

## CHAPTER THREE

### THE MERCANTILE SOCIETY OF THE NINETEENTH CENTURY

THE Western World in the 150 years before the last war undoubtedly had a functioning society—a society which integrated its members in a common social purpose, and which was ruled by legitimate power. It was not only a functioning, it was a free, society; and no society can possibly be free unless it functions. But in every respect the nineteenth-century society was not an industrial society. Though it actually succeeded in mastering an ever-growing industrial reality, it was never intended and never organized for such a task. In origin, aims, beliefs and institutions, the nineteenth century society was pre-industrial, if not anti-industrial.

Although our civilization became increasingly one of industrial cities during the nineteenth century, our social forms remained those of a rural society supporting and surrounding trading towns. It was a mercantile society—commercial yet still rural. We actually tried to shut out the industrial reality from our social lives. It appeared to us as sordid, as unrefined and as something which must be kept rigorously away from our real values. That so many city children have never seen a cow is generally regarded as a scandal—and rightly so. But that a great many more—especially in Europe—have never been inside a factory should have been even more astounding. Actually, all of us accepted it as the most natural thing in the world, precisely because the industrial system was not part of the social order in which we lived.

The situation showed most clearly in England. And England, up to 1914, was the representative country which served as a model for the social organization and the social ideals of all Europe. She was the most thoroughly industrialized country in which agriculture had all but dis-

appeared. Yet England was also the country in which the mercantile society was entrenched most strongly and developed most successfully. The "gentleman," the social ideal which dominated England in the nineteenth century, could be defined as someone who is not connected with the industrial system and who lives in a pre-industrial order. It is typical that the concession which society made to the rising urban middle classes was the inclusion of the professions and of the merchants in the class of gentlemen. Surgeons and lawyers became gentlemen; and so did export merchants, stock and commodity brokers, bankers, wholesalers, insurance brokers and ship-owners. But manufacturing never became a gentlemanly profession. As late as 1935 young men would prefer a junior partnership in a small insurance broker firm to a much better paid executive job in a manufacturing corporation with the argument that "the City is at least a proper place for a gentleman."

In its social life England had but one ideal type and social pattern—that of the rural gentry. This ideal was not just proclaimed by the upper classes. It was accepted and affirmed by the small clerks and industrial workers. It formed their idea of society, moulded their standards of conduct and propriety, and served as the fixed star by which they oriented themselves and determined their social position. There simply was no social life, no community, no organization of the industrial world. It is no accident that the countless novels produced in England since 1830 all deal with life in the country or in London. Only Arnold Bennett, as far as I know, described life in the industrial towns in which the majority of English people live.

Disraeli almost a hundred years ago spoke of the "Two Nations" in England, the rural-commercial and the industrial. Actually, up to our time the second of these two had never been integrated into society. The huge smoking industrial cities of the Midlands and of the North were politically more important in 1938 than had been the

industrial villages of 1838, when England was still largely a mercantile country. But socially and culturally, the industrial towns were still on the periphery. The basis of social rule had broadened; more people were counted "gentlemen." Trade no longer disqualified, and some trades had actually become endowed with social prestige. The fox-hunting squire seemed ridiculous to a good many people—though mostly to people of his own class. But the social beliefs and ideals of England, the standards of conduct, the ways of living, the scale of individual and social ambitions had hardly changed since England's greatest social analyst, Jane Austen, portrayed the generation of 1800 when the merchant first became a gentleman, and when manufacturer and industrial worker were still so unusual as to go unmentioned.

Up to our present time the industrial groups—both workers and employers—seemed to be content to have the gentry in command. They seemed to expect leadership and responsibility from the Gentleman. In any real crisis they turned to him—certainly up to 1914 and largely even to 1940. It was not until the general strike of 1926 that Transport House (the trade union headquarters) and the British Iron and Steel Federation began to intervene directly into politics.

The leadership which the gentry gave, the responsibilities which they assumed, the political wisdom which they had accumulated, were indeed of a high order. Nothing is less intelligent than the propaganda attempts to show up the squirearchy and the "Old School Tie" as a bunch of reactionary usurpers. While suffering from stupidity, greed, short-sightedness and lust of power as much as every other ruling class in history, they had unusual political instinct and responsibility. They also represented truly and faithfully the mercantile ideals and beliefs which industrialized England cherished. It will be hard to find any group as good as, or better than, they were. The first experiments with leaders representing industrial

values and industrial beliefs: MacDonald, Baldwin, Neville Chamberlain, have not been too encouraging. With all his many virtues—and his vices—the Gentleman who ruled and represented England up to this war was the social type of a pre-industrial, mercantile society, had pre-industrial mercantile ideals and beliefs, and derived his claim to power from the purposes and concepts of a pre-industrial half-rural, half-commercial society.

On the Continent of Europe the social order and political organization of the 150 years before 1918 was not only pre-industrial but anti-industrial.

Up to the present war France had a social ideal which was as firmly entrenched as was the Gentleman across the Channel: the ideal of the "peasant proprietor." The independent, basically self-sufficient farm entrepreneur on his own land was the ideal type of French society from Robespierre to Pétain. All the great men of France's political and social life from the fall of Napoleon onward have come from this class, have spoken its language and shared its beliefs. They have all looked forward to retirement as small but independent farmers as the one fitting reward of a successful life. Their attitude was shared by the other members of the middle class who were forced to make their living in the cities as *fonctionnaires*, as clerks, shopkeepers, lawyers or doctors. The goal of their ambitions was to save up enough to retire to a small farm of their own as soon as possible, there to live modestly, independently, and in leisure.

It was popularly believed during the Depression of the thirties that industrial unemployment was no real problem in France because most of the unemployed could go home to a farm. There was very little truth in this thesis. But its almost universal acceptance in France and abroad shows vividly the kind of society Frenchmen wanted to live in. The French way of life was at once the most bourgeois and the most anti-industrial in all Western Europe. It repre-

sented most clearly the conviction, of the late eighteenth century that its mercantile society—rural yet commercial—was the fulfilment of the ages and the apogee of creation. And it was least capable of all the social beliefs of nineteenth-century industrial Europe to organize an industrial system. It was the consistency, the balance, the dignity and humanism of her social ideal which gave to the France of yesterday her attraction. But the same qualities also are responsible for the complete failure of the country to integrate industry, to give social status and function to the industrial worker, or to have any but despotic power in the industrial system. Before 1914 this was perhaps a minor problem as the social reality of France corresponded largely to the mercantilist assumptions. With the tremendous expansion of modern industry in France after 1918, the conflict between mercantilist beliefs and industrial reality became, however, unbearable.

To the French bourgeois proprietor, industry appeared as an abomination and as the denial of all he believed in. Convinced that there can be no human dignity and human virtue without a stake in property, he feared and hated the industrial worker as inherently undignified and evil. No other country had as deep and as profound a feeling of class hatred as had France. In no other country was there as little social contact between the prevailing society and the industrial worker. The industrial suburbs of Paris, or the bleak misery of the Borinage, the mining district on the Franco-Belgian border, were separated from society as if by an invisible quarantine. Half ghettos, half besieged fortresses, they were kept under rigorous watch by the surrounding bourgeoisie which finally seemed to decide that even conquest by an alien enemy was preferable to the giving of responsibility and social status to the members of the industrial system.

The industrial employer was as little integrated into French society as the industrial worker. Though powerful, well-organized and envied, the industrial manager in

France remained a mysterious and rather suspect person to the average Frenchman. To the bourgeois, the process of industrial production appeared as black magic—utterly incomprehensible and rather terrifying. This showed clearly in the attitude of the French middle class toward investments. The shrewdest, most careful, most business-like *propriétaire* could never distinguish between out-and-out swindles and sound industrial enterprises. He usually invested as if there were no differences between a share in a sugar refinery established a hundred years ago and firmly entrenched in its field, and a share in a scheme to build ice rinks in the centre of the Sahara. The simple industrial process of sugar refining was in itself so mysterious to him as to be completely irrational and fantastic.

There were many other signs of the basically pre-industrial and anti-industrial basis of French society. A characteristic though not an important one is that the great technical school of France was a school for highway and bridge-building—the two branches of engineering developed and most cherished by the pre-industrial society of the eighteenth century. There was no awareness that industry was real, and accordingly none that the industrial employer had any power. Even the Popular Front of 1935–37, nominally a government of industrial labour, attacked not the power of the industrial employers but the bogeyman of the “Hundred Families”—the great merchant and banking families of 1848 whose power had actually been transferred after 1918 to the industrial managers and their trade associations.

French society understood industry in the terms of the eighteenth century. A plant with ten thousand workers was regarded as only an enlarged version of the artisan’s workshop with its three journeymen and four apprentices. Society refused to see that the manager of the modern plant is not just a master-tailor or shoemaker. It could not understand the need of defining the manager’s power; at the same time it resented his power as usurpation. In no

other country was industrial management so despotic and, at the same time, so uneasy as in France between the two wars.

The real social and political decisions were rapidly pushed into the managers' laps by the tremendous industrial expansion of the country after 1918. At the same time his power remained without roots, and it was in open and direct contradiction to the values and beliefs of the whole country. The social and spiritual crisis of our times was nowhere more obvious than in the France of the early thirties which lived in a revolutionary climate apparently far more threatening than that which led to actual revolution east of the Rhine.

In Prussia—and more or less throughout Germany—the situation was different from that of England or France in one important respect: Prussia never succeeded in developing a unified mercantile society. Culturally and socially the ideal social type and the prevailing social order were those of the mercantile society; the representative groups were the bourgeois classes of professional men, university teachers, the civil service, merchants and bankers. But the political power was in the hands of the Junkers who were anti-mercantile.

In origin, economic status, and social beliefs, the Junkers were a rural upper middle class, very much like the squires in England. Nothing is further from the truth than to regard the poor, rigidly Lutheran Junker as a nobleman, just because he has a "von" in front of his name. With his dependence upon his salary as an officer, and his ambition to reach the rank of major, the Junker was as much a product of the Commercial Revolution of the seventeenth and eighteenth centuries as the landed gentry in England or the peasant proprietor in France. He depended economically upon the sale of his services to the state and the sale of his crops to the city. Socially he was a creation of the centralized state. And standing army,

city and centralized state are all products not of feudalism but of its destruction. Though bourgeois, the mentality of the Junker was anti-mercantilistic. He was poor; he was Lutheran and convinced of the danger of Mammon; above all, he was a professional soldier and thus not willing to accept individual self-interest as a guiding rule of moral conduct.

The antagonism between the Junker and the liberal urban middle class had most serious consequences for German development. It defeated the attempt of the great Prussian reformers of the Napoleonic era, Stein, Scharnhorst and Gneisenau, to create a successful and unified mercantile society in nineteenth-century Prussia. It created a basic split in the social personality of Germany—the truth behind all the pretentious nonsense of the “two Germanys” or of Germany, Dr. Jekyll and Mr. Hyde.” Finally, it was in part responsible for the Conservative illusion that Hitler—because he too opposed the liberal bourgeoisie—would turn out a Conservative.

The conflict within the pre-industrial society gave the German industrial producer—both employer and worker—more prominence and prestige than he had in either France or England. Superficially, Germany in the nineteenth century seemed to have come closer to a solution than either England or France. The social legislation initiated by the Junkers in the 1880's to give the worker some social security seemed at first to offer a way to a real integration. The close financial ties between banks and industry in Germany seemed to make possible a unified national economy. Actually, the disintegration was worse than in the west. For the pre-industrial society which was unified and functioning in the west was split and disorganized in Germany, so that it broke down under a strain which in the west was still socially bearable.

Conditions in the United States were radically different from those in industrial Europe. At first glance it might



appear that in that country society succeeded in becoming an industrial society. There is little of the basic conflict between town and country which has been so prominent on the European Continent. Neither is there a pre-industrial ruling class as in England. But though there is simply no basis of comparison between America and Europe, in the United States too the values, beliefs, and order of the prevailing society were those of a pre-industrial society. And there has not as yet developed a functioning industrial society. By and large the old saying is true, that this country has had a Jeffersonian social creed and a Hamiltonian reality. The Free Farmer, the independent responsible citizen on his own soil, has been the representative type of American social and political ideals. But modern mass-production industry has become the representative social reality.

The pre-industrial character of American social beliefs and ideals shows in the central importance of the "frontier" in American political thinking. It explains the popularity of the dangerous fallacy that our basic social and political institutions were threatened because there is no more free land. The frontier of independent free farmers on new land was perhaps the most consistent—certainly the most successful—of the great social ideals of a mercantile-commercial, yet rural, society. It was not only pre-industrial; in its repudiation of any functional organization of society it was directly anti-industrial.

The pre-industrial character of American society shows also in the pattern of the typical American success story—typical in fiction and fact—which starts with a boyhood on a poor New England or Kansas farm; the "log cabin" cliché of presidential campaigns is only one conventionalized version of this great American legend. It shows in the fact that the one political body the bulk of which is elected by the farm vote—the Senate—has become the most respected of all elective bodies and the one regarded as most truly representative of the country as a whole. The

traditional belief that only recent immigrants are unskilled workers, and that the native American can always become independent outside of the industrial system—as farmer, as shopkeeper, as professional man—reflects the same basic pre-industrialism of society. And the Old South has its conscious anti-industrialism and its remnants of a pre-industrial rural and hereditary ruling class.

The tremendous enthusiasm for mechanics in the United States might, of course, be a sign that that country is much closer to a solution than Europe. But mechanical and technical genius is not a social solution in itself. Industry is as respectable, exciting and close to the typical American as it has been hostile, remote and suspect to the representative groups in the Europe of yesterday. But the values and beliefs of that country are values and beliefs of a society in which there were no large corporations, no mass production, no permanent working class, no management power. At heart, the average American is a Populist; and the essence of Populism today consists of a refusal to admit as valid the reality of the industrial system.

## 2

The mercantile society gave social function and status to the individual through his integration in the market. And its socially decisive rule was the legitimate power in the market.

The market has usually been regarded as an exclusively *economic* institution. Actually, it was the central *social* institution of the nineteenth century. In and through the market the nineteenth century mastered physical reality. In and through the market it expressed its basic beliefs and its aims. The nineteenth century saw the nature of man as "Economic Man"; it saw the aim of society as the establishment of freedom and justice through economic development. Accordingly, the individual participated in society through the exercise of his individual property

rights. And they were also the basis for the legitimate power in the market.

Property has always been of vital importance in social life. It has always been one source of social prestige and political power. It may even have been a good deal more important to the individual in the twelfth century, when goods were very scarce and the differences in wealth between rich and poor very great, than in the nineteenth century when goods became more plentiful in the western world and economic differences levelled off markedly. Certainly the individual became far less mercenary as the earning of a sustenance became easier. One need only read Jane Austen and compare her English upper middle class of 1800 with the same class a hundred years later, to see that during the mercantile century the lust for wealth and money became steadily less prominent as a motive of individual behaviour. The people in whose lives and dreams the desire to own property loomed largest were the groups most remote from, and most inimical to, the market: land-starved Irish or Balkan peasants.

The familiar charge that the mercantile society with its "commercialism" degraded men into money-grabbing hogs is totally unfounded. What is more important: It is a confusion between individual behaviour and social structure.

The mercantile society did not make man more interested in economic wealth. It did not change human nature. Indeed, no society could possibly change human nature. Man will always strive for economic success in his economic life, just as he will strive for success in all other fields of life. After Economic Man has disappeared as a social ideal, people in their economic life will still want economic gain; the banker of the future—or whoever will fulfil the functions of credit-broker—will be in business for profit or for the rewards of management, and not "for his health." Different men will give different values to different rewards in different fields of endeavour. There exist apparently basic human types who find their in-

dividual satisfaction in different activities. It is probable that both the types and their respective shares in the total population have remained largely unchanged through history, and that they are very much the same all the world over.

But all this has little or nothing to do with society. Socially the mercantile society gave an entirely new meaning to property. In the past, property had always been regarded as an effect of the social order. Men had title to property because they had a certain social status; or they obtained property as an after-effect of their achievement in a socially prominent sphere. Property was an appurtenance to social status and function. But the mercantile society saw property as the *cause* of social status. It saw in the exercise of individual property rights the social function of the individual. It made economic rewards the socially significant rewards, economic prestige, the socially decisive prestige, economic activity the representative activity of the society.

Statistically, just as many people may have striven primarily for economic gain in the nineteenth century as in earlier societies; and as many may have sought their satisfactions outside of the market. However, society is not a matter of statistics but of emphasis. What counts are not numbers but the principles and beliefs on which the statistics are selected and organized. What decides the nature of a society is not the prevailing but the representative social sphere. And the emphasis, the principle of selection and organization, the representative social sphere of the mercantile society, were all focused on economic activity, based on individual property rights and expressed through the market.

Property rights as such did not change. But their social meaning and consequences did. Locke's statement in the closing years of the seventeenth century that a thing becomes a man's property because he has commingled his labour with it, represented a radically new and revolu-

tionary concept of property as basis of society and as justification of social power. Property had been fixed as the object of human action and of social rights. It now became the vehicle of social action. This is what Sir Henry Maine meant by his famous epigram that history had moved from status to contract. Formerly, Maine said, the status was fixed as between man and man from which followed a relationship between man and property. Now it is the relationship between property and property—the essence of a contract—which determines the status between men who have no other social relationship. It is through property, in other words, that the individual is integrated in the group.

This new concept of property meant that the entire economic sphere had to be subject to the market. Everything had to be capable of becoming property. Hence the insistence of the market system that the basic factors of economic life be regarded and treated as commodities: land, labour, money. The claim that there is a difference in kind between land and other property, or between labour and other property, could not be allowed. It would have caused a need for social integration outside of the market; and such a claim would have been a denial of Economic Man. The worker must be regarded as someone who has a property in the commodity called labour—which is in no way different from property in anything else. For then he can be conceived as capable of social activity in the market through which he fulfils his nature as Economic Man, and in and through which he has status and function in society.

Most important, yet least understood, is the organization of decisive social power in the market. According to the textbooks—even to those few which recognize the function of property as the basis of legitimate social power in nineteenth-century society—there was no rule in the socio-economic sphere of the mercantile society. Absence of rule in economics is traditionally regarded as the char-

acteristic feature of "*laissez-faire*." But this belief is only tenable—and indeed only meaningful—if rule is defined in the narrowest sense as meaning the political sovereign. On any other definition the traditional belief is simply not true. The many writers who maintain that the economic sphere is far too important to be left without rule and that it requires a government are perfectly right. They are wrong only if they think that they have disproved *laissez-faire* or attacked the mercantile society. They either attack a bogeyman of their own creation: the "anarchic market"; or they attack the political principles of the separation of political government from rule in the socially decisive sphere on which nineteenth-century freedom largely rested.

There never was an "anarchic market" without rule and duly constituted authorities. *Laissez-faire* only meant that the political government was to be confined to the narrowly political sphere and was not a legitimate government outside of it. But the market had a legitimate power of its own. It had rules and authority though they were not the rules and authority of the government of the political sphere. The rulers in the economic sphere were as much motivated by power considerations as the government in the political sphere. They played politics fully as much as Parliament or Congress. Only the motives, objectives and instruments of their activities were different from, and independent of, those of the political sphere proper. In short, *laissez-faire* was nothing but a command to the government of the political sphere to observe a functional division of spheres and rules. Not only was it not opposed to a rule of the market; it required the development of such a rule.

The market was not only protected against the political government by the theoretical demands of *laissez-faire*. It developed its own political institutions to keep the political government out. Among them the most important and powerful was the international gold standard.

The gold standard subordinated money and credit to the dictates of the most perfect market: international trade.

Economically, the subordination of domestic business to the foreign-trade balance could hardly be justified, once industry had grown beyond its first infancy. Only in England was foreign trade important enough for the economy to warrant its primacy. But even in England the industrial system might have functioned better economically if there had been no such direct link between foreign trade and domestic credit and interest rates. The experience after 1931 when this link was cut with the abolition of the gold standard disproves the traditional justification of the gold standard. For countries like the United States, where foreign trade was only marginal as far as industry was concerned, the gold standard was economically probably more of a burden than an asset.

But it is altogether a mistake to discuss the gold standard in terms of economic efficiency. It was above all a political institution—the means to establish the supremacy of the market over the industrial system and to maintain the juxtaposition of political government and society, and with it the political freedom of the mercantile society. With money and credit automatically determined by the flow of the market, the power to create credit was withheld from the government. The gold standard was a constitutional barrier to the power and sphere of the political government. What was important was not only that it made the market supreme over the industrial system, but also that it prevented the encroachment of the political government on the industrial system.

Even after the attempt to subordinate the industrial system to the market through the gold standard had proved futile, the gold standard at least guaranteed that the industrial sphere would remain a no man's land—a buffer state between the society of the market and the political government of majority rule. The conquest of this buffer state by the government after 1918 and especially after

1931, signified more than anything else in the sphere of economic institutions the collapse of the market as a society. The development of dynamic credit policies since 1918—beginning with the "Open Market" policy of the American Federal Reserve System—was perhaps the most decisive step in the breaking down of the juxtaposition of government and market on which the mercantile society had been based. The subordination of money and credit to industrial production which is so prominent in all present war economies is thus a fundamental and decisive change.

## 3

It was England which developed the market to perfection. And it was her role as the most perfect mercantile society which gave England in the nineteenth century her social, economic and cultural leadership, and which made her the representative country of the nineteenth century. But anyone who has ever been in business in England knows that there was a rule in the socio-economic sphere, and that the automatism of individual self-interests was a myth. As late as the early and middle thirties—when I myself worked in the City of London in the supposedly "freest" of all businesses, international banking—the old mercantile government of the market was still functioning. Though it had lost considerably and was only a shadow of what it had been twenty-five or fifty years before, it was still an extremely powerful, immediate, and ruthless rule. Nobody in mercantile business—banker, stockbroker, wholesaler or insurance broker—could afford to disregard it. To brush aside an order from the duly constituted authorities of the market meant rapid punishment. Permanent and wilful contravention of these orders or of the codes administered by the rulers was impossible, even for the financial or commercial giants. The penalty would have been the destruction of the business of the offender.



Execution of such an economic death sentence pronounced by the rulers would have been swift, merciless, and unappealable.

The market rulers exercised their powers through the typical institutions of the market: the central bank, the Stock Exchange, the money market, the Commodity Exchanges, the foreign exchange market, the freight exchange, etc. They ruled in the interest of the market; that is, for the political purpose of keeping the mercantile society functioning. It was the badge of statesmanship in the market to be known for putting the functioning of the market above one's own economic interests. It corresponded to the prestige which placing the interests of one's country above one's own political advancement gives in the political system. Finally, the coercion of the market government was exercised through the power of the rulers to grant or to deny access to, and membership in, the market. If, for instance, the Bank of England—the most powerful and most typical of all the mercantile rulers—wanted foreign exchange speculation to be curtailed, it did not issue an ordinance. That would have been quite contrary to the constitution of a market. It simply passed the word along. Apparently informally the hint was conveyed—over the luncheon table, in a chat over the telephone, on the Stock Exchange, or through the Foreign Exchange brokers. Nobody, at least not until the whole market structure began to disintegrate after the last war, was formally requested to cut down his dealings in foreign exchange. The offender was neither hauled into court nor fined. If he disregarded the hint—followed up perhaps with an equally discreet warning—he would suddenly find his credit curtailed or stopped; his "name" would cease to be "good delivery" on the Stock Exchange, his endorsement on a bill of exchange would no longer be accepted as "bankable signature" on the money market. His physical person would remain untouched. But the social rights to which his individual property entitled him—namely, the

access to, and the equal membership in, the market—would be withdrawn.

This government of the economic sphere in the mercantile society was the same government that has ruled every commercial system: a commercial oligarchy. In their power, their composition, their code and their aims there was little difference between the legitimate rulers in the economic sphere of nineteenth-century England, America or Germany, and the commercial aristocracy of the fifteenth-century commercial cities—Venice, Florence, the Hanseatic League, or sixteenth-century Antwerp. Constitutional law could not have defined who the rulers were and how they became rulers. In this respect the City of London in 1850 differed little from the Venice of 1450. But everybody in business in nineteenth-century London, New York, Boston, Amsterdam, Hamburg or Paris knew precisely who “belonged” and who did not, who mattered and who was of no account, why one house was powerful and the other one only rich, why a hint from one was an order, and an order from another was meaningless. The qualifications for rulership were as undefinable as they were well known and understood. Wealth alone was not enough; actually, the wealthiest houses in the commercial oligarchy often did not “belong.” It was equally not just name and tradition. It was certainly not the greatest proficiency in business; on the contrary, “keenness” or “sharpness” disqualified one almost automatically. It was a mixture of wealth and experience, tradition and shrewdness, business acumen and a knowledge of the invisible limitations of the unwritten code, responsibility, probity and initiative—an intangible but concrete qualification which can only be described with the word “standing.” What promoted a member of the commercial system into the ranks of the rulers was tacit approval of the community and equally tacit co-option by the oligarchy. The forms in which such promotion was expressed might be an invitation to participate in a bond issue, election to the board

of governors of the Bank of England—or simply an invitation to a card party or to membership in a breakfast club. The meaning of each of these apparently formless forms was perfectly understood by the whole community. In the society described by Jane Austen, Thackeray, or Edith Wharton the ruling oligarchy was clearly outlined; but it would have been impossible to say what these limits were. Such a structure of rulership is not only typical of an oligarchy. It is also inevitable in a market which requires both absolute elasticity and, at the same time, absolute discipline.

In fine, the great systems of the late eighteenth century did not create a functioning industrial society. Actually, they did not even see the emergence of industry.

Only one of that great generation as much as noticed industry: Hamilton. He not only saw the industrial revolution; he understood its significance. His life was almost contemporaneous with the great inventions. He reached his peak fully forty years after Watt invented the steam engine, and he died only twenty years before the emergence of the steam locomotive. Yet none of his contemporaries realized that behind Hamilton's insistence upon a strong central government and his distrust of the masses there was a tremendous vision of a revolutionary process of industrialization just ahead. To an unbiased reader today—whether he shares Hamilton's political convictions or not—the Report on Manufacture and the various financial and banking proposals made by Hamilton as Secretary of the Treasury must appear prophetic. To his contemporaries they were only attempts of a Tory to establish a monarchy over free farmers. That industrialization mattered—the basis of all Hamilton's political thought—nobody understood.

This blindness is all the more remarkable because among the contemporaries were many men of insight and genius. Jefferson, Madison, Taylor of Caroline, John

Adams, were political thinkers of the highest order and of great originality. Their understanding of social forces and of political institutions has never been surpassed in America or in any other country. Yet they all thought exclusively in terms of a mercantile society. Their main economic problem was the relationship between the agrarian producer and the commercial distributor. They did not realize that right under their very eyes a new social world was rapidly coming into existence with its own social relations and political powers—the Industrial system. In the few instances in which they mentioned industry, it was with contempt and aversion. There was no place for industry in their minds and in their thoughts; it was hostile to their beliefs, their institutions, and their values.

This inability to see and to comprehend the Industrial Revolution of their own time was by no means peculiar to Americans. Contemporary Europe was just as little aware of the meaning of the new forces which got their start just when the old ones were being finally organized. Adam Smith discussed industrial production; but he was most contemptuous of it and allotted to it absolutely no importance and no future. Burke, the father of England's free society in the nineteenth century, hardly ever mentioned industrial production in his social and economic works. The same is true of the philosophers and theorists of the French Revolution. Stein in Prussia had himself managed large-scale industrial enterprises: the mines and iron works owned by the Crown. Yet he so little understood that industrial production was becoming important socially and politically, that he proposed to found the new free Prussia exclusively upon the three pre-industrial estates: a rural gentry, the professional men, merchants and artisans of the cities, and the free farmers.

It was not until the first great industrial depression, that of the 1830's, that the industrial system was recognized as a new factor. But even Marx, who scooped up and fused

together the analyses and diagnoses of a great many men of that period—Conservatives and Radicals, realists and utopians—did not see that industry poses problems of social integration and political power, which are basically different from those of the mercantile society. Not only Marx's mentality, as has been often remarked, but also his society were orthodox eighteenth century and pre-industrial.

Only by the end of the nineteenth century was it realized that there is a problem of industrial society. The Guild Socialists in England, Brooks and Henry Adams in the United States, Sorel in France, and the "Academic Socialists" in Germany were the first to see that the members of the industrial system are not integrated in it, and that the decisive political power in the industrial system is not legitimate power. They were the first to see that our society is not an industrial but a mercantile society, and that it can at best contain but cannot integrate the industrial reality of our times. Henry Adams' famous discovery of the dynamo as a new source of social power heralded the great crisis which reached its final and decisive stage when the United States went to war in the autumn of 1941.

The clash between the organization of the mercantile society and the industrial reality shows most clearly in the two theories of economic behaviour on which mercantile economic policy was based: the theory of the international division of labour which is usually known as the free-trade theory, and the theory of monopoly. Both assume a system of production under which the type and the quantity of products are more or less rigidly fixed by soil fertility, climate, and other factors beyond human control. Both, in other words, assume a pre-industrial system.

Free trade is the complementary exchange of goods on the basis of a division of labour ordained by God and unchangeable by human hands. The export of British woollens against Portuguese wine was rightly the classical

example of the free traders. And on that basis the expectation that free trade would bring peace was understandable. For if all trade is complementary, and if the total quantity of production is fixed, free access of all producers to all raw materials should indeed eliminate the normal causes of economic rivalry.

The theory of monopoly is equally consistent under pre-industrial assumptions. If the supply is fixed within narrow limits so that it is impossible to increase it, regardless of demand, then the greatest profits are obtained through curtailment of production and maximum prices.

As soon as we substitute for the assumptions of mercantile society the realities of the industrial system, both free trade and the traditional theory of monopoly become meaningless. In the industrial system production is fixed neither in quantity nor in quality by the unchangeable conditions of nature—except within extreme limits. That today a country does not produce iron nails, and could not produce them except at a price five times as high as its neighbour, does not prove that it will not be the largest and cheapest nail producer twenty years hence. Production in the industrial system is *competitive* and not complementary. It is changing and not fixed. Free trade under these conditions becomes an attempt to freeze permanently an accidental inferiority of a country not yet fully industrialized, and to benefit permanently the country most fully industrialized at the moment. Free trade, which in the mercantile society benefited most the weakest member of the comity of nations, permanently enriches, under industrial conditions, the strongest at the expense of the weaker. It becomes not only an instrument of economic retardation but one of discrimination against new industries and new countries. This, at least, is how it appeared to the young and weak industrial system of the United States when the more advanced England of 1840 proclaimed it. And this is how it appears today to the young and weak industrial systems of the formerly raw-material-

producing countries in Latin America, Asia or Africa when the United States proclaims it.

The mercantile theory of monopoly has been reduced even more to absurdity. In the industrial system there is no technological limit to production. But demand is not infinitely elastic. Hence the most profitable economic behaviour is precisely the opposite from that adapted to the conditions of limited supply in a pre-industrial system. Instead of a cut in production and a boost in price, maximum production and minimum price is the economically most profitable policy in an industrial system. Certainly Henry Ford made more money than all the monopolists of the old school together. He and his followers made it through monopolies or semi-monopolies which are strong because they are more efficient than small competitive enterprises could possibly be.

The old-line mercantile theory accordingly finds itself unable to attack the new monopolies. For its one argument was that monopolies must be economically inefficient. It cannot see that in the modern big business corporation it is not the question of efficiency that matters, but that of political structure and power. For the mercantile society knows no social and political problems outside of the market.