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## The Meaning and Function of Economic Policy Today<sup>1</sup>

By Peter F. Drucker

MOST people today mean not one but two things, when they speak of "Economic Policy". Sometimes they mean the attainment of economic ends by means of political techniques: the "economic" concept of economic policy. Or again they mean the attainment of non-economic, political ends by means of economic techniques: the "political" concept of economic policy. The first concept is the one the professional economist would be likely to use; and it is the only one current in economic theory. The other, the "political" concept, is that of practical politics today. It is not only war economics—whether of the Democracies or of the Nazis—that is based on a "political" economic policy but also many plans for the future such as, for instance, the Beveridge Report. For the "security" to which this and similar plans aspire, is not an economic concept but a political and social one; and it is "economic security" only because its realization is sought through economic means.

It is obvious that these two concepts of economic policy are incompatible. The one establishes a primacy of economics over politics, the other proclaims politics as sovereign and reduces economics to a technique. Only one of them can be meaningful. Yet, most people are not only unaware that there is a conflict but they do not even realize that there are two concepts and use them indiscriminately. And this accounts in no small measure for the confusion and frustration of our contemporary economic and political discussions. The question as to which of these two concepts is the meaningful one, which of them makes sense and which one can be used effectively as a basis for political decisions and actions, is therefore, more than a question of political theory; it is a vital question of political action today.

<sup>1</sup> This paper is greatly indebted to my friend and colleague Dr. Karl Polanyi for his advice, criticism and help.

On the whole most people in the Democracies—especially those trained in the “liberal” tradition of economics—would be inclined to regard the “economic” concept of economic policy as the traditional, “natural” and sound one. They would most likely dismiss the “political” concept as a radical, artificial and unsound innovation, one that can be justified only as a temporary answer to the demands of a crisis. Actually the contrary is the truth. Both historically and logically the “economic” concept is a freak, a *lusus naturae*. That concept which sees in economics nothing but the technical means to achieve non-economic, i. e. political, ends, is the norm both historically and anthropologically. It is also the only concept of the nature and function of economic policy under which there can be a true and meaningful political life. Today the “economic” concept has become both irrational and unworkable; the “political” concept on the other hand promises not only to make politics possible but to make economics itself meaningful again.

## II

With the exception of Western society during the last 150 years there has never been a society anywhere or at any time when the ends of politics were economic ends, and when, therefore, economic policy was determined by economics. However different the “primitive” societies which the anthropologist studies may be, economic life is everywhere subordinated to the culture pattern. And whether we analyze the civilization of Rome, the feudal system or mercantilism we find the same subordination of economics as a means to the non-economic ends of political decision and action. In all societies, except in the economic one, income, i. e. the amount of goods received, is determined by the political and social status of the individual in the society which lies outside and before economics. But under the “economic” concept of economic policy, only economic factors determine income: the contribution of the individual to the productive process as valued by the market.<sup>2</sup> In the economic society the individual has no social status

<sup>2</sup> The Marxist substitution of “labor value” for the exchange value of the Market is, of course, only a change in accounting practices, not one of basic principles; the Marxist concept of society is fully as much an economic concept as that of orthodox capitalism, and in no way an alternative to it.

except that given to him in and through his market-income. In all other societies he has no income except on the basis of his social status.

Similarly in every one but the economic society of the last 150 years the function of the individual in the economic process has been determined politically and socially. Only in the economic society has the economic function of the individual been determined by economic rationality. Accordingly the structure of economic life, its purposes, its organization "normally", "traditionally" and "naturally" has always been a result of the political structure of society, never its condition; and economic policy has everywhere been "political" economic policy.

What is even more important than the historical and anthropological evidence in the question as to which concept is the "natural" one, is the inner logic of political life. For under the "economic" concept of economic policy there is no autonomous political rationality; there is only economic rationality. Politics—if its existence is admitted at all—is the interloper, the intervention from the outside, the "vested interests" and "ancient prejudices" which forever disturb the economic system. And this means that there is no room for basic political decisions; for the end is given outside and before politics in the pre-established economic goal. There is thus no ethical choice between political alternatives, only a technical selection of the economic optimum. But without ethical choice there is no such thing as politics. "Economic" economic policy thus denies both, the legitimacy and the existence of politics and of society as autonomous spheres.

Actually "economic" economic policy was not such a freak originally as it appears to us today. It did not in the beginning proclaim the primacy of economic ends over political ones as its practitioners—in general unwittingly—do today. In the beginning of economic society there was an ethical, a political decision: that the economic goal of increased production is in itself the highest ethical and political goal. It was the value-system of economic society that was new and startling; for never before had economic values been proclaimed as autonomous values. But the political structure of economic society was at first traditional, "natural" and sound since it was based upon an ethical choice.

If the economic goal of increased production is accepted as the paramount political goal, "economic" economic policy makes sense—it would, indeed, be the only possible concept of policy. But it makes sense only on this basis. As soon as it is denied that increased production is in itself and always the greatest good, the economist's elimination of the specifically political—the ethical—decision from politics becomes both meaningless and vicious. Not only can political rationality no longer be subordinated to economic rationality. There can actually no longer be any autonomous economic rationality. Income can no longer be allowed to be determined by the market or by any other method of assessing the individual's contribution to economic production. It must again be determined by his political and social status. In other words the system of distribution can no longer be subordinated to production as in the economic society but must again be independent of it—as in all other societies. And the conditions of production—the quantity and quality of goods to be produced, the personnel employed and the capacity in which it is employed, etc.—must again become politically determined. The "economic" concept of economic policy pre-supposes an ethical primacy of economic ends.

### III

It should need no special proof today to show that the economic goal of increased production is no longer accepted as the paramount ethical and political goal. Even those economists who do not go as far as America's distinguished economic thinker, Frank Knight, who maintains that economic goals per se do not exist, would readily agree that increased production makes no sense unless we know what we produce for. The subordination of the economic goal is indeed complete—though it is still an open question which is the other goal to which economics is being subordinated.

We are, however, concerned here only with economic policy.<sup>3</sup> And we need only take one look at contemporary theory and practice

<sup>3</sup> I have tried to analyse the cause of the collapse of the economic society, and the meaning of this collapse for politics and society in my book: *The End of Economic Man* (New York and London, 1939).

to see that the "economic" concept of economic policy is bankrupt. For the only concept of this nature extant today has given up rationality. It has become not only irrational but magical, in the strictest anthropological sense of the term in which magic means the attempt to master the admittedly irrational by rational—not to say rationalist—techniques. And politics—the organization of physical reality according to a basic principle—simply cannot be conducted by magic. Even the weirdest, the most evil system of politics has its rationality; otherwise it could never function.

The only countries which today still regard an "economic" concept of economic policy as meaningful, are Great Britain and the United States. And in both countries this concept is, by and large, that of Keynesian economics.

Keynes is undoubtedly not only the greatest living economist but one of the very great economists of all times. Whatever can be said against the details of his highly complex system, it is the only theoretical scheme adequate to the institutional reality of today's economic system. But the very perfection of Keynes' theoretical analysis makes his failure in economic policy all the more glaring and all the more significant. In a lesser man such a failure might be explained as an accident. In Keynes it is a certain sign that there is no longer any possibility of a rational "economic" concept of economic policy.

The center of the Keynesian analysis is the assertion that our economic system is determined by credit, i. e. by confidence in the future. This is certainly a correct statement—and one of tremendous importance for the understanding of our economic system. But it is equally true that "confidence in the future" is not an economic phenomenon, and that it lies outside of economic rationality. Keynes himself admits that much. Yet the whole point of Keynesian economic policy is its promise to manipulate this economically non-rational phenomenon of confidence in the future by means of an economically rational formula. If this be denied Keynes could not maintain the autonomy of his economic system; in other words he could not maintain an economic system at all. But as a basis for a rational policy this is as unacceptable as any magical formula.

In bold contrast to the political bankruptcy of this, the most refined, the most original, the most beautiful "economic" system of economic policy, stands the rationality of all the "political" systems of economic policy in practical use today. It is no accident that the war-economies of all belligerents use only the simplest, most orthodox and most traditional concepts of economic theory; none of them has found any need for advanced or heterodox theoretical economics. Shortly before the outbreak of the war, Dr. Per Jacobsen, the Swedish economist of the Bank for International Settlements, caused a real furore, when he declared before the Royal Statistical Society that in her economic concepts and policies Nazi-Germany was the one really orthodox nation—precisely because she used economics only as a technique for the achievement of political ends. Her politics were new, revolutionary and nihilist. But her economic tools—her monetary policy, her approach to the problem of consumption and saving, her concept of price—were ultraconservative and most simple. Since then we have seen the same return to traditional and simple economic concepts in every country that has adopted a war economy, that is in every country which has subordinated economics to a political goal. It takes not only years of study to master even the broad outlines of Keynes' theory; it also takes a thorough training in economic theory, in mathematical techniques and in statistics. But the basic principles of the economics of total war can be explained to a layman without any economic training in a few hours. For as soon as economics is regarded and used only as a technical tool for the attainment of a non-economic end, as in war economics, economic policy becomes so rational as to need only the simplest economic concepts.

#### IV

Anyone who dares suggest that a "political" concept of economic policy is the only meaningful and workable concept today, risks being shouted down immediately as a "fascist" or a "totalitarian". We are being told every day that the freedom of society, that peace, that ethics themselves depend upon the re-instatement of the economic goal as the supreme ethical goal of society. There are many who, like a well-mean-

ing economist of my acquaintance, believe that anyone is a straightforward totalitarian who does not accept free trade as an end; "if we do not fight for the restoration of free trade as a goal in itself, we might as well join Hitler".

The argument by which this amazing conclusion is being reached, is as simple as it is fallacious. "Hitler uses a 'political' concept of economic policy for purposes of war, enslavement and destruction. We use it today to fight a war. Hence it can only be used for war and destruction. And in order to have peace and construction we must destroy this pernicious concept." We might as well say that as Hitler uses the railroads for purposes of war, enslavement and destruction, we must destroy the railway system if we want to have peace and freedom. What is wrong with Hitlerism is not that it has given up autonomous economic rationality. In fact Hitlerism would be fully as pernicious if it had adhered most faithfully to the 19th century concept of economic policy. What is wrong with it is its ethics, not its economics; its basic political decision has been a decision for evil.

That the totalitarian forces have given up the "economic" concept of economic policy makes them undoubtedly better able to realize their fundamental political decisions. It makes them more effective. But it has nothing to do with the character of their decision. All it means is that any policy today, in order to be fully effective, must regard economics as mere means to a non-economic end—another way of saying that the "political" concept of economic policy is the one that is workable and meaningful today. A basic political decision for the good would also have to adopt the "political" concept of economic policy in order to be politically practicable.

The reason that so many serious, sincere and able people try to shun this simple and elementary fact is that it imposes upon them a responsibility of making fundamental ethical decisions in politics. As soon as we admit that we can no longer base ourselves upon the "economic" concept of economic policy we admit the absolute necessity of choosing an ethical basis of politics. And after a century in which this necessity was both avoided and denied, there is understandable fear of the responsibility which such a decision involves.



Actually the present situation is not only a real opportunity to decide for the good; it is also a restoration of the independence of politics. So long as the final goal of political action was given in an economic goal, policy properly speaking was not possible; only "politics"—in the debased meaning of popular usage—could be carried on. There was no fundamental choice between alternative absolutes; hence no fundamental meaning, no fundamental importance attached to the political sphere. Now again politics is coming into its own as that realm of social existence in which Man tries to realize his basic beliefs, tries to express his inherent freedom, and tries to live up to his final ethical responsibility. Hitler has used this opportunity to decide for evil; and he made economic means the means for the attainment of evil. We have not only the opportunity, but the responsibility to decide for the good and to use economic means for the attainment of the good. And if we shirk this ethical decision by adhering to the "economic" concept of economic policy, we only lend strength to the forces of evil.

The adoption of a "political" concept of economic policy not only leads to the restoration of politics as a meaningful and decisive sphere. It also restores economics to clarity and usefulness. Though the "economic" concept of economic policy denied the existence of ethical problems before and outside of economics, it could not, of course, avoid such problems. Hence it was forced, as are all rationalist schemata, to inject ethical and political considerations into questions which should—and could—be decided on a purely technical, i. e. ethically neutral, basis. And conversely, purely technical points become problems of fundamental politics. No engineer would consider the argument that there is no real need to build a particular bridge as a sufficient answer to the question of how much steel would be needed to build it. Yet nothing is more common than the economist who believes that his mathematical analysis of a problem of monetary theory—an exercise in pure logic—has "social significance" and "proves" that a certain line of policy is just or unjust. He will probably be attacked from three sides: by those who agree with his politics but disagree with his mathematics; by those who agree with his mathematics but disagree with his politics; and by those who disagree with both. All three opponents will claim that his

economics is unsound. And the resulting confusion which is the normal state today, obviously makes economics useless for all serious purposes.

One of the best examples of this confusion is the futile discussion of the problem of "bigness" that has been carried on in the United States for the past forty years. It is undoubtedly one of the basic problems of society whether it be composed of large-scale corporate enterprises or of small individual ones. But to argue that "bigness" or "smallness" is bad because it is *economically* inefficient is not only meaningless; it also makes any decision impossible. The real decision is a political one. What alternative do we regard as the greater social good? Cheap automobiles in unlimited quantities or an independent and equal middle-class. Economics does not help us to find this answer. But once we have given it, economics can tell us what to do in order to realize our decision. So long, however, as we argue ethical questions as if they were technical ones, and technical questions as if they were ethical ones, we shall be unable to make use of the tremendous technical knowledge which a century of economic research has amassed. How much this tool can do, if used as a tool, the experience of this present war is teaching us. And how little it achieves, if mistaken for an end, we ought to have learned during the long years of the depression.

The subordination of economics to politics which is "economic policy" proper today, does not necessarily mean that we shall drop increased production as a political goal. But it means that we are at last free to drop it or to keep it. It certainly does not mean that the individual will cease to strive for individual economic satisfactions; but it will enable us to endow other individual ends with social meaning, prestige and significance. And above all it should make it possible for us to have both a meaningful political life and a usable science of economics.