

associations between units of enterprise, and by the increase of those less tangible restrictions on competition known as imperfect and monopolistic competition. As a result, competition had been declining, control of the market had been increasing, and self-financing by industrial units had been growing. This last development made it possible for industry once more to free itself from financial control as it had been in the owner-management period which preceded financial capitalism. But, unlike this earlier stage, control did not revert from financiers back to the owners of enterprise but instead tended to shift into the hands of a new class of bureaucratic managers whose powers of control were out of all relationship to the extent of their ownership of the enterprises concerned. In France, the bankers, although in retreat when war came in 1939, had been so strengthened by the unorthodox financial policies of the 1920's that they were able to prevent any important victory for monopoly capitalism in the 1930's, with the result that the shift from financial to monopoly capitalism did not appear in France until the 1940's. In the United States, also, the transition was not complete when war came in 1939, with the result that the United States, like France, but unlike any other important country, had not shaken off the world depression even as late as 1940.

#### Chapter 22—Reflation and Inflation, 1933-1947

The period of reflation began in some countries (like Great Britain and the United States) long before the period of deflation had ended elsewhere (as in France). In most countries the recovery was associated with rising wholesale prices, with abandonment of the gold standard or at least devaluation, and with easy credit. It resulted everywhere in increased demand, rising production, and decreasing unemployment. By the middle of 1932, recovery was discernible among the members of the sterling bloc; by the middle of 1933 it was general except for the members of the gold bloc. This recovery was halting and uncertain. Insofar as it was caused by government actions, these actions were aimed at treatment of the symptoms rather than the causes of the depression, and these actions, by running contrary to orthodox economic ideas, served to slow up recovery by reducing confidence. Insofar as the recovery was caused by the normal working out of the business cycle, the recovery was slowed up by the continuation of emergency measures—such as controls over commerce and finance and by the fact that the economic dis-equilibriums which the depression had made were frequently intensified by the first feeble movements toward recovery. Finally, the recovery was slowed up by the drastic increase in political insecurity as a result of the aggressions of Japan, of Italy, and of Germany.

Except for Germany and Russia (both of which had isolated their economies from world fluctuations) the recovery continued for no more than three or four years. In most countries the latter half of 1937 and the early part of 1938 experienced a sharp "recession." In no important country had prices reached the 1929 level at the beginning of the recession (although within 10 percent of it), nor had the percentage of persons unemployed fallen to the 1929 level. In many countries (but not the United States or the gold bloc), industrial production had reached 1929 levels.

#### The Recession of 1937

The recession was marked by a break in wholesale prices, a decline in business activity, and an increase in unemployment. In most countries it began in the spring of 1937 and lasted for about ten months or a year. It was caused by several factors: (1) much of the price rise before 1937 had been caused by speculative buying and by the efforts of "panic money" to seek refuge in commodities, rather than by demand from either consumers or investors; (2) several international commodity cartels created in the period of depression and early recovery broke down with a resulting fall in prices; (3) there was a curtailment of public deficit spending in several countries, especially the United States and France; (4) the replacement of capital goods worn out in the period 1929-1934 had caused much of the revival of 1933-1937 and began to taper off in 1937; (5) the increase in political tension in the Mediterranean and the Far East as a result of the Civil War in Spain and the Japanese attack on North China had an adverse effect; and (6) a "gold scare" occurred. This last was a sudden fall in the demand for gold caused by the fact that the great increase in gold production resulting from the United States Treasury price of \$35 an ounce gave rise to rumors that the Treasury would soon cut this price.

#### Ownership of Gold Ended in the U.S.

As a result of the recession of 1937, the governmental policies of 1933-1935, which had given the first recovery, were intensified and gave rise to a second recovery. Bank rates were lowered—in some cases to 1 percent; deficit spending was resumed or increased; all efforts to get back on a gold standard were postponed indefinitely; in the United States, the sterilization of gold was ended, and all thoughts of reducing the buying price of gold were abandoned. The chief new factor after the recession was one which was of minor but rapidly growing importance. The deficit spending which had been used to pay for public works projects before 1937 was increasingly devoted to rearmament after that date. Britain, for example, spent £186 million on arms in the fiscal year 1936-1937 and £262 million in the year 1937-1938. It is not possible to say to what extent this increase in armaments was caused by the need for deficit spending and to what extent it was the result of the rising political tensions. Similarly, it is not possible to say which is cause and which effect as between political tensions and rearmament. Indeed, the relationships between all three of these factors are mutual reactions of cause and effect. At any rate, after the recession of 1937, armaments, political tensions, and prosperity increased together. For most countries, the political tensions led to the use of arms in open conflict long before full prosperity had been achieved. In most countries, industrial production exceeded the 1929 level by the end of 1937, but because of the increase in population, efficiency, and capital this was achieved without full utilization of resources. In the United States (with Canada as an appendage) and in France (with Belgium as an appendage) production continued low throughout the 1930's, reaching the 1929 level in the first pair only in the late summer of 1939 and never reaching the 1929 level in the second pair. As a result of the failure of most countries (excepting Germany and the Soviet Union) to achieve full utilization of resources, it was possible to devote increasing percentages of these resources to armaments without suffering any decline in the standards of living. In fact, to the surprise of many, the exact opposite resulted—as armaments grew, the standard of living improved because of the fact that the chief obstacle in the way of an improving standard of living—that is, lack of consumers'

purchasing power, was remedied by the fact that armament manufacture supplied such purchasing power in the market without turning into the market any equivalent in goods which would use up purchasing power.

### The Existence of Imprisoned Capital

The recovery from depression after 1933 did not result in any marked reduction in the restrictions and controls which the depression had brought to commercial and financial activity. Since these controls had been established because of the depression, it might have been expected that such controls would have been relaxed as the depression lifted. Instead, they were maintained and, in some cases, extended. The reasons for this were various. In the first place, as the political crisis became more intense the value of these controls for defense and war was realized. In the second place, powerful bureaucratic vested interests had grown up for enforcing these controls. In the third place, these restrictions, which had been established chiefly for controlling foreign trade, proved very effective in controlling domestic economic activity. In the fourth place, under the protection of these controls the difference in price levels between some countries had grown so great that the ending of controls would have torn their economic structures to pieces. In the fifth place, the demand for protection from foreign competition remained so great that these controls could not be removed. In the sixth place, the debtor-creditor relationships between countries still remained valid and unbalanced and would have required new controls as soon as the old ones were lifted to prevent unbalanced payments and deflationary pressure. In the seventh place, the existence of "imprisoned capital" within national economic systems made it impossible to raise the controls, since the flight of such capital would have been disruptive of the economic system. The chief example of such imprisoned capital was the property of the Jews in Germany, amounting to over 10 billion marks.

For these and other reasons tariffs, quotas, subsidies, exchange controls, and government manipulations of the market continued. The moment at which these controls could have been withdrawn most easily was at the beginning of 1937, because by that time recovery was well developed and the international dis-equilibriums were less acute because of the disruption of the gold bloc late in 1936. The moment passed without much being accomplished, and, by the end of 1937, the recession and the mounting political crisis made all hopes of relaxing controls utopian.

### The Hull Reciprocal Trade Program

Such hopes, however, were found both before and after 1937. These included the Oslo Agreements of 1930 and 1937, the Ouchy Convention of 1932, the Hull Reciprocal Trade Program of 1934 and after, the Van Zeeland Mission of 1937, and the constant work of the League of Nations. Of these, only the Hull Program accomplished anything concrete, and the importance of its accomplishment is a subject of dispute.

### The United States Became the World's Chief Defender of Free Trade

The Hull Reciprocal Trade Program is of more importance from the political than from the economic point of view. It openly aimed at freer and multilateral trade. The act, as passed in 1934 and renewed at regular intervals since, empowered the executive branch to negotiate with other countries trade agreements in which the United States could reduce tariffs by any amount up to 50 percent. In return for lowering our tariffs in this way, we hoped to obtain trade concessions from the other party to the agreement. Although these agreements were bilateral in form, they were multilateral in effect, because each agreement contained an unconditional most-favored-nation clause by which each party bound itself to extend to the other party concessions at least as great as those it extended to the most favored nation with which it traded. As a result of such clauses any concessions made by either tended to be generalized to other countries. The interest of the United States in removing the restrictions on world trade was to be found in the fact that she had productive capacity beyond that necessary to satisfy articulate domestic demand in almost every field of economic activity. As a result she had to export or find her hands full of surplus goods. The interest of the United States in multilateral trade rather than in bilateral trade was to be found in the fact that her surpluses existed in all types of goods—foodstuffs, raw materials, and industrial products—and the markets for these would have to be sought in all kinds of foreign economies, not in any single type. The United States had excess supplies of food like wheat, pork, and corn; of raw materials like petroleum, cotton, and iron; of specialized industrial products like radios, automobiles, and locomotives. It was not possible to sell all these types to a food-producing country like Denmark, or to a raw-material-producing country like Canada or the Malay States, or to an industrial country like Germany or Britain. Accordingly, the United States became the world's chief defender of freer and multilateral trade. Her chief argument was based on the fact that such trade would contribute to a higher standard of living for all parties. To the United States, whose political security was so sound that it rarely required a moment's thought, a higher standard of living was the chief aim of existence. Accordingly, it was difficult for the United States to comprehend the point of view of a state which, lacking political security, placed a high standard of living in a position second to such security.

### Nazi Germany Seeks Independence

In sharp contrast to the United States in its attitude toward the problem of international trade was Nazi Germany. This and other countries were seeking "independence" (that is, political goals in the economic sphere), and they rejected "dependence" even if it did include a higher standard of living. They frequently rejected the argument that autarky was necessarily injurious to the standard of living or to international trade, because by "autarky" they did not mean self-sufficiency in all things, but self-sufficiency in necessities. Once this had been achieved, they stated their willingness to expand the world's trade in nonessentials to an extent as great as any standard of living might require.

### Third World Countries to be Deprived of Sovereignty and

### Reduced to Vassal States

The basic key to the new emphasis on autarky is to be found in the fact that the advocates of such economic behavior had a new conception of the meaning of sovereignty. To them sovereignty had not only all the legal and political connotations it had always held, but in addition had to include economic independence. Since such economic independence could, according to the theory, be obtained only by the Great Powers, the lesser states were to be deprived of sovereignty in its fullest sense and be reduced to a kind of vassal or client condition in respect to the Great Powers. The theory was that each Great Power, in order to enjoy full sovereignty, must adopt a policy of autarky. Since no power, however great, could be self-sufficient within its own national boundaries, it must extend this sphere of autarky to include its weaker neighbors, and this sphere would have political as well as economic implications, since it was unthinkable that any Great Power should permit its lesser neighbors to endanger it by suddenly cutting off its supplies or markets.

The Rise of Continental Blocs Made It Possible that the World

Would Be Integrated into Large Political Units

The theory thus led to the conception of "continental blocs" consisting of aggregates of lesser states about the few Great Powers. This theory was entirely in accord with the political development of the late nineteenth and early twentieth century. This development had seen an increasing disparity in the powers of states with a decreasing number of Great Powers. This decline in the number of Great Powers occurred because of the advance of technology, which had progressed to a point where only a few states could follow. The theory of continental blocs was also in accord with the growth of communications, transportation, weapons, and administrative techniques. These made it almost inevitable that the world would be integrated into increasingly large political units. The inevitability of this development can be seen from the fact that the wars of 1914-1945, waged for the preservation of the small states (like Poland, Czechoslovakia, Holland, and Belgium), succeeded in reducing the number of Great Powers from seven to two.

Integration of States Sought by Illegitimate Methods

This integration of states into continental or other large blocs was, as we have seen, a quite legitimate and attainable ambition, but it was sought by the aggressor states (like Germany, Japan, and Italy) by quite illegitimate methods. A better method for attaining such integration would have been based on consent and mutual penetration. But this federalist method of integration could have succeeded only if it were honestly offered as an alternative to the authoritarian solution of the aggressor states. This was not done. Instead, the "liberal" states refused to recognize the inevitability of integration and, while resisting the authoritarian solution, sought as well to resist the whole process of integration. They sought to preserve the atomistic world structure of sovereign states which was so out of keeping with technological developments both in politics (new weapons, speedy transportation, and quicker communications) and in economics (mass

production and increasing need for exotic materials such as tin, rubber, or uranium found in small and scattered amounts). As a result the liberal Powers resisted the German efforts to cope with the real world developments without putting any realistic or progressive substitute program in its place.

The Majority of the Countries Were Put into the

Position of Needing Integration

The policy of negativism on the part of the liberal Powers was made worse by the fact that these Powers had put Germany and others into a position (as debtors) where they were driven in the direction of greater integration of the world on a voluntary basis. This appeared in the fact that these Powers had to adopt freer and increased trade in order to pay their debts. Having put the majority of the countries of the world into this position of needing increased integration in order to pay their debts, the liberal countries made it impossible to obtain such integration on a federalist basis by adopting policies of isolationist, economic nationalism for themselves (by high tariffs, ending of long-term loans, and so on). This dog-in-the-manger policy in economic matters was quite similar to their policy in political matters where, after setting up an organization to achieve peace, they declined to permit Germany to be a part of it and, later, when Germany became a part they refused to use the organization for peaceful goals but instead tried to use it to enforce the Treaty of Versailles or to build up a power balance against the Soviet Union.

The Instruments of International Organization Were Not Sufficiently

Developed to Prevent the Rise of Nationalism

This failure of the liberal states in the 1920's becomes more obvious when we examine the great increase in restrictive economic and financial policies in the 1930's. It is usually said that the excesses in these were caused by the great increase in nationalism resulting from the depression. This is not true, and the increase in such restrictions cannot be quoted as a proof of increasing nationalism. No country entered upon these policies for nationalistic reasons—that is, for the closer integration of its own people, or to distinguish them more sharply from other people, or for the aggrandizement of its own people over another. The increase in economic nationalism was based on a much more practical cause than that—on the fact that the nation was the only social unit capable of action in the emergency resulting from the depression. And men were demanding action. For this the only available agency was the national state. If a broader agency had been available, it would have been used. Since it was not, the state had to be used—used, not with the purpose of injuring one's neighbors, but solely with the purpose of benefitting oneself. The fact that neighbors were injured was a more or less accidental result, regrettable, but inevitable so long as the largest unit of political organization (that is, the largest unit capable of complete action) was the nation-state. When a theater catches fire, and persons are trampled in the resulting panic, this is not because anyone desired this, but merely because each individual sought to escape from the building as soon as

possible. The result is disaster because the individual is the only unit available capable of action. And the individual is too small a unit of action to spare many individuals from tragedy. If a larger unit of organization exists (as, for example, if the persons in the theater are a company of infantry with its officers), or if some cool-headed person can organize the group into a unit of action larger than the individual, all might escape safely. But the chances of forming an organization after the panic has begun are almost nil. In 1929-1934, the panic started before any unit of action larger than the nation-state existed. As a result, all suffered, and the puny efforts to form an organization after the panic began were vain. This is the real tragedy of the 1920's. Because of the conservatism, timidity, and hypocrisy of those who were trying to build an international organization in the period 1919-1929, this organization was so inadequate by 1929 when the emergency began that the organization which had been set up was destroyed rather than strengthened. If the instruments of international cooperation had been further advanced in 1929, the demand for action would have made use of these instruments, and a new era of political progress would have commenced. Instead, the inadequacy of these instruments forced men to fall back on the broadest instrument which was available—the nation-state; and there began a retrogressive movement capable of destroying all Western Civilization.

### The Rise of Economic Nationalism

The economic nationalism which arose from the need to act in a crisis—and to act unilaterally because of the lack of any organ able to act multilaterally (that is, internationally) was intensified after the breakdown in finance and economics of 1931-1933 by several developments. In the first place, it was increased by the discovery, by Germany in 1932, by Italy in 1934, by Japan in 1936, and by the United States in 1938, that deflation could be prevented by rearming. In the second place, it was increased by the realization that political activity was more powerful and more fundamental than economic activity—a realization which became clear when it was found that every step toward a unilateral economic solution resulted in reprisals from other nations which canceled out that step and made necessary another step, which, in its turn, called forth new reprisals; this soon showed that except in a nation capable of self-sufficiency such actions in the economic sphere could accomplish little and that unilateral action, if taken at all, must be accompanied by political steps (which would permit no reprisals). In the third place, economic nationalism was increased, and internationalism reduced, by the great increase in political insecurity, since the preservation of an international economic organization involved entrusting one's economic fate, to some degree, to the hands of another. Rather than this, economic nationalism was increased in the name of autarky, security, economic mobilization, and so on. Self-sufficiency, even if it involved a lower standard of living, was held preferable to international division of labor, on the grounds that political security was more important than a high—and insecure—standard of living.

### International Trade Suffers a New Injury

As a consequence of these three causes, international trade began to suffer a new injury. The old nineteenth century transfer of goods between industrial and colonial areas (producers of food and raw materials) had begun to decline by a purely natural evolution

as the result of the industrialization of colonial areas. But now, as a result of the increase in economic nationalism, another kind of transfer was disrupted. This was the transfer among industrial nations resulting from an international division of labor and an uneven distribution of raw materials. An example of this can be seen in the iron and steel industry of western Europe. There British and German coal, French and Belgian low-grade iron ores, Swedish high-grade iron ores were mingled and combined to permit production of high-grade surgical steels in Sweden, of low-grade building steels in Belgium, of heavy machine products in Germany, and of light steel products in France. This transfer of goods began to be disrupted in the onslaught of economic nationalism after 1929. As a result, history turned backward, and the older interchange of colonial for industrial products increased in relative importance.

### Economic Nationalism Strengthens Bilateralism

Economic nationalism also increased the trend toward bilateralism. This received its chief and earliest impetus from Germany, but it was soon followed by other countries until, by 1939, the United States was the only important supporter of multilateral trade. Most countries justified their acceptance of bilateralism on the grounds that they were compelled to accept it because of economic pressure from Germany. In many cases, this was not true. Some states, like Austria or Romania, were compelled to accept bilateralism because that was the only way they could trade with Germany. But other, more important, states, including Britain, did not have this excuse for their actions, although they used it as an excuse. The real reasons for Britain's adoption of bilateralism and protection are to be found in the structure of the British domestic economy, especially the growing rigidity of that economy through the great and rapid increase in monopolies and cartels.

### Britain's New Trade Policy

The new trade policy of Britain after 1931 was the complete antithesis of that pursued by the United States, although the more extreme and spectacular methods of Germany concealed this fact from many persons until 1945. The United States sought multilateralism and expansion of world trade. Britain sought debt collection and increase of exports through bilateralism. Without equality of treatment, its trade agreements sought to reduce debts first and to increase exports second, if this second was compatible with the reduction of debts. In some cases, in order to reduce outstanding debts, it made agreements to curtail exports from Britain or to reduce quotas on such goods (Anglo-Italian agreements of April 1936, of November 1936, and of March 1938, as amended March 1939). It established payment agreements and clearings with debtor countries. Current trade was subordinated to liquidation of past debts. This was the direct opposite of the American theory which tended to neglect past debts in order to build up present trade in the hope that eventually past debts could be liquidated because of the increased volume of trade. The British preferred a smaller volume of trade with rapid payments to a larger volume with delayed payments.



These tactics did not work very well. Even with clearings and restricted exports Britain had great difficulty in bringing into existence an unfavorable balance of trade with debtor countries. Its balances generally remained favorable, with exports higher than imports. As a result, payments continued to lag behind (two and a half years in respect to Turkey), and it was necessary to rewrite the commercial agreements embodying the new bilateralism (in the case of Italy, four agreements in three years). In some cases (like Turkey in May 1938), special joint trading organizations were set up to sell products of the clearing country in free-exchange markets so that debts owed to Britain from the clearing country could be paid. This, however, meant that the free exchange countries had to obtain Turkish products from Britain and could sell none of their own products in Turkey because of lack of exchange.

Because of the failure of Britain's bilateral agreements to achieve what she had hoped, she was driven to replace these agreements by others, always moving in the direction of more control. Clearing agreements which were originally voluntary were later made compulsory; those which were earlier one-ended became later double-ended. Britain made barter agreements with various countries, including one direct swap of rubber for wheat with the United States. In 1939 the Federation of British Industries went so far as to seek an agreement with Germany dividing markets and fixing prices for most economic activities.

As a result of all this, the international commodity markets in which anything could be bought or sold (if the price was right) were disrupted. The center of these (chiefly in Britain) began to disappear, exactly as the international capital market (also centering in Britain) was doing. Both markets were broken up into partial and segregated markets. In fact, one of the chief developments of the period was the disappearance of The Market. It is an interesting fact that the history of modern Europe is exactly parallel in time with the existence of the market (from the twelfth century to the twentieth century).

#### The Period of Inflation, 1938—1945

The period of reflation, which began in most countries in the first half of 1933, merged into the following period of inflation without any sharp line of demarcation between the two. The increase in prices, prosperity, employment, and business activity after 1933 was generally caused by increases in public spending. As the political crisis became worse with the attacks on Ethiopia, on Spain, on China, on Austria, and on Czechoslovakia, this public spending increasingly took the form of spending on armaments. For several years it was possible in most countries to increase the output of armaments without reducing the output of consumers' goods or of capital goods merely by putting to work the resources, men, factories, and capital which had been standing idle in the depression. Only when there were no longer any idle resources and increased armaments had to be obtained by diverting resources to this purpose from the production of consumers' or capital goods did the period of inflation begin. At that point, a competition began between the producers of armaments and the producers of wealth for the limited supply of resources. This competition took the form of price competition, with each side offering higher wages for manpower, higher prices for raw materials. The result

was inflation. The money which the community obtained for the production of wealth as well as for the production of arms was available to buy the former only (since arms are not usually offered for sale to the public). This intensified the inflation greatly. In most countries, the transition from deflation to inflation did not occur until after they had entered the war. Germany was the chief exception and possibly also Italy and Russia, since all of these were making fairly full utilization of their resources by 1938. In Britain, such full utilization was not obtained until 1940 or 1941, and in the United States not until 1942 or even 1943. In France and the other countries on the Continent overrun by Germany in 1940 and 1941, such full utilization of resources was not achieved before they were defeated.

The period of inflation 1938-1947 was very similar to the period of inflation 1914-1920. The destruction of property and goods was much greater; the mobilization of resources for such destruction was also greater. As a result, the supply of real wealth, both producers' and consumers', was curtailed much more completely. On the other hand, because of increased knowledge and experience, the output of money and its management was much more skillfully handled. The two factors together gave a degree of inflation which was somewhat less intense in the Second World War than in the First. Price controls and rationing were better applied and more strictly enforced. Surpluses of money were taken up by new techniques of compulsory or voluntary savings. The financing of the war was more skillful so that a much larger increase in production was obtained from a similar degree of inflation.

#### The Use of Lend-Lease

Much of the improvement in financing World War II in comparison with World War I arose from the fact that attention was concentrated on real resources rather than on money. This was reflected both in the way in which each country managed its domestic economy and in the relationships between countries. The latter can be seen in the use of Lend-Lease rather than commercial exchange as in World War I to provide America's allies with combat supplies. The use of commercial exchange and orthodox financing in the First World War had left a terrible burden of intergovernmental debts and ill-feeling in the postwar period. In World War II the United States provided Great Britain under Lend-Lease with \$27,000 million in supplies, received \$6,000 million in return, and wrote off the account with a payment of about \$800 million in the postwar settlement.

#### The Rise of Centralized Planning

In domestic economies even more revolutionary techniques were developed under the general category of centralized planning. This went much further in Great Britain than in the United States or Germany, and was chiefly remarkable for the fact that it applied to real resources and not to money flows. The chief of these controls were over manpower and materials. Both of these were allotted where they seemed to be needed, and were not permitted, as in World War I, to be drawn here and there in response to rising wages or prices. Rises in prices were controlled by sopping up excess purchasing power by compulsory or semi-compulsory saving and by rationing of specific necessities. Above

all, price rises in such necessities were prevented by subsidies to producers, which gave them more payment for production without any increase in the final selling price. As a result, in Britain the cost of living rose from 100 in 1939 to 126 in 1941, but rose no more than to 129 by the war's end in 1945. In the United States wholesale prices of all commodities rose only 26 percent from 1940 to 1945, but were twice as high as in 1940 in 1947. Most of this increase in the United States came after the war's end, and may be attributed to the refusal of the Republican-controlled Congress, led by Senator Taft, to profit from the errors of 1918-1920. As a result, most of the mistakes of that earlier period, such as the ending of price controls and rationing and the delays in reconversion to peacetime production, were repeated, but only after the war itself had been won.

### A New Economic System Emerges

Outside the United States, many of the wartime control mechanisms were continued into the postwar period, and contributed substantially to the creation of a new kind of economic system which we might call the "pluralist economy" because it operates from the shifting alignments of a number of organized interest blocs, such as labor, farmers, heavy industry, consumers, financial groups, and, above all, government. This will be analyzed later. At this point we need only say that the postwar economy was entirely different in character from that of the 1920's following World War I. This was most notable in the absence of a postwar depression, which was widely expected, but which did not arrive because there was no effort to stabilize on a gold standard.... This has been brought about by the new concern with real economic factors instead of with financial counters, as previously. As part of this process, there has been a great reduction in the economic role of gold. From this has flowed two persistent postwar problems which would have been avoided by the gold standard. There are (1) slow worldwide inflation arising from the competing demands for economic resources by consumers, by investors, and by defense and government needs; and (2) the constant recurrence of acute exchange difficulties, such as the "dollar shortage" in world trade, arising from the inability of gold shipments or foreign demand to influence domestic prices sufficiently to reverse these foreign movements. But these inconveniences, associated with the absence of a gold standard and the inadequacies of the financial arrangements in substitute for it, were generally regarded as a small price to pay for the full employment and rising standards of living which advanced industrial countries were able to obtain under planning in the postwar era.

## Part Eight—International Socialism and the Soviet Challenge

### Chapter 23—The International Socialist Movement

The international Socialist movement was both a product of the nineteenth century and a revulsion against it. It was rooted in some of the characteristics of the century, such as its industrialism, its optimism, its belief in progress, its humanitarianism, its scientific materialism, and its democracy, but it was in revolt against its laissez faire, its middle-class domination, its nationalism, its urban slums, and its emphasis on the price-profit system as the dominant factor in all human values. This does not mean that all Socialists