

6. Adam Smith and Karl Marx

Adam Smith discerned the basic truth that the new industrial technic consists in the division of labor regulated in markets. For that reason, though he was an incomplete and limited prophet, he was a true one. He saw that the increasing division of labor was the essential revolution in modern times, a revolution comparable in its profundity and pervasiveness with the change from the pastoral pursuits of nomadic tribes to the tillage of settled agriculturists. Karl Marx, on the other hand, seems never to have grasped the inner principle of the industrial revolution which he sought to interpret. He did not understand that because the radical novelty of the new system of production is technical and economic, the exchange economy of the division of labor is a more fundamental and enduring phenomenon than the laws of property or the political institutions which existed in the nineteenth century. He fixed his attention on the title deeds to property rather than upon the inherent necessities of the economy itself. So he did not distinguish between the technic of the new economy and the laws under which it happened to be operating when he wrote. This confusion made him a false prophet. For, in his failure to see that the new mode of production depends upon the division of labor through markets, he evolved a doctrine which, instead of re-forming the social order to adapt it to the new mode of production, strikes at the vital technic of the economy itself. It was as if he had lived during the early days of settled agriculture in a community where the customs of pastoral nomads still persisted; and had then, with a feeling of righteous indignation against the resulting abuses, preached a crusade which made settled agriculture impossible. In an analogous sense, the Marxian conclusion that the elaborate division of labor throughout the world should be planned and administered by all-powerful officials is incompatible with the division of

labor. It invokes a reactionary political method to deal with the problems of a progressive economy.

Because he did not understand the economic revolution amidst which he lived, Marx was quite unable to describe the principles of the new socialist order. He even made a virtue of his failure by deriding as "utopian" and "unscientific" the attempt to discover the principles of socialism. The Marxian doctrine is totally devoid of the principles of socialism, and its only practical effect is as an incitement of the proletariat to seize the coercive authority of the state.

Thus the Marxian doctrine has proved to be quite useless to socialists once the coup d'état has been achieved. For there is nothing in it, as Lenin and Stalin soon discovered, which defines how the economy shall be organized and administered. What happened in Russia up to 1917 was perhaps inspired and even directed by the Marxian dogma. But what has happened *since*, the whole gigantic effort to make the Russian economy a going concern, has had either to be improvised ad hoc without benefit of Marx, or imitated from German and American industrialism. For Marx was no student of the economy brought into being by the industrial revolution, and because he never discerned its principles he could not give his followers the postulates of policy by which they could operate this economy once they had the political power to control it.

He misled them completely by teaching them to think that the division of labor could be regulated without markets, by the overhead administration of all-powerful officials. So thoroughly miseducated was Lenin, for example, when he first seized power in Russia, that he thought the administration of a socialist economy was no more than "keeping the records of labor and products," a matter which could be done easily enough "by the whole people."²²

²² Cf. Ch. V, Sec. 6.

But a little experience soon taught Lenin that it was not so simple as that. Experience did not, however, teach him the principles of a socialist order. For, as we have seen, such principles do not exist and are in the nature of things undiscoverable.¹³ What saved Lenin from meeting the real issue, and made it possible for the communist dictatorship to make the experiment of a planned economy administered by overhead authority, was, first, the civil war and the foreign intervention, which required general military mobilization; second, the famine and the dire scarcity of all goods which required immediate production of necessities for use without raising too many difficult questions about what to produce; and, finally, the grand mobilization under the Five-Year Plan by which Russia was to be made a self-contained military power prepared for war on two fronts.

All this has had nothing whatever to do with the Marxian doctrine, and so the Russian "experiment" is not a demonstration of how a socialist order could be administered. To be sure, it is a planned economy authoritatively administered and it has abolished the market as the regulator of production. But the Russians have been able to regulate production without markets only because production has been regulated for them by famine and by military necessity. And it may be predicted confidently that if ever the time comes when Russia no longer feels the need of mobilization, it will become necessary to liquidate the planning authority and to return somehow to a market economy.¹⁴

On the other hand, with the rise to power of men who

¹³ Cf. Chs. V and VI.

¹⁴ This is true of all the totalitarian regimes. They are unmanageable except under conditions approximating those of war, and for that reason the reciprocal antagonism of fascist and communist dictators is necessary to the perpetuation of both of them. So, for their own salvation, they may be counted on to threaten each other.

followed Adam Smith, his doctrines suffered no such sudden obsolescence. For more than a century his principles have been a guide to policy among flourishing nations. To say this is not to suggest that Adam Smith revealed the whole truth once and for all, and that his writings are like the Koran or the fundamentalist Bible or the Marxian canon as viewed by naïve Marxists. There have been many, to be sure, who thought so, and an Adam Smith fundamentalism has been the source of much confusion among capitalists, jurists, and social thinkers during the nineteenth century. But Adam Smith's basic insight into the division of labor was a genuine and a momentous scientific generalization which cannot be obsolete until some radically new mode of production comes into being. For that reason, though Adam Smith's teachings have needed to be refined and supplemented, though his obiter dicta are often obsolete, his central ideas are alive. Whatever is added or taken away is still consistent with his deepest insight. The authentic progressive thought of the modern world is an evolution from his discovery that the wealth of nations proceeds from the division of labor in widening, and, therefore, freer, markets.

Thus the fundamental difference between Karl Marx and Adam Smith, between collectivism and liberalism, is not in their social sympathies, nor in their attachment to or rebellion against the existing social order, but in their science. Liberalism is the line of policy which seeks to re-form the social order to meet the needs and fulfill the promise of a mode of production based on the division of labor; collectivism is the line of policy which promises to retain the material advantages of the new economy, yet would abolish the inner regulative principle, namely, the widening and freer market, by which the division of labor becomes effective.

And so, though Marx as an historian saw truly enough that

“production, and with production the exchange of its products, is the basis of every social order,”¹⁸ he never did realize clearly what the modern mode of production is. He became confused by failing to distinguish between the injustices and miseries of laissez-faire capitalism set in its Victorian context of feudal landlordism, on the one hand, and, on the other, the new mode of producing wealth which must henceforth prevail in any modern society. And so, while his indignation was righteous, because his science was wrong he enlisted the progressive sympathies of the western world in a reactionary cause.

7. *Latter-Day Liberals*

Karl Marx was not the only thinker of the nineteenth century who failed to make this distinction. Marx merely accepted uncritically the prevailing assumptions of his time and he must be absolved of any unique responsibility. For his error was shared by almost all the influential, latter-day liberals. They, too, identified the existing laws of property with the new mode of production. Indeed, his teachings would not have found such wide acceptance in the learned world, or have proved so hard to refute, had not liberal thinkers and capitalist leaders made the same assumption as Marx — that the status quo *was* a liberal society completely achieved. By this general failure to recognize the economy as a mode of production distinguished from the prevailing social order as a complex of laws and institutions, the essential issue between collectivism and liberalism was obscured. Since the Marxians and latter-day liberals had the same premise, that the social order of the nineteenth century was the necessary, the appropriate, and a completed reflection of this new mode of production, their quarrel was merely whether the order was good or bad.

¹⁸ Cf. discussion in Engels, *op. cit.*, p. 294.