is no exception to the rule. Indeed, its advocates, in so far as they are at all intellectually fastidious, have always recognized that the sphere of the market, of competition, of the system where supply and demand move prices and thereby gov-

ern production, may be regarded and defended only as part of a wider general order encompassing ethics, law, the natural conditions of life and happiness, the state, politics, and power. Society as a whole cannot be ruled by the laws of supply and demand, and the state is more than a sort of business company, as has been the conviction of the best conservative opinion since the time of Burke. Individuals who compete on the market and there pursue their own advantage stand all the more in need of the social and moral bonds of community, without which competition degenerates most grievously. As we have said before, the market economy is not everything. It must find its place in a higher order of things which is not ruled by supply and demand, free prices, and competition. It must be firmly contained within an all-embracing order of society in which the imperfections and harshness of economic freedom are corrected by law and in which man is not denied conditions of life appropriate to his nature. Man can wholly fulfill his nature only by freely becoming part of a community and having a sense of solidarity with it. Otherwise he leads a miserable existence and he knows it.

Social Rationalism

The truth is that a society may have a market economy and, at one and the same time, perilously unsound foundations and conditions, for which the market economy is not responsible but which its advocates have every reason to improve or wish to see improved so that the market economy will remain politically and socially feasible in the long run. There is no other way of fulfilling our wish to possess both a market economy and a sound society and a nation where people are, for the most part, happy.

Economists have their typical *déformation professionelle*, their own occupational disease of the mind. Each of us speaks from personal experience when he admits that he does not find it easy to look beyond the circumscribed field of his own discipline and to acknowledge humbly that the sphere of the market, which it is his

profession to explore, neither exhausts nor determines society as a whole. The market is only one section of society. It is a very important section, it is true, but still one whose existence is justifiable and possible only because it is part of a larger whole which concerns not economics but philosophy, history, and theology. We may be forgiven for misquoting Lichtenberg and saying: To know economics only is to know not even that. Man, in the words of the Gospel, does not live by bread alone. Let us beware of that caricature of an economist who, watching people cheerfully disporting themselves in their suburban allotments, thinks he has said everything there is to say when he observes that this is not a rational way of producing vegetables—forgetting that it may be an eminently rational way of producing happiness, which alone matters in the last resort. Adam Smith, whose fame rests not only on his *Wealth of Nations* but also on his *Theory of Moral Sentiments*, would have known better.

All of this has always been clear to us, and this is why we have never felt quite comfortable in the company of "liberals," even when styled "neo-liberals." But for everything there is season. We have been through years of untold misery and disorders which so many Western countries, including, in particular, Germany, brought upon themselves by their disregard of the most elementary principles of economic order. During these years there was a compelling need to put the accent on the "bread" of which the Gospel speaks and on the re-establishment of an economic order based on the market economy. To do this was imperative. Today, when the market economy has been revived up to a point and when even its partial re-establishment more than fulfills our expectations, it is equally imperative to think of the other and higher things here under discussion. That the hour is ripe for this is appreciated by all who are wise enough to sense the danger of stopping short at "bread." It is a sign of the times that those who experience and voice these misgivings have become surprisingly numerous everywhere. They include a growing number of economists in several countries who,

independently of each other, are stepping out of the ivory tower of their science to explore the open country "beyond supply and demand."[1] As far as this author is concerned, he is doing no more than returning to scientific work of a kind which he has considered paramount ever since he wrote his book on *The Social Crisis of Our Time*.

To the economist, the market economy, as seen from the restricting viewpoint of his own discipline, appears to be no more than one particular type of economic order, a kind of "economic technique" opposed to the socialist one. It is significant of this approach that the very name of the structural principle of this economic order has been borrowed from the language of technology: we speak of the "price mechanism." We move in a world of prices, markets, competition, wage rates, rates of interest, exchange rates, and other economic magnitudes. All of this is perfectly legitimate and fruitful as long as we keep in mind that we have narrowed our angle of vision and do not forget that the market economy is the economic order proper to a definite social structure and to a definite spiritual and moral setting. If we were to neglect the market economy's characteristic of being merely a part of a spiritual and social total order, we would become guilty of an aberration which may be described as social rationalism.

Social rationalism misleads us into imagining that the market economy is no more than an "economic technique" that is applicable in any kind of society and in any kind of spiritual and social climate. Thus the undeniable success of the revival of the market economy in many countries gave quite a few socialists the idea that the price mechanism was a device which an otherwise socialist economy could well use to its own benefit. In this concept of a "socialist market economy," which Tito seems to want to translate into practice, the market economy is thought of as part of a social system that is best described as an enormous apparatus of administration. In this sense, even the Communist economic system of Soviet Russia has always had a "market sector," although it is undoubtedly no

more than a technical device and contrivance and not a living organism. How could a genuine market, an area of freedom, spontaneity, and unregimented order, thrive in a social system which is the exact opposite in all respects?

The same social rationalism is evident in the attitude of certain contemporary economists who, while not open partisans of socialism and sometimes speaking in the name of the market economy, work out the most elaborate projects for regulating the movements of the circular flow of the economy. They seem to be prepared to transform the economy into an enormous pumping engine with all sorts of ducts and valves and thermostats, and they not only seem confident that it will function according to the instructions for use but they also seem to be unaware of the question of whether such a machine is compatible with the atmosphere of the market, to which freedom is essential.

All of these protagonists of social rationalism—socialists and circular-flow technicians alike—have a common tendency to become so bemused by aggregate money and income flows that they overlook the fundamental significance of ownership. The market economy rests not on one pillar but on two. It presupposes not only the principle of free prices and competition but also the institution of private ownership, in the true sense of legally safeguarded freedom to dispose of one's own property, including freedom of testation.

To grasp the full significance of ownership to a free society, we must understand that ownership has a dual function. Ownership means, as in civil law, the delimitation of the individual sphere of decision and responsibility against that of other individuals. But ownership also means protection of the individual sphere from political power. It traces limits on the horizontal plane, and also vertically, and only this dual function can fully explain the significance of ownership as an indispensable condition of liberty. All earlier generations of social philosophers agreed on this point.

But ownership is not only a condition of the market economy, it

is of the essence. This becomes evident from the following considerations. We start out from competition. We all realize its central importance for a free economy, but the concept is obscured by a confusing ambiguity. Communist governments, too, claim that they are using competition extensively and successfully. We have no reason to doubt that in the factories of Soviet Russia, the managers, and even the workers and employees, have ample opportunity for competitive performance. And in Yugoslavia, Tito made a whole system of the "decentralization" of public enterprises whereby the latter were divided up into independent and mutually competing units; he seems to regard this system, with some pride, as a sort of "socialist market economy." There can be no doubt that such an introduction of competition into a collectivist economic system may raise productivity. Is this not the same virtue which we have in mind when we ascribe the rapid recovery of the German economy chiefly to the re-establishment of competition?

There is obviously some confusion here, which calls for clarification. The confusion is due to neglect of the dual nature of competition and to the lumping together of things which should be kept strictly separate. Competition may have two meanings: it may be an institution for stimulating effort, or it may be a device for regulating and ordering the economic process. In the market economy, competition is both, and it constitutes, therefore, an unrivaled solution of the two cardinal problems of any economic system: the problem of continual inducement to maximum performance and the problem of a continual harmonious ordering and guidance of the economic process. The role of competition in the market economy is to be mainspring and regulator at one and the same time, and it is this dual function which is the secret of the competitive market economy and its inimitable performance.

If we now return to the question of whether a collectivist economic order can take advantage of competition and thus appropriate the secret of the market economy's success without impairing the collectivist nature of the economic order, we know that the

answer depends upon which aspect of competition is meant. Competition as a stimulant is simply a psychological technique that is as applicable in a collectivist economy as in a market economy or, indeed, in any group, be it a school or a regiment or any other. We may even note that as far as the effects of competition on human destinies are concerned, it may, in collectivist systems, be hardened in a way that is unknown and impossible in the market economy. But the other function of competition, which is at least equally important for its economic effectiveness, the function of selection in the area of material means of production, meets with the greatest obstacles in collectivist systems. In relation to people, the carrot and the stick are ruthlessly applied, but it is quite another question whether in collectivist systems competition can accomplish so uncompromising, undeviating, and continual a selection of products and firms as takes place in the market economy.

Even on the unwarrantedly charitable assumption that collectivist public authorities resist the temptation to hush up investment errors and have the honest intention to carry out such a continual selection in accordance with the dictates of competition, they would lack the indispensable criterion. This brings us to the other function of competition: to serve as an instrument of the economic order as a whole and as a regulator of the economic process. Unlike the market economy, the collectivist economy is necessarily debarred from such use of competition because no collectivist system can create the necessary precondition without losing its own identity. This precondition is genuine economic independence of firms. Only on this condition is the formation of genuine scarcity prices for capital and consumer goods conceivable, but there can be no independence of firms without private ownership and related freedom of action.

Thus everything is interlocked: competition as a regulator of the economy presupposes free market prices; free market prices are impossible without genuine independence of economic units, and

their independence stands and falls by private ownership and freedom of decision, unimpaired and undisturbed by government planning. No collectivist economy can possibly satisfy the last of these conditions without ceasing to be collectivist, and therefore it cannot enjoy the advantages of the regulatory and guiding functions of competition. To try to arrange such competition artificially would be as absurd for a collectivist system as it would be for me to want to play bridge with myself. It follows that "socialist competition" can, at best, stimulate (economically not necessarily rational) performance but cannot rule and guide the economic process. It is only half of what competition is in the market economy, and we may well ask whether this bisection does not reduce the effectiveness of even that half of competition which alone is accessible to collectivism, namely, the stimulating effect. Be that as it may, it remains a serious weakness in any collectivist economy that competition can, at best, fulfill only one of its functions, and even that less than optimally. And it is the incomparable strength of the market economy that it alone can take advantage of the dual nature of competition, which is genuine and fully effective only when it is whole. Just as unavoidable limitation to one aspect of competition gravely handicaps collectivism, so does the combination of both aspects of competition give the market economy a start which cannot be overtaken. This is the prerogative of the market economy, but this prerogative stands and falls by private ownership of the means of production.

The economic function of private ownership tends to be obstinately underestimated, and even more so is its moral and sociological significance for a free society. The reason is, no doubt, that the ethical universe in which ownership has its place is hard for social rationalism even to understand, let alone to find congenial. And since social rationalism is in ascendancy everywhere, it is not surprising that the institution of ownership has been badly shaken. Even discussions on questions concerning the management of firms

are often conducted in terms which suggest that the owner has followed the consumer and the taxpayer into the limbo of "forgotten men." The true role of ownership can be appreciated only if we look upon it as representative of something far beyond what is visible and measurable. Ownership illustrates the fact that the market economy is a form of economic order belonging to a particular philosophy of life and to a particular social and moral universe. This we now have to define, and in so doing the word "bourgeois"* imposes itself, however much mass public opinion (especially of the intellectual masses) may, after a century of deformation by Marxist propaganda, dislike this designation or find it ridiculous.

In all honesty, we have to admit that the market economy has a bourgeois foundation. This needs to be stressed all the more because the romantic and socialist reaction against everything bourgeois has, for generations past, been astonishingly successful in turning this concept into a parody of itself from which it is very difficult to get away. The market economy, and with it social and political freedom, can thrive only as a part and under the protection of a bourgeois system. This implies the existence of a society in which certain fundamentals are respected and color the whole network of social relationships: individual effort and responsibility, absolute norms and values, independence based on ownership, prudence and daring, calculating and saving, responsibility for planning one's own life, proper coherence with the community, family feeling, a sense of tradition and the succession of generations combined with an open-minded view of the present and the future, proper tension between individual and community, firm moral discipline, respect for the value of money, the courage to grapple on one's own with life and its uncertainties, a sense of the natural order of things, and a firm scale of values. Whoever turns up his nose at these things

* The word "bourgeois" is here used to correspond to the German word *bürgerlich*, in a completely non-pejorative and non-political sense. As will be seen from the context, the word is used to designate a particular way of life and set of values.

or suspects them of being "reactionary" may in all seriousness be asked what scale of values and what ideals he intends to defend against Communism without having to borrow from it.

To say that the market economy belongs to a basically bourgeois total order implies that it presupposes a society which is the opposite of proletarianized society, in the wide and pregnant sense which it is my continual endeavor to explain, and also the opposite of mass society as discussed in the preceding chapter. Independence, ownership, individual reserves, saving, the sense of responsibility, rational planning of one's own life—all that is alien, if not repulsive, to proletarianized mass society. Yet precisely that is the condition of a society which cherishes its liberty. We have arrived at a point where we are simply forced to recognize that here is the true watershed between social philosophies and that every one of us must choose for himself, knowing that the choice is between irreconcilable alternatives and that the destiny of our society is at stake.

Once we have recognized this necessity of a fundamental choice, we must apply it in practice and draw the conclusions in all fields. It may come as a shock to many of us to realize how much we have already submitted to the habits of thought of an essentially unbourgeois world. This is true, not least, of economists, who like to think in terms of money flows and income flows and who are so fascinated by the mathematical elegance of fashionable macroeconomic models, by the problems of moving aggregates, by the seductions of grandiose projects for balanced growth, by the dynamizing effects of advertising or consumer credit, by the merits of "functional" public finance, or by the glamor of progress surrounding giant concerns—who are so fascinated by all this, I repeat—that they forget to consider the implications for the values and institutions of the bourgeois world, for or against which we have to decide. It is no accident that Keynes—and nobody is more responsible for this tendency among economists than he—has reaped fame and admiration for his equally banal and cynical observation that

"in the long run, we are all dead." And yet it should have been obvious that this remark is of the same decidedly unbourgeois spirit as the motto of the *ancien régime: Après nous le déluge.* It reveals an utterly unbourgeois unconcern for the future, which has become the mark of a certain style of modern economic policy and inveigles us into regarding it as a virtue to contract debts and as foolishness to save.

A most instructive example is the modern attitude toward an institution whose extraordinary development has caused it to become a much-discussed problem. I have in mind installment buying, or consumer credit. In its present form as a mass habit and in its extreme extent, it is certainly a conspicuous expression of an "unbourgeois" way of life. It is significant, however, that this view and the misgivings deriving from it are hardly listened to nowadays, let alone accepted. It is not, as we are often told, mere "bourgeois" prejudice but the lesson of millennial experience and consonant with man's nature and dignity and with the conditions of a sound society to regard it as an essential part of a reasonable and responsible way of life not to live from hand to mouth, to restrain impatience, self-indulgence, and improvidence alike, to think of the morrow, not to live beyond one's means, to provide for the vicissitudes of life, to try to balance income and expenditure, and to live one's life as a consistent and coherent whole extending beyond death to one's descendants rather than as a series of brief moments of enjoyment followed by the headaches of the morning after. To depart conspicuously from these precepts has always and everywhere been censured by sound societies as shiftless, spendthrift, and disreputable and has carried the odium of living as a parasite, of being incompetent and irresponsible. Even so happy-go-lucky a man as Horace was of one mind on this subject with Dickens' Mr. Micawber: "Annual income twenty pounds, annual expenditure nineteen nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."

Installment buying as a mass habit practiced with increasing carelessness is contrary to the standards of the bourgeois world in which the market economy must be rooted, and jeopardizes it. It is, at the same time, an indicator of how much of the humus of the bourgeois existence and way of life has already been washed away by social erosion, as well as an infallible measure of proletarianization, not in the sense of the material standard of living but of a style of life and moral attitude. The representatives of this style of life and moral attitude have lost their roots and steadfastness; they no longer rest secure within themselves; they have, as it were, been removed from the social fabric of family and the succession of generations. They suffer, unconsciously, from inner non-fulfillment, their life as a whole is stunted, they lack the genuine and essentially non-material conditions of simple human happiness. Their existence is empty, and they try to fill this emptiness somehow. One way to escape this tantalizing emptiness is, as we have seen, intoxication with political and social ideologies, passions, and myths, and this is where Communism still finds its greatest opportunity. Another way is to chase after material gratifications, and the place of ideologies is then taken by motor scooters, television sets, by quickly acquired but unpaid-for dresses—in other words, by the flight into unabashed, immediate, and unrestrained enjoyment. To the extent that such enjoyment is balanced not only by corresponding work but also by a reasonable plan of life, saving and provision for the future, and by the non-material values of habits and attitudes transcending the moment's enjoyment, to that extent the emptiness, and with it the "unbourgeois" distress, is, in fact, overcome. But unless this is the case, enjoyment remains a deceptive method of filling the void and is no cure.[2]

The incomprehension, and even hostility, with which such reflections are usually met nowadays is one more proof of the predominance of social rationalism, with all its variants and offshoots, and of the implied threat to the foundations of the market economy. One of these offshoots is the ideal of earning a maximum amount

of money in a minimum of working time and then finding an outlet in maximum consumption, facilitated by installment buying, of the standardized merchandise of modern mass production. *Homo sapiens consumens* loses sight of everything that goes to make up human happiness apart from money income and its transformation into goods. Two of the important factors that count in this context are how people work and how they spend their life outside work. Do people regard the whole of the working part of their life as a liability, or can they extract some satisfaction from it? And how do they live outside work, what do they do, what do they think, what part have they in natural, human existence? It is a false anthropology, one that lacks wisdom, misunderstands man, and distorts the concept of man, if it blinds us to the danger that material prosperity may cause the level of simple happiness not to rise but to fall because the two above-mentioned vital factors are in an unsatisfactory condition. Such anthropology also prevents us from recognizing the true nature of proletarianism and the true task of social policy.

It is, for instance, a superficial and purely materialist view of proletarianism to believe complacently that in the industrialized countries of the West the proletarians are becoming extinct like the dodo simply because of a shorter working week and higher wages, wider consumption, more effective legal protection of labor and more generous social services, and because of other achievements of current social policy. It is true that the proletariat, as understood by this kind of social rationalism, is receding. But there remains the question of whether, concurrently with this satisfactory development and perhaps because of it, ever wider classes are not engulfed in proletarianism as understood in a much more subtle sense, in the sense, that is, of a social humanism using other criteria which are really decisive for the happiness of man and the health of society. The criteria I have in mind are those which we know well already, the criteria beyond the market, beyond money incomes and their consumption. Only in the light of those criteria can we assess the tasks of genuine social policy, which I advocated fifteen years

ago in my book on *The Social Crisis of Our Time* and for which Alexander Rüstow has recently coined the felicitous term of "vital policy."

The circle of our argument closes. It is, again, private ownership which principally distinguishes a non-proletarian form of life from a proletarian one. Once this is recognized, the social rationalism of our time has really been left behind. We shall see in a later chapter how direct and short a road leads from here to the great problem of our era's constant inflationary pressure, which has developed into a danger to the market economy plain for all to see.[3]

The Spiritual and Moral Setting

One of the oversimplifications by which social rationalism distorts the truth is that Communism is a weed particular to the marshes of poverty and capable of being eradicated by an improvement in the standard of living. This is a fatal misconception. Surely everyone must realize by now that the world war against Communism cannot be won with radio sets, refrigerators, and wide-screen films. It is not a contest for a better supply of goods—unfortunately for the free world, whose record in this field cannot be beaten. The truth is that it is a profound, all-encompassing conflict of two ethical systems in the widest sense, a struggle for the very conditions of man's spiritual and moral existence. Not for one moment may the free world waver in its conviction that the real danger of Communism, more terrible than the hydrogen bomb, is its threat to wipe these conditions from the face of the earth. Anyone who rejects this ultimate, apocalyptic perspective must be very careful, lest, sooner or later, and perhaps for no worse reason than weakness or ignorance, he betray the greatest and highest values which mankind has ever had to defend. In comparison with this, everything else counts as nothing.

If we want to be steadfast in this struggle, it is high time to bethink ourselves of the ethical foundations of our own economic

system. To this end, we need a combination of supreme moral sensitivity and economic knowledge. Economically ignorant moralism is as objectionable as morally callous economism. Ethics and economics are two equally difficult subjects, and while the former needs discerning and expert reason, the latter cannot do without humane values.[4]

Let us begin with a few questions which we, as economists, may well put to ourselves. Are we always certain of our calling? Are we never beset by the sneaking doubt that although the sphere of human thought and action with which we deal is one of primary necessity, it may, for that very reason, be of a somewhat inferior nature? *Primum vivere, deinde philosophari*—certainly. But does this dictum not reflect an order of precedence? And when the Gospel says than man does not live by bread alone, does this not imply an admonition that once his prayer for his daily bread is fulfilled, man should direct his thoughts to higher things? Should we be free of such scruples and doubts—and this is not a matter for pride—others will assuredly bring them to our attention.

I myself had a characteristic experience in this respect. Some years before his death, I had the privilege of a discussion with Benedetto Croce, one of the greatest minds of our age. I had put forward the proposition that any society, in all its aspects, is always a unit in which the separate parts are interdependent and make up a whole which cannot be put together by arbitrary choice. I had maintained that this proposition, which is now widely known and hardly challenged, applied also to the economic order, which must be understood as part of the total order of society and must correspond to the political and spiritual order. We are not free, I argued, to combine just any kind of economic order, say, a collectivist one, with any kind of political and spiritual order, in this case the liberal. Since liberty was indivisible, we could not have political and spiritual liberty without also choosing liberty in the economic field and rejecting the necessarily unfree collectivist economic order; conversely, we had to be clear in our minds that a

collectivist economic order meant the destruction of political and spiritual liberty. Therefore, the economy was the front line of the defense of liberty and of all its consequences for the moral and humane pattern of our civilization. My conclusion was that to economists, above all, fell the task, both arduous and honorable, of fighting for freedom, personality, the rule of law, and the ethics of liberty at the most vulnerable part of the front. Economists, I said, had to direct their best efforts to the thorny problem of how, in the aggravating circumstances of modern industrial society, an essentially free economic order can nevertheless survive and how it can constantly be protected against the incursions or infiltrations of collectivism.

This was my part of the argument on that occasion, during the last war. Croce's astonishing reply was that there was no necessary connection between political and spiritual freedom on the one hand and economic freedom on the other. Only the first mattered; economic freedom belonged to a lower and independent sphere where we could decide at will. In the economic sphere, the only question was one of expediency in the manner of organizing our economic life, and this question was not to be related with the decisive and incomparably higher question of political and spiritual freedom. The economic question was of no concern to the philosopher, who could be liberal in the spiritual and political field and yet collectivist in the economic. The important movement for the defense of spiritual and political freedom was *liberalismo*, as Croce called it, to distinguish it from *liberismo*, by which slightening term he designated the defense of economic freedom.[5]

Croce's view hardly needs to be refuted today, and even his followers will not be inclined to defend it. But Croce's error has had a fatal influence on the development of Italian intellectuals and has smoothed the way to Communism for many of them. The mere fact that so eminent a thinker could be so utterly wrong about the place of economic matters in society proves how necessary it is to thresh this question out over and over again.

Naturally nobody would dream of denying that the aspect of society with which the economist deals belongs to the world of means, as opposed to ends, and that its motives and purposes therefore belong to a level which is bound to be low, if only because it is basic and at the foundation of the whole structure. This much we must grant a man like Croce. To take a drastic example, what interests economics is not the noble beauty of a medieval cathedral and the religious idea it embodies, but the worldly and matter-of-fact question of what place these monuments of religion and beauty occupied in the overall economy of their age. It is the complex of questions which, for instance, Pierre du Colombier has discussed in his charming book *Les chantiers des cathédrales*. We are fully aware that what concerns us as economists is, as it were, the prosaic and bare reverse side of the *décor*. When the materialistic interpretation of history regards the spiritual and political life of nations as a mere ideological superstructure on the material conditions of production, we are, as economists, very sensitive to the damning revelations of a philosophy of history that reduces higher to lower—a feeling which proves our unerring sense of the genuine scale of values.

All of this is so obvious that we need not waste another word on it. But equally obvious is the argument with which we must safeguard a proper place in the spiritual and moral world for the economy, which is our sphere of knowledge. What overweening arrogance there is in the disparagement of things economic, what ignorant neglect of the sum of work, sacrifice, devotion, pioneering spirit, common decency, and conscientiousness upon which depends the bare life of the world's enormous and ever growing population! The sum of all these humble things supports the whole edifice of our civilization, and without them there could be neither freedom nor justice, the masses would not have a life fit for human beings, and no helping hand would be extended to anyone. We are tempted to say what Hans Sachs angrily calls out to Walter von Stolzing in the last act of *Die Meistersinger:* "Do not despise the masters!"

We are all the more entitled to do so if, steering the proper middle course, we guard against exaggeration in the opposite direction. Romanticizing and moralistic contempt of the economy, including contempt of the impulses which move the market economy and the institutions which support it, must be as far from our minds as economism, materialism, and utilitarianism.

When we say *economism*, we mean one of the forms of social rationalism, which we have already met. We mean the incorrigible mania of making the means the end, of thinking only of bread and never of those other things of which the Gospel speaks. It is economism to succumb to those aberrations of social rationalism of which we have spoken and to all the implied distortions of perspective. It is economism to dismiss, as Schumpeter does, the problem of giant industrial concerns and monopoly with the highly questionable argument that mass production, the promotion of research, and the investment of monopoly profits raise the supply of goods, and to neglect to include in the calculation of these potential gains in the supply of material goods the possible losses of a non-material kind, in the form of impairment of the higher purposes of life and society. It is economism to allow material gain to obscure the danger that we may forfeit liberty, variety, and justice and that the concentration of power may grow, and it is also economism to forget that people do not live by cheaper vacuum cleaners alone but by other and higher things which may wither in the shadow of giant industries and monopolies. To take one example among many, nowhere are the economies of scale larger than in the newspaper industry, and if only a few press lords survive, they can certainly sell a maximum of printed paper at a minimum of pennies or cents; but surely the question arises of what there is to read in these papers and what such an accumulation of power signifies for freedom and culture. It is economism, we continue, to oppose local government, federalism, or decentralization of broadcasting with the argument that concentration is cheaper. It is economism, again, to measure the peasant's life exclusively by his money income without

asking what else determines his existence beyond supply and demand, beyond the prices of hogs and the length of his working day; and the worst economism is the peasant's own. It is, finally, that selfsame economism which misleads us into regarding the problem of economic stability merely as one of full employment, to be safeguarded by credit and fiscal policy, forgetting that besides equilibrium of national aggregates, equal importance should be attached to the greatest possible stability of the individual's existence—just as the springs of a car are as important for smooth driving as the condition of the road.[6]

When we say *materialism*, we mean an attitude which misleads us into directing the full weight of our thought, endeavor, and action towards the satisfaction of sensual wants. Almost indissolubly linked therewith is *utilitarianism*, which, ever since the heyday of that philosophy, has been vitiating our standards in a fatal manner and still regrettably distorts the true scale of values. One of the more likable of the high priests of that cult, Macaulay, wrote in his famous essay on Francis Bacon, the ancestor of utilitarianism and pragmatism, that the production of shoes was more useful than a philosophical treatise by Seneca; but once more we must ask the familiar question of whether shoes—not to mention the latest products of progress—are likely to be of much help to a man who, in the midst of a world devoted to that cult, has lost the moral bearings of his existence and who therefore, though he may not know why, is unhappy and frustrated. It is indeed our misfortune that mankind has, but for a small remnant, dissipated and scattered the combined spiritual patrimony of Christendom and antiquity, to which Seneca contributed a more than negligible portion. This is what our reaction should be today to a passage in another and no less famous of Macaulay's essays, bursting with derision and indignation about Southey, who, at the dawn of British industry, had had the temerity to say that a cottage with rosebushes beside the door was more beautiful than the bleak workers' houses which were sprouting all over the place—"naked, and in a row."[7]

Economism, materialism, and utilitarianism have in our time merged into a cult of productivity, material expansion, and the standard of living. This cult proves once again the evil nature of the absolute, the unlimited, and the excessive. Not too long ago, André Siegfried recalled Pascal's dictum that man's dignity resided in thought, and Siegfried added that although this had been true for three thousand years and was still valid for a small European elite, the real opinion of our age was quite different. It is that man's dignity resides in the standard of living. No astute observer can fail to note that this opinion has developed into a cult, though not many people would, perhaps, now speak as frankly as C. W. Eliot, for many years President of Harvard University, who, in a commemoration address in 1909, enounced the astonishing sentence: "The Religion of the Future should concern itself with the needs of the present, with public baths, play grounds, wider and cleaner streets and better dwellings."

This cult of the standard of living scarcely needs further definition after what we have already said. It is a disorder of spiritual perception of almost pathological nature, a misjudgment of the true scale of vital values, a degradation of man not tolerable for long. It is, at the same time, very dangerous. It will, eventually, increase rather than diminish what Freud calls the discontents of civilization. The devotee of this cult is forced into a physically and psychologically ruinous and unending race with the other fellow's standard of life—keeping up with the Joneses, as they say in America—and with the income necessary for this purpose. If we stake everything on this one card and forget what really matters, freedom above all, we sacrifice more to the idol than is right, so that, if once the material standard of living should recede by an inch or fail to rise at the rate the cult demands, we remain politically and morally disarmed and baffled. We are deprived of firmness, resistance, and valor in today's world struggle, where more than the standard of life (though it, too) is at stake; we become hesitant and cowardly, until it may be too late to realize that

exclusive concentration on the standard of living can lose us both that standard and freedom as well. This road to happiness is bound to lead to a dead end sooner or later. As we approach the limits of reasonable consumption, the cult of the standard of life must end up in disillusionment and eventual repugnance. Even now we are told by Riesman and other American sociologists that the mass of consumers is becoming so blasé that the most spectacular advertising effort can hardly break through. Color television, the second car in the family, the television screen in the private swimming pool—all right, but what then? Fortunately, the moment seems near when people begin to rediscover the charms of books and music, of gardening and the upbringing of their children.

One thing that makes the standard-of-life cult so dangerous is that it obscures the issue in the struggle between the free world and Communism. Again and again experience has shown how grave an error it is to believe that the counterforce to Communism which must form the moral core of the defense behind the West's military and political battle lines resides in faith in the power of the standard of living. It would be foolish, of course, to belittle or deny the importance of the standard of living in this contest. But one has not understood much about the phenomenon of modern totalitarianism if one still regards as an evil fruit of poverty this infernal mixture of unbridled power and deception of the masses—with spells concocted by morally unsettled and mentally confused intellectuals.

No, the source of the poison of Communist totalitarianism is our era's social crisis as a whole, which has now spread also to the colored peoples; it is the disintegration of the social structure and its spiritual and moral foundations. Communism thrives wherever the humus of a well-founded social order and true community has been removed by proletarianization, social erosion, and the disappearance of the bourgeois and peasant classes; it thrives where men, and intellectuals above all, have lost their roots and solidity and have been pried loose from the social fabric of the family, the succession of generations, neighborliness, and other true communi-

ties. Communism finds the most fertile soil of all wherever these processes of social disintegration are associated with religious decline, as first in China and now in the Moslem world and in Japan.

Totalitarianism gains ground exactly to the extent that the human victims of this process of disintegration suffer from frustration and non-fulfillment of their life as a whole because they have lost the true, pre-eminently non-material conditions of human happiness. For this reason it is certain that the decisive battle between Communism and the free world will have to be fought, not so much on the field of material living conditions, where the victory of the West would be beyond doubt, but on the field of spiritual and moral values. Communism prospers more on empty souls than on empty stomachs. The free world will prevail only if it succeeds in filling the emptiness of the soul in its own manner and with its own values, but not with electric razors. What the free world has to set against Communism is not the cult of the standard of living and productivity or some contrary hysteria, ideology, or myth. This would merely be borrowing Communism's own weapons. What we need is to bethink ourselves quietly and soberly of truth, freedom, justice, human dignity, and respect of human life and the ultimate values. For these we must set our course unerringly; we must cherish and strengthen the spiritual and moral foundations of these values and vital goods and try to create and preserve for mankind such forms of life as are appropriate to human nature and support and protect its conditions.[8]

The material prosperity of the masses is not an absolute standard, and a warning against regarding it as the West's principal weapon in the cold war is nowhere more justified than in the underdeveloped countries. For one thing, their case makes it particularly clear that the belief that people can be preserved from Communism by higher standards of living is dangerously superficial because it grossly exaggerates a factor which in itself is not unimportant and because it forgets the decisive spiritual and moral problems. In the underdeveloped countries, another factor assumes importance. The

road to higher living standards is sought in industrialization, urbanization, and general emulation of the advanced Western nations' society and civilization; but, even more than in the Western world, this usually leads at once to a revolutionary upheaval in all the traditional forms of life and thought. What happens then is ominously manifest, for instance, in Japan, where the dissolution of the old forms, powerfully promoted after the last war by an obtuse victor, has prepared the ground for the Communist seed in a manner which poverty and material destruction could never have achieved. For the same reason, it is regrettable that India seems to follow Nehru's materialist socialism rather than Gandhi's humane wisdom. Finally, as regards the present advance of Communism in the Arab countries, it is unfortunately clear that it owes much less to the poverty of the masses than to the incompetence of the ruling classes, hysterical hatred of the West, and to immature intellectuals bewildered by the decline of Islam.[9]

So there is a grave danger that in the especially vulnerable field of underdeveloped countries the free world may lose, by proletarianization, urbanization, intellectualization, disintegration of family and religion, and disruption of the ancient forms of life, everything it may hope to wring from Communism by modernization, mechanization, and industrialization. There is a possibility that the non-material consequences of "economic development" may cause more losses than its material consequences cause gains, and this possibility is enhanced by the West's arrogant tendency to underestimate these nations' loyalty to their traditions. Thus we play into the hands of Communism the trump card of unnecessarily hurt national, religious, and cultural susceptibilities that are already exacerbated by a pathological feeling of inferiority vis-à-vis the Western countries. What we should do instead is to use the entirely admirable loyalty of a people to its own traditions as a bulwark against Communism; we should encourage and respect this loyalty and set its forces of preservation against the dissolving and eroding effects of material Westernization.[10]

Let us return to our main theme. Whatever may be the proper place of the economy in the universal order, what is the ethical place of the specific economic order proper to the free world? This economic order is the market economy, and it is with its relationships that economics as a science is largely concerned. What, then, are the ethical foundations of the market economy?

"Supply and demand," "profit," "competition," "interest," "free play of forces," or whatever other words we may choose to characterize the free economic system prevailing, even if in imperfect form, outside the Communist world—do they not, to say the least, belong to an ethically questionable or even reprehensible sphere? Or to put it more bluntly, are we not living in an economic world or, as R. H. Tawney says, in an "acquisitive society" which unleashes naked greed, fosters Machiavellian business methods and, indeed, allows them to become the rule, drowns all higher motives in the "icy water of egotistical calculation" (to borrow from the *Communist Manifesto*), and lets people gain the world but lose their souls? Is there any more certain way of desiccating the soul of man than the habit of constantly thinking about money and what it can buy? Is there a more potent poison than our economic system's all-pervasive commercialism? Or can we still subscribe to that astonishing eighteenth-century optimism which made Samuel Johnson say: "There are few ways in which man can be more innocently employed than in getting money"?

Economists and businessmen who have a distaste for such questions or who would, at any rate, prefer to hand them over, with a touch of irony, to theologians and philosophers are ill advised. We cannot take these questions too seriously, nor must we close our eyes to the fact that it is not necessarily the most stupid or the worst who are driven into the camp of collectivist radicalism for lack of a satisfactory answer to these questions. Among these men are many who have a right to call themselves convinced Christians.

There is another and no less important reason why we should examine the ethical content of everyday economic life. This reason

is that the question concerns us most intimately because it reaches down to the levels from which our roots draw their life-giving sap. *Navigare necesse est, vivere non est necesse,* says an inscription on an old sailor's house in Bremen; we may generalize this into saying: Life is not worth living if we exercise our profession only for the sake of material success and do not find in our calling an inner necessity and a meaning which transcends the mere earning of money, a meaning which gives our life dignity and strength. Whatever we do and whatever our work, we must know what place we occupy in the great edifice of society and what meaning our activity has beyond the immediate purpose of promoting material existence. We must answer to ourselves for the social functions for which society rewards us with our income. It is a petty and miserable existence that does not know this, that regards the hours devoted to work as a mere means of earning money, as a liability to be balanced only by the satisfactions which the money counterpart of work procures.[11]

This feeling for the meaning and dignity of one's profession and for the place of work in society, whatever work it be, is today lost to a shockingly large number of people. To revive this feeling is one of the most pressing tasks of our times, but it is a task whose solution requires an apt combination of economic analysis and philosophical subtlety. This is, perhaps, truer of commerce than of other callings because the merchant's functions are more difficult to place in society than others. An activity which, at first sight, seems to consist of an endless series of purchases and sales does not display its social significance and professional dignity as readily as do the peasant's or the sailor's pursuits. The merchant himself is not easily aware of them, nor are others, who all too often treat him as a mere parasite of society, an ultimately redundant intermediary whose "trading margins" are resented as an irksome levy and whom one would like to eliminate wherever possible. How infinitely more difficult must it be, then, to explain to a layman the functions of stock-exchange speculation and to defeat the almost ineradicable

prejudices which fasten onto this favorite subject for anti-capitalist critics?

This is the place, too, to note that the hard-boiled business world, which ignores such questions or leaves them, with contempt, to the "unbusinesslike" intellectuals, and these same intellectuals' distrust of the business world match and mutually exacerbate each other. If the business world loses its contact with culture and the intellectuals resentfully keep their distance from economic matters, then the two spheres become irretrievably alienated from each other. We can observe this in America in the anti-intellectualism of wide circles of businessmen and the anti-capitalism of equally wide circles of intellectuals. It is true that intellectuals have infinitely less social prestige in America than in Europe and that they are much less integrated in the network of society and occupy a much more peripheral place than their brothers in Europe. They retaliate for this seating plan at the nation's table with their anti-capitalism, and the businessmen and entrepreneurs repay the intellectuals' hostility by despising them as "eggheads."

In so dynamic a competitive economy, the American intellectuals have to admit that the gulf between education and wealth, which is derided in Europe in the person of the *nouveau riche,* is the rule rather than the exception, as it should be; on the other hand, American businessmen easily fall into the habit of treating the intellectual as a pompous and would-be-clever know-all who lacks both common sense and a sound scale of values. Since in both cases the caricature is often not very far from the truth, the result is a vicious circle of mutually intensifying resentment which threatens to end up in catastrophe. One has to break out of this vicious circle by making the world of the mind as respectable to the business world as, conversely, the business world to the world of the mind.

Naturally, there is no question of taking sides with American intellectuals when they rebel against a predominantly commercial society with which they have little in common. But it must be conceded that it will not be easy to hold down this rebellion as long as

the tension between business and culture is not considerably diminished. This tension is particularly obvious in the United States and in all the overseas territories of European expansion. It would be unfair to expect the diminution to come from only one side, and the task would become harder if we were simply to blame the American anti-capitalist intellectuals and not try also to understand their point of view. The chain reaction between the business world's distrust of intellectuals and the intellectuals' retaliating resentment should be broken by both sides: the intellectuals should abandon untenable ideologies and theories, and the "capitalists" should adopt a philosophy which, while rendering unto the market the things that belong to the market, also renders unto the spirit what belongs to it. Both movements together should merge into a new humanism in which the market and the spirit are reconciled in common service to the highest values. It need hardly be mentioned that we Europeans have no reason to strike any holier-than-thou attitudes about these problems. If things are, on the whole, still a little better in Europe, this is due to no merit of ours but to an historical heritage which beneficially slows down a development we share with "Europe overseas."[12]

What, then, is our answer to the great question we asked at the beginning? At what ethical level, in general, must we situate the economic life of a society which puts its trust in the market economy?

It is rather like the ethical level of average man, of whom Pascal says: "*L'homme n'est ni ange ni bête, et le malheur veut que qui veut faire l'ange fait la bête.*" To put it briefly, we move on an intermediate plane. It is not the summit of heroes and saints, of simon-pure altruism, selfless dedication, and contemplative calm, but neither is it the lowlands of open or concealed struggle in which force and cunning determine the victor and the vanquished.

The language of our science constantly borrows from these two contiguous spheres to describe modern economic processes, and it is characteristic of our uncertainty that we usually reach either

too high or too low. When we speak of "service" to the consumer, we obviously have in mind not St. Elizabeth but the assistant who wipes the windshield of our car at the filling station, and the "conquest" of a market brings to mind the traveling salesman, tempting prospectuses, and rattling cranes rather than thundering tanks or booming naval guns.[13] It is true that in our middle plateau of everyday economic life there is, fortunately, as much room for elevations into the higher sphere of true devotion as there is for depressions of violence and fraud; nevertheless, it will generally be granted that the world in which we do business, bargain, calculate, speculate, compare bids, and explore markets ethically corresponds by and large to that middle level at which the whole of everyday life goes on. Reliance on one's own efforts, initiative under the impulse of the profit motive, the best possible satisfaction of consumer demand in order to avoid losses, safeguarding one's own interests in constant balance with the interests of others, collaboration in the guise of rivalry, solidarity, constant assessment of the weight of one's own performance on the incorruptible scales of the market, constant struggle to improve one's own real performance in order to win the prize of a better position in society—these and many other formulations are used to characterize the ethical climate of our economic world. They are imperfect, groping, and provisional, perhaps also euphemistic, but they do express what needs to be said at this point in our reflections.

This ethical climate, we must add at once, is lukewarm, without passions, without enthusiasm, but also, in the language of one of Heine's poems, without "prodigious sins" and without "crimes of blood"; it is a climate which, while not particularly nourishing for the soul, at least does not necessarily poison it. On the other hand, it is a favorable climate for a certain atmosphere of minimal consideration and for the elementary justice of a certain correspondence of give and take and most favorable, whatever one may say, for the development of productive energy. That this energy is applied not to the construction of pyramids and sumptuous palaces

but to the continual improvement of the well-being of the masses and that this happens because of the effect of all-powerful forces proper to the structure and ethical character of our free economic order is perhaps the greatest of the assets in its overall balance sheet.

This view of the ethical climate of the market has distinguished ancestors. In 1748, Montesquieu wrote in his book *L'Esprit des Lois* of the spirit of our market economy (which he calls *esprit de commerce*): "It creates in man a certain sense of justice, as opposed, on the one hand, to sheer robbery, but on the other also to those moral virtues which cause us not always to defend our advantage to the last and to subordinate our interest to those of others" (Book XX, Chapter 2). We may add that our era's market-economy society may claim to be less subject to compulsion and power than any other society in history, though it is perhaps for that very reason all the more prone to deception as a means of persuasion. We shall have more to say about this later.

The poem by Heine to which we alluded is "Anno 1829," and the lines we referred to are these:

> Prodigious sins I'd rather see
> And crimes of blood, enormous, grand,
> Than virtue, self-content and fat,
> Morality with cash in hand.

Who does not know such moments of despair in the face of Philistine self-satisfaction and ungenerousness? But this should not cause us to forget the real issue here, namely, the eternal romantic's contempt of the economy, a contempt shared often enough by reactionaries and revolutionaries, as well as by aloof aesthetes. Nevertheless, there remains the question of whether we really prefer to do away with "virtue" and go hungry, to give up "morality" and go bankrupt.

As a matter of fact, a certain opprobrium was attached for many centuries to that middle level of ethics which is proper to any es-

sentially free economy. It is the merit of eighteenth-century social and moral philosophy, which is the source of our own discipline of political economy, to have liberated the crafts and commercial activities—the banausic (the Greek βάνανσος means "the man at the stove") as they were contemptuously called in the slave economy of Athens—from the stigma of the feudal era and to have obtained for them the ethical position to which they are entitled and which we now take for granted.

It was a "bourgeois" philosophy in the true sense of the word, and one might also legitimately call it "liberal." It taught us that there is nothing shameful in the self-reliance and self-assertion of the individual taking care of himself and his family, and it led us to assign their due place to the corresponding virtues of diligence, alertness, thrift, sense of duty, reliability, punctuality, and reasonableness. We have learned to regard the individual, with his family, relying on his own efforts and making his own way, as a source of vital impulses, as a life-giving creative force without which our modern world and our whole civilization are unthinkable.

In order to appreciate just how important this "bourgeois" spirit is for our world, let us consider the difficulty of implanting modern economic forms in the underdeveloped countries, which often lack the spiritual and moral conditions here under discussion. We in the West take them for granted and are therefore hardly aware of them, but the spokesmen of the underdeveloped countries frequently see only the outward economic success of Western nations and not the spiritual and moral foundations upon which it rests. A sort of human humus must be there, or at least be expected to form, if Western industry is to be successfully transplanted. Its ultimate conditions remain accuracy, reliability, a sense of time and duty, application, and that general sense of good workmanship which is obviously at home in only a few countries. With some slight exaggeration, one might put it this way: modern economic activity can thrive only where whoever says "tomorrow" means tomorrow and not some undefined time in the future.[14]

In the Western world, "interested" activity has, without doubt, a positive value as the mainspring of society, civilization, and culture. Some may still protest in the name of Christian teaching, but in so doing, they merely reveal that they have, for their part, not yet overcome the eschatological communism of the Acts of the Apostles.[15] After all, "the doctrine of self-reliance and self-denial, which is the foundation of political economy, was written as legibly in the New Testament as in the *Wealth of Nations*," and Lord Acton, the distinguished English historian to whom we owe this bold statement, rightly adds that this was not realized until our age.[16] The history of literature is very revealing: for Molière, the bourgeois was still a comic figure, and when for once Shakespeare introduces a merchant as such, it is Shylock. It is a long way to Goethe's *Wilhelm Meister*, where we move in the bourgeois trading world and where even double-entry bookkeeping is transfigured by philosophy and poetry.

To make this even clearer, let us turn the tables and see what happens when we give free rein to those who condemn the market, competition, profit, and self-interest in the name of a "higher" morality and who deplore the absence of the odor of sanctity in individual self-assertion. They clearly do violence to one side of human nature, a side which is essential to life and which balances the other, nobler side of selfless dedication. This kind of moralism asks too much of ordinary people and expects them constantly to deny their own interests. The first result is that the powerful motive forces of self-interest are lost to society. Secondly, the purposes of this "higher" economic morality can be made to prevail only by doing something eminently immoral, namely, by compelling people—by force or cunning and deception—to act against their own nature. In all countries in which a collectivist system has been set up, in the name of many high-sounding purposes and not least of an allegedly "higher" morality, police and penalties enforce compliance with economic commands, or else people are kept in a state of permanent intoxication by emotional ideologies and rousing propaganda—as far and as long as it may be possible.

This, as we all know, regularly happens whenever the market is replaced by a collectivist economy. The market economy has the ability to use the motive power of individual self-interest for turning the turbines of production; but if the collectivist economy is to function, it needs heroes or saints, and since there are none, it leads straight to the police state. Any attempt to base an economic order on a morality considerably higher than the common man's must end up in compulsion and the organized intoxication of the masses through propaganda. To cite Pascal again, ". . . *et qui veut faire l'ange fait la bête.*" This is one of the principal reasons for the fact, with which we are already familiar, that a free state and society presuppose a free economy. Collectivist economy, on the other hand, leads to impoverishment and tyranny, and this consequence is obviously the very opposite of "moral." Nothing could more strikingly demonstrate the positive value of self-interested action than that its denial destroys civilization and enslaves men. In "capitalism" we have a freedom of moral choice, and no one is *forced* to be a scoundrel. But this is precisely what we are forced to be in a collectivist social and economic system. It is tragically paradoxical that this should be so, but it is, because the satanic rationale of the system presses us into the service of the state machine and forces us to act against our consciences.

However, to reduce the motives of economic action solely to the desire to obtain material advantage and avoid material loss would result in too dark a picture of the ethical basis of our free economic system. The ordinary man is not such a *homo œconomicus*, just as he is neither hero nor saint. The motives which drive people toward economic success are as varied as the human soul itself. Profit and power do move people, but so do the satisfactions of professional accomplishment, the wish for recognition, the urge to improve one's performance, the dream of excavating Troy (as in the famous example of Schliemann), the impulse to help and to give, the passion of the art or book collector, and many other things.[17] But even if we discover nothing better than the motive of bare material advantage, we should never forget that the man who decently provides

for himself and his family by his own effort and on his own responsibility is doing no small or mean thing. It should be stated emphatically that he is more deserving of respect than those who, in the name of a supposedly higher social morality, would leave such provision to others. This applies also to that further category of people who pride themselves on their generosity at others' expense and shed tears of emotion about themselves when their advocacy of a well-oiled welfare state earns them a place in the hearts of the unsuspecting public—and, at the same time, on some political party's list of candidates.

Anyone who knows anything about economics will realize at once that these considerations suggest a familiar answer to an obvious question. What will happen when these individualist motives induce people to do things which are manifestly harmful to others?

Again we turn to the social philosophy of the eighteenth century and its lessons. An economy resting on division of labor, exchange, and competition is an institution which, in spite of its occasionally highly provocative imperfections, does tend, more than any other economic system, to adjust the activities governed by individual interests to the interests of the whole community. We know the mechanism of this adjustment. The individual is forced by competition to seek his own success in serving the market, that is, the consumer. Obedience to the market ruled by free prices is rewarded by profit, just as disobedience is punished by loss and eventual bankruptcy. The profits and losses of economic activity, calculated as precisely and correctly as possible by the methods of business economics, are thus at the same time the indispensable guide to a rational economy as a whole. Collectivist economies, of whatever degree of collectivism, try in vain to replace this guidance by planning.

These simplified formulations are, of course, highly inadequate, although the truth they contain is undeniable. We need not waste many words over this or over the large and perhaps increasing number of cases where even the market and competition fail to dis-

charge the enormous task of adjusting individual economic action to the common interest. It hardly needs to be stressed, either, how difficult it is to keep competition as such free and satisfactory. Any more or less well-informed person knows that these unsolved tasks and difficulties constitute the thorny problems of an active economic and social policy and that they cannot be taken too seriously.

However, this is not the place to discuss them. There is something else, though, which does need stressing in this context. Have we said all there is to say when we have underlined the importance of competition, and of the price mechanism moved by competition, in regulating an economic system whose principle it is to leave individual forces free? Is it enough to appeal to people's "enlightened self-interest" to make them realize that they serve their own best advantage by submitting to the discipline of the market and of competition?

The answer is decidedly in the negative. And at this point we emphatically draw a dividing line between ourselves and the nineteenth-century liberal utilitarianism and immanentism, whose traces are still with us. Indeed, there is a school which we can hardly call by any other name but liberal anarchism, if we reflect that its adherents seem to think that market, competition, and economic rationality provide a sufficient answer to the question of the ethical foundations of our economic system.

What is the truth? The truth is that what we have said about the forces tending to establish a middle level of ethics in our economic system applies only on the tacit assumption of a modicum of primary ethical behavior. We have made it abundantly clear that we will have no truck with a sort of economically ignorant moralism which, like Mephistopheles in reverse, always wills the good and works the bad. But we must add that we equally repudiate morally callous economism, which is insensitive to the conditions and limits that must qualify our trust in the intrinsic morality of the market economy. Once again, we must state that the market economy is not enough.

In other words, economic life naturally does not go on in a moral vacuum. It is constantly in danger of straying from the ethical middle level unless it is buttressed by strong moral supports. These must simply be there and, what is more, must constantly be impregnated against rot. Otherwise our free economic system and, with it, any free state and society must ultimately collapse.

This also applies in the narrower sense of competition alone. Competition is essential in restraining and channeling self-interest, but it must constantly be protected against anything tending to vitiate it, restrict it, and cause its degeneration. This cannot be done unless everybody not only accepts the concept of free and fair competition but in practice lives up to his faith. All individuals and groups, not excluding trade-unions (as must be stressed in view of a widespread social priggishness), who take part in economic life must make a constant moral effort of self-discipline, leaving as little as possible to an otherwise indispensable government-imposed compulsory discipline. It is by no means enough to invoke the laws of the market in appealing to people's enlightened self-interest and their economic reason, for within certain limits, cartels, labor unions, pressure groups, and trade associations serve their members' interests very well indeed when they exercise monopoly power or pressure on the government's economic policy in an attempt to get more than genuine and fair competition would give them. There must be higher ethical values which we can invoke successfully: justice, public spirit, kindness, and good will.[18]

So we see that even the prosaic world of business draws on ethical reserves by which it stands and falls and which are more important than economic laws and principles. Extra-economic, moral, and social integration is always a prerequisite of economic integration, on the national as on the international plane. As regards the latter, it should be especially emphasized that the true and ultimate foundation of international trade, a foundation of which our textbooks have little to say, is that unwritten code of normal ethical behavior which is epitomized in the words *pacta sunt servanda*.[19]

The market, competition, and the play of supply and demand do not create these ethical reserves; they presuppose them and consume them. These reserves have to come from outside the market, and no textbook on economics can replace them. J. B. Say was mistaken in his youthful work *Olbie ou Essai sur les moyens de réformer les moeurs d'une nation*, a liberal utopian fantasy published in 1800, when he naïvely proposed to hand the citizens of his paradise "un bon traité d'économie politique" as a "premier livre de morale." That valiant utilitarian Cobden also seems to have thought in all seriousness that free-trade theory was the best way to peace.

Self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, firm ethical norms—all of these are things which people must possess before they go to market and compete with each other. These are the indispensable supports which preserve both market and competition from degeneration. Family, church, genuine communities, and tradition are their sources. It is also necessary that people should grow up in conditions which favor such moral convictions, conditions of a natural order, conditions promoting co-operation, respecting tradition, and giving moral support to the individual. Ownership and reserves, and a feeling for both, are essential parts of such an order. We have, a little earlier, characterized such an order as "bourgeois" in the broadest sense, and it is the foundation upon which the ethics of the market economy must rest. It is an order which fosters individual independence and responsibility as much as the public spirit which connects the individual with the community and limits his greed.

The market economy is a constantly renewed texture of more or less short-lived contractual relations. It can, therefore, have no permanence unless the confidence which any contract presupposes rests on a broad and solid ethical base in all market parties. It depends upon a satisfactory average degree of personal integrity and, at the margin, upon a system of law which counteracts the natural

tendency to slip back into less-than-average integrity. Within that legal framework, the market's own sanctions undeniably foster the habit of observing certain minimum rules of behavior and thereby also integrity. Whoever always lies and deceives and breaks contracts will sooner or later be taught that honesty is the best policy. For all its resting on utilitarian calculation, this pattern of behavior is valuable and reliable, as we can see in the extreme example of Soviet Russia, which, in its relations with the outside world of the market, has tried systematically and successfully to acquire the reputation for prompt payment while adhering, in other respects, to the ethical code of gangsters. Even if we conscientiously credit the market with certain educational influences, we are, therefore, led back to our main contention that the ultimate moral support of the market economy lies outside the market. Market and competition are far from generating their moral prerequisites autonomously. This is the error of liberal immanentism. These prerequisites must be furnished from outside, and it is, on the contrary, the market and competition which constantly strain them, draw upon them, and consume them.

We would, of course, again err on the side of unrealistic and unhistorical moralism if we were to apply to modern economic behavior moral standards which would have been enough to condemn mankind at any time because men can never live up to them. Such moralism is least tolerable when it self-righteously pretends that the moralist is a better man for the mere reason that his standards are so strict. This should always be remembered whenever the talk turns to the questionable aspects of competition. Ruthless rivalry has never and in no circumstances been banned from human society. The young Torrigiani, spurred by jealousy and professional rivalry, smashed Michelangelo's nasal bone and thereby disfigured him for life; in our days, a leading German trade-union intellectual, no doubt a valiant detractor of the "capitalist jungle," tried to get rid of a rival by means of forged letters—it is always the same thing and always equally unedifying. But we get nowhere

by raising our eyebrows because the market economy does not always display the sporting spirit of a tennis tournament; we would do better to reflect that no small advantage of the market economy is that it channels men's natural rivalry into forms which, by and large, are preferable to broken noses and forged letters—and also to mass executions, as in Communist countries.

But we cannot, in good conscience, let the matter rest there. It cannot be denied that the market places the constant competitive struggle for self-assertion and self-advancement in the center of the stage. Nor can it be denied that such all-pervasive competition has a disturbing tendency to lead to consequences to which we cannot remain indifferent, especially from the moral point of view. Those who are in the rough-and-tumble of the competition of modern economic life, with its nerve-racking claims on time, effort, and susceptibility, and who are worn down by this endless struggle are more sensitive than most to the questions raised thereby, and it would be both unjust and uncivil therefore to treat them as monopoly-mongers.

We all acknowledge the validity and justice of such questions when we accept as a model of a higher form of rivalry the way in which certain professions, above all the medical, submit to strict rules of competition to the point of including them among the standards of professional behavior. Unfortunately, this example of the medical profession's deontology cannot be applied to industry and trade. But it shows what a blessing for all it would be if a definite code of competitive behavior, resting on professional standards, binding for all and violable only at the price of outlawry, were to dampen competition everywhere and withdraw it from the laws of "marginal ethics,"[20] without appeal to the state but in full appreciation of the positive potentialities of professional solidarity.

In acknowledging these potentialities, we express the idea that we should aim at compensating the socially disintegrating effects of competition by the integrating forces outside the market and outside competition. There is, however, the danger of abuse. On no account

must competition be corrupted by its economically most questionable and morally most reprehensible perversion, namely, monopoly in any shape or form. Monopoly is precisely the worst form of that commercialism which we want to combat by trying to mitigate competition by integrating counterforces.

The truth is that competition, which we need as a regulator in a free economy, comes up on all sides against limits which we would not wish it to transgress. It remains morally and socially dangerous and can be defended only up to a point and with qualifications and modifications of all kinds. A spirit of ever alert and suspicious rivalry, not too particular in the choice of its means, must not be allowed to predominate and to sway society in all its spheres, or it will poison men's souls, destroy civilization, and ultimately disintegrate the economy.

To assert oneself all the time by ubiquitous advertising, day and night, in town and country, on the air and on every free square foot of wall space, in prose and in verse, in word and picture, by open assault or by the subtler means of "public relations," until every gesture of courtesy, kindness, and neighborliness is degraded into a move behind which we suspect ulterior motives; to fashion all imaginable relations and performances on the principle of supply and demand and so to commercialize them, not excluding art and science and religion; forever to compare one's own position with that of others; always to try out something new, to shift from one profession and from one place to the next; to look with constant jealousy and envy upon others—such extreme commercialization, restlessness, and rivalry are an infallible way of destroying the free economy by morally blind exaggeration of its principle. This is bound to end up in an unhealthy state of which the worst must be feared.

The curse of commercialization is that it results in the standards of the market spreading into regions which should remain beyond supply and demand. This vitiates the true purposes, dignity, and savor of life and thereby makes it unbearably ugly, undignified,

and dull. We have had occasion earlier to note this. Think of Mother's Day, a day set aside to honor mothers and motherhood; the most tender and sacred human relationship is turned into a means of sales promotion by advertising experts and made to turn the wheels of business. Father's Day soon followed, and if we did not fortunately know better, the latest forms of Christmas might make us suspect that this whip which makes the top of business spin is also a creation of modern advertising techniques. Not long ago it happened that an automobile race, which, to the horror of the spectators, led to a fatal accident, was nevertheless continued because of its commercial and technical purposes, so that even death had to defer to business and technology.

All of this cannot be castigated too severely—with the intention, not of condemning the market economy, but of stressing the need to circumscribe and moderate it and of showing once more its dependence upon moral reserves. This circumscription and moderation can take many forms. One of them is that we do not allow competition to become the dominating principle and that we keep an eye on all the circumstances which tend to mitigate it. Let me illustrate my point. Has any sociologist ever bothered to discover why there is usually fierce rivalry among actors and singers, while circus folk tend to live in an atmosphere of kindly good-fellowship? Would it not be a rewarding task to examine the whole texture of modern society for such differences in competition and their presumable causes?[21]

Nobilitas Naturalis

It cannot be said often enough that in the last resort competition has to be circumscribed and mitigated by moral forces within the market parties. These constitute the true "countervailing power" of which the American economist J. K. Galbraith speaks in his book of the same title, and not the mechanics of organized buying power, to which he mistakenly looks for the containment of competition

and its monopolistic perversions. Without a fund of effective convictions regarding the moral limits of competition, the problem cannot find a genuine solution.

In a sound society, leadership, responsibility, and exemplary defense of the society's guiding norms and values must be the exalted duty and unchallengeable right of a minority that forms and is willingly and respectfully recognized as the apex of a social pyramid hierarchically structured by performance. Mass society, such as we have described it earlier, must be counteracted by individual leadership—not on the part of original geniuses or eccentrics or will-o'-the-wisp intellectuals, but, on the contrary, on the part of people with courage to reject eccentric novelty for the sake of the "old truths" which Goethe admonishes us to hold on to and for the sake of historically proved, indestructible, and simple human values. In other words, we need the leadership of genuine *clercs* or of men such as those whom the distinguished psychiatrist Joachim Bodamer recently described as "ascetics of civilization," secularized saints as it were, who in our age occupy a place which must not for long remain vacant at any time and in any society. That is what those have in mind who say that the "revolt of the masses" must be countered by another revolt, the "revolt of the elite."

The conviction is rightly gaining ground that the important thing is that every society should have a small but influential group of leaders who feel themselves to be the whole community's guardians of inviolable norms and values and who strictly live up to this guardianship. What we need is true *nobilitas naturalis*. No era can do without it, least of all ours, when so much is shaking and crumbling away. We need a natural nobility whose authority is, fortunately, readily accepted by all men, an elite deriving its title solely from supreme performance and peerless moral example and invested with the moral dignity of such a life. Only a few from every stratum of society can ascend into this thin layer of natural nobility. The way to it is an exemplary and slowly maturing life of dedicated endeavor on behalf of all, unimpeachable integrity, con-

stant restraint of our common greed, proved soundness of judgment, a spotless private life, indomitable courage in standing up for truth and law, and generally the highest example. This is how the few, carried upward by the trust of the people, gradually attain to a position above the classes, interests, passions, wickedness, and foolishness of men and finally become the nation's conscience. To belong to this group of moral aristocrats should be the highest and most desirable aim, next to which all the other triumphs of life are pale and insipid.

No free society, least of all ours, which threatens to degenerate into mass society, can subsist without such a class of censors. The continued existence of our free world will ultimately depend on whether our age can produce a sufficient number of such aristocrats of public spirit, aristocrats of a kind which was by no means rare in the feudal age. We need businessmen, farmers, and bankers who view the great questions of economic policy unprejudiced by their own immediate and short-run economic interests; trade-union leaders who realize that they share with the president of the national bank the responsibility for the country's currency; journalists who resist the temptation to flatter mass tastes or to succumb to political passions and court cheap success and instead guide public opinion with moderation, sound judgment, and a high sense of responsibility. In turn, it will be of crucial importance for the ultimate fate of the market economy whether this aristocracy includes, above all, people who, by position and conviction, have close ties with the market economy and who feel responsible for it in the moral sphere here under discussion.[22]

Evidently, many and sometimes difficult conditions must be fulfilled if such a natural aristocracy is to develop and endure and if it is to discharge its tasks. It must grow and mature, and the slowness of its ripening is matched by the swiftness of its possible destruction. Wealth gained and lost overnight is a stony ground on which it cannot prosper but on which thrive plutocracy and newly rich parvenus—the very opposite of what is desirable. Yet without

wealth and its inheritance, whereby a spiritual and moral tradition is handed down together with its material foundation, a natural aristocracy is equally impossible, and it would be shortsighted egalitarian radicalism to overlook this.[23] One generation is often, indeed usually, not sufficient to produce the flower and fruit of aristocratic public spirit and leadership, and this is why the almost confiscatory limitation of the testator's rights, which today is the rule in some major Western countries, is one of the most harmful measures imaginable and contrary to the spirit of sound policy.

But *richesse oblige*. Any privilege, be it a privilege of birth, mind, honor and respect, or of wealth, confers rights only in exactly the same measure in which it is accepted as an obligation. It will not do to hide one's talent in the earth; each must remain conscious of the responsibilities which his privileged position entails. If ever the much-abused words "social justice" are appropriate, it is here.

One of the obligations of wealth, which need not be enumerated, is to contribute to the filling of the gaps left by the market because they are in the realm of goods outside the play of supply and demand, but which gaps must not be left for the state to fill if we want to preserve a free society. I have in mind the patronage of art in the widest sense, generous grants for theatre, opera, music, the visual arts, and science—briefly, for everything whose existence and development would be jeopardized if it had to "pay." We would be hard put to name a single supreme work of art in any period of history which did not owe its origin to patronage, and it is even more difficult to think of a theatre, opera house, or orchestra which bowed to the laws of supply and demand without damage to its quality or which, therefore, could have maintained its quality without patronage. The tragedies of Aeschylus, Sophocles, and Euripides are as unthinkable without the public donations of the rich Athenians as are the plays of Shakespeare without his patrons. Conversely, in so far as in our age the laws of supply and demand determine the level of artistic performance—in extreme form, in

the film industry—the devastating effects are plain for all to see.

This function is to be fulfilled by the rich in the same spirit in which in the old days the Hanseatic burghers of Bremen used to pay property taxes: in honest self-assessment of one's ability to pay and in voluntary fulfillment of an honorary duty.[24] Here it is appropriate to emphasize that this spirit is smothered by the modern welfare state and its fiscal socialism. It may also be pointed out that the rich cannot exercise their function of patronage of the arts unless they are at home in the realm of the spirit and of beauty as much as in the world of business—which brings us back to what we said earlier in this chapter.

The task of leadership falls to the natural aristocracy by virtue of an unwritten but therefore no less valid right which is indistinguishable from duty. Washington's successor, the great American statesman John Adams, had some very pertinent things to say about this. According to him, a member of the "natural aristocracy of virtues and talents" was anyone who disposed not only of his own vote but, at the same time, of the votes of those whose opinions he influenced by his example, acknowledged authority, and persuasion. But since this is unfortunately true not only of the "natural aristocracy of virtues and talents" but of everybody who, by foul means or fair, influences the formation of political opinion, we must add the qualification that the unwritten plural franchise which actually exists in any democracy is the more justified the more we can rely on the existence and effectiveness of a genuine natural aristocracy. The latter therefore appears all the more indispensable.

Finally, we have to speak of science, whose leadership functions and responsibility are obvious. There can be no doubt that here, too, rights and duties are inextricably linked. Here, too, authority—and it is authority of the highest rank—has to be gained and held by achievement and character. But what, precisely, is the deontology of science, especially, in this context, of the social sciences?

Boswell has recorded an apposite remark by Samuel Johnson, that great eighteenth-century Englishman. Certain professions,

Johnson said, principally the sailor's and the soldier's, had the dignity of danger. "Mankind reverence those who have got over fear, which is so general a weakness." Conversely, the honor of those professions whose dignity is danger cannot be more deeply wounded than by casting doubt on their courage.

The esteem in which science is held certainly does not rest on such a dignity of danger. We do not expect of a Sanskrit scholar the bravery of a soldier or sailor who, professionally, has to face physical danger of losing his life, but we do expect men of science to be courageous and intrepid in another sense, which we recognize when we have grasped that the "dignity of science" is truth. This sounds a little pompous, but it is meant to express something very simple. It does not mean that science is respected because it has to offer "truth" like ripe plums. What we mean is this: just as much as fear, another universal human failing is a tendency to allow the prospect of advantages or the threat of disadvantages to deflect one from the pursuit of the "true" facts and, even more, from the free announcement of facts recognized as "true." The dignity of science is that its genuine apostles constantly have to overcome this human weakness of interested squinting at truth. Only those who fulfill this requirement can partake in the dignity of science. Only they discharge the obligation put upon them by the privilege of being the servants of science, and only they can hope to attain to natural nobility and to render to the community those services which it has a right to expect from them.

Since men of science, too, are generally neither saints nor heroes, it is no doubt hard for them to live up to this standard without faltering and occasional aberrations. It is hardest for those who, unlike the Sanskrit scholar, have chosen a field of knowledge which gives them occasion and indeed obliges them to defend the "dignity of truth" in the rough-and-tumble of interests and passions. Economic policy, of which we are treating here, is such a battlefield, and the scholars involved are the jurists and economists.[25] Economists also have this in common with jurists: their scientific author-

ity, whose moral foundation is the "dignity of truth," is appealed to in controversial questions. Such activities by scholars are as old as the history of science and the universities; we have but to remember that in the fourteenth century Louis of Bavaria called on the famed scholars of the Universities of Bologna and Paris for opinions in his struggle with Pope John XXII. Curiously enough, this is not usually held against jurists, although the delicate nature of such a task is obvious. It always presents the man of science with a question of conscience which he must decide in the light of the "dignity of truth."

The answer should not be in doubt. Such a commission can be accepted—and indeed has point for the questioner—only if it is discharged in such a manner that the scholar's answer does not deviate in the slightest respect from that which he would have pronounced without the commission and without the ensuing advantages (which may include such things as enhanced prestige or public honors). The answer must be strictly in line with his scientific convictions, and if there is the slightest doubt about this, the scholar should withdraw. The economist, in particular, should make it a rule to put his scientific work at the service of any precise commission, originating from the government or from international or non-governmental organizations, only on condition that this work can serve his own convictions also and on the further condition that he may hope thereby to promote a good cause threatened by overwhelming forces. In the absence of these conditions, the economist has every reason to ask himself whether the counsel expected of him in the struggle of economic interests and social passions is not a mortgage on his conscience, considering the social function of his science.

If a task so undertaken also happens to involve some private interests, the economist can congratulate himself. Aims of economic policy which lack such a solid anchor have little prospect of being taken seriously in our world of overwhelming material interests and stormy passions. To take an important example, liberal trade policy