



# The Present Age of Transformation

Five Lectures by Karl Polanyi  
Bennington College, 1940

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# Five Lectures on The Present Age of Transformation

Karl Polanyi

Bennington College Lecture Series, 1940.

Karl Polanyi. Five Lectures on The Present Age of Transformation.

- I. The Passing of 19th Century Civilization.
- II. The Trend Towards an Integrated Society.
- III. The Breakdown of the International System.
- IV. Is America an Exception?
- V. Marxism and the Inner History of the Russian Revolution.

With Introductions by Professor Kari Polanyi-Levitt, and by Jeremy Smith & Ann Pettifor

February 2017

## **“Market-Utopia”- lessons from the past, implications for our future**

Introduction to Karl Polanyi’s 1940 Bennington College lectures by Jeremy Smith & Ann Pettifor

*“In order to understand German fascism, we must revert to Ricardian England”  
“Nowhere has the liberal philosophy failed so conspicuously as in its understanding of the problem of change”*

*From Karl Polanyi, The Great Transformation, 1957 Beacon Press, pp.30 and 33*

This short e-publication owes as much to serendipity as to intention, in that one of us, wanting to learn more about the genesis of “The Great Transformation”, followed a link to Bennington College’s website, and discovered there the set of essays delivered by Karl Polanyi in the last months of 1940. It was apparent that they cover or foreshadow, in summary form, many of the principal points and arguments to be deepened and developed in the book itself. Yet it also included lectures on themes hardly touched upon in the final version, notably on America and Russia. The series was given the title “Five Lectures on the Present Age of Transformation”.

Karl Polanyi is today seen not just as an economic historian of the first rank, but as someone with the deepest insights into current economic-political developments, with his concept of utopian economic liberalism (market society), which both transforms society and – the double move – generates the reaction and opposition in which society protects itself against that utilitarian transformation. The forms that this counter-action takes can be either democratic, in which case the market society is controlled by democratic political forces, or authoritarian and ultimately fascist.

As soon as we saw these short essays (none is more than 4 pages of single-typed text), we realised that they form an exceptionally important entry point to the current political debates on both sides of the Atlantic – helping to understand both Brexit Britain and Trump’s American Dystopia.

In summer 1940, Karl Polanyi was invited by the President of Bennington College in Vermont to be one of three “foreign displaced scholars” invited to be lecturers for a period. [Bennington College](#) is a private liberal arts college, [founded in 1932](#) as a girls’ college, and in 1969 becoming co-educational. According to the minute of the Committee on General Meetings of 5<sup>th</sup> September 1940:

“Mr. Leigh outlined the plan of having three resident lecturers, to be paid out of the fund usually allotted to General Meetings. Besides serving as a contribution to the plight of foreign displaced scholars, this would fit in with the desire to have speakers at the College for longer periods of time. These resident lecturers would have no teaching obligations. They would give perhaps five lectures apiece a semester. Such other contributions as

they made would be simply by their presence here and their occasional contacts with the students.”

By October, the Committee – after deciding that he might be asked to give a lecture on Hamlet – were thinking about extending Dr Polanyi’s stay:

“Mr Leigh suggested that Dr Polanyi should remain at College as an honorary fellow... he would have no lecturing obligations, but might conduct a seminar (possibly  $\frac{1}{4}$  of a student’s time) of interested students and faculty members on current issues and questions arising from the first semester lectures. This would leave Dr Polanyi time to work on his book; he would accept fewer outside speaking engagements.”

In her introduction to “The Life and Work of Karl Polanyi: A Celebration,” (1990) Kari Polanyi-Levitt tells how in 1986 she was given, out of the blue, “a letter that I had not seen before, from my father to me... dated Bennington College, Vermont, February 23<sup>rd</sup>, 1941.”

In the letter, he tells Kari of his plans for his forthcoming book:

“It is going to be called Liberal Utopia: Origins of the Cataclysm. It will be a very straightforward, simple story, easy to read, and mainly historical in character, recounting the history of the English enclosures, the Industrial Revolution, Speenhamland. But the two introductory chapters will deal with the Hundred Years’ Peace, and the “Conservative” Twenties, “Revolutionary” Thirties. The last chapters deal with America, Russia, the history of economic theory and the history of the liberal state... The bulk of the book is called “The Rise and Fall of the Market Economy”, and takes some 20 chapters of the 25. It consists of three sections: A. Satanic Mill; B. Self-protection of Society; C. Deadlock...The book will have approximately 500 pages.”

He adds that in America, “the title will have to be different, for here liberal means progressive, or more precisely what radical meant in England until not long ago.” He suggested “The Great Transformation: Origins of the Cataclysm.” In the event, the second part of the title became the more demure “political and economic origins of our time.”

The final book, including notes and index, is a little over 300 pages rather than 500, and consists of 21 chapters, not the 25 foreseen in his letter to daughter Kari. It follows the thematic shape proposed, except for the last chapters (part 3 of the book) which do not deal in any great detail with America or Russia, but reflect on political and economic change and the rise of fascism, with a final chapter reflecting on what we mean by Freedom in a Complex Society.

The Bennington lectures can be read as a series in their own right, but they are equally fascinating as in effect summarising Polanyi’s thinking at the time about the developing shape and content of the Great Transformation.

The Lecture Series comprised the following:

*Lecture 1. The Passing of 19th Century Civilization* (its subsections include one on “The Conservative ‘Twenties and the Revolutionary ‘Thirties”, the title of Chapter 2 of the Great Transformation)

*Lecture 2. The Trend towards an Integrated Society*

*Lecture 3. The Breakdown of the International System*

*Lecture 4. Is America an Exception?*

*Lecture 5: Marxism and the Inner History of the Russian Revolution*

In Lecture 1, Polanyi sets the scene – he will be concentrating on a “vast and unique event: the passing of 19th century civilization in the short period that elapsed between the first and the second wars of the 20th century.”

He argues that, in the 1920s, the “economic factor” was dominant within the international system, with vast efforts made by statesmen to restore the old pre-war economic system: “...stabilization of the exchanges, international debts, foreign loans, trade embargoes and cost of living indices were the immediate concern of the politicians as well as of the masses.” To no avail, as the system hit the crisis and yielded to the great transformation of the 1930s:

“The breakdown of the international economic system stands itself in need of explanation. The attempt will take us far afield, for such an enterprise involves no less than the defining of the nature and origin of the present crisis. In other words, it involves a definition of our basic institutions, capitalism and democracy, in general human terms.

Lecture 2 is in our view key to understanding why Polanyi is important in our interpretation of the here and now, as well as in dissecting the inter-war era. The lecture commences with Polanyi’s bold argument, which underpins the whole work, that

“A society containing within its orbit a separate, self-regulating and autonomous economic sphere is a utopia.”

He sees 19<sup>th</sup> century society [he means Europe and America mainly] as based upon the two separate pillars of liberal capitalism and representative democracy – but that separation is the clue to its rapid downfall.

For Polanyi, and we would say for all of us today too, “the simple proposition that all factors of production must have free markets implies in practice that the whole of society must be subordinated to the needs of the market system.” He introduces us to what he calls the “fictitious commodities” of land and labour, which (neo)liberal economics requires to be treated as (if) true commodities. (The Great Transformation also includes money as a fictitious commodity).

But Polanyi's key insight – here and in the later book – is encapsulated here:

“The real nature of the dangers thus become apparent which are inseparable from the market-utopia. For the sake of society the market mechanism must be restricted. But this cannot be done without grave peril to economic life and therefore to society as a whole. We are caught up on the horns of a dilemma: - either to continue on the paths of a utopia bound for destruction, or to halt on this path and risk the throwing out of gear of this marvellous but extremely artificial system.”

He goes on,

In post-war Europe [i.e. post 1918] the separation of economics and politics developed into a catastrophic internal situation. The captains of industry undermined the authority of democratic institutions, while democratic parliaments continuously interfered with the working of the market mechanism. A state of affairs was reached when a sudden paralysis of both the economic and the political institutions of society was well within the range of the possible. The need for re-integration of society was apparent.

This was the critical state of affairs out of which the fascist revolutions sprang. The alternative was between an integration of society through political power on a democratic basis, or, if democracy proved too weak, integration on an authoritarian basis in a totalitarian society, at the price of the sacrifice of democracy.

For us, this is wholly relevant today.

Lecture 3 explores the breakdown in the international system in a little more depth. Once again, Polanyi affirms that

“a self-regulating market-system is a utopia. No society could stand its devastating effects once it got really going. Hardly had laissez-faire started when the State and voluntary organizations intervened to protect society through factory laws, Trade Union and Church action from the mechanism of the market.”

He introduces the concept, developed in the Great Transformation” of the “counter-move”:

“...The protective counter-move of society against laissez-faire began almost as soon as laissez-faire itself.”

As a result, the price system lost its “elasticity”, costs ceased to be flexible, and wages tended to become “rigid” (We prefer Keynes's “sticky” to describe this!). These internal protections against the socially damaging effects of a market-

economy in turn had an impact on the working of the international market-economy, for measures such as factory acts called for external protection, e.g. custom tariffs, against undercutting.

The second subsection of the lecture is headed (with resonance for today) “national boundaries as shock-absorbers”. Polanyi is not against the “international division of labour” as such, but

“If international division of labour is effected by competition and consequent elimination of the less efficient, then much will depend upon the rate at which the change proceeds as well as upon the dimensions of the units involved.... if whole countrysides, countries or continents compete, the elimination of the less efficient may involve the ruin and destruction of whole communities. Then the system, far from being a blessing, becomes a deadly danger and must be checked at all costs....While a slowly increasing division of labour effected by the market mechanism would be purely beneficial, a fast rate of change might work out as a machinery of sheer destruction.

Polanyi sees here also an explanation for the rise of the nation state in the 19<sup>th</sup> century. The “stupendous increase of general well-being which sprang from the growing division of labour in the world” required the spread of the market system, but this in turn forced the state to take measures of protection, and making it “a vital unit of communal existence.” In sum,

“The more intense international cooperation was and the more close the interdependence of the various parts of the world grew, the more essential became the only effective organizational unit of an industrial society on the present level of technique: - the nation. Modern nationalism is a protective reaction against the dangers inherent in an interdependent world”.

From the last quarter of the 19<sup>th</sup> century, Polanyi sees protectionism (internal and external) and imperialism (“a new and fatal force”) as the dual forms through which the “political” domain (via the state) sought to exercise some leverage over international markets.

Lecture 4 looks at the United States and asks (recall, we are in 1940), “Is America an Exception?”. One can feel the hope, even the optimism, that it might be...

“Within the last decade free institutions have succumbed to the impact of sudden change in most of the countries where civilisation bore the imprint of the Industrial Revolution. Must America go the same way? Or is there hope that she might be able to master her own future?”

He notes that the answer depends on how far the US differs from other industrialised nations, notably in Europe:



“The rise of fascism on the European continent was due to the fact that the vitally necessary reform of liberal capitalism could not be carried through under our democratic institutions. Such a reform was inevitable owing to the devastating effects of a separate, self-regulating economic system on the tissue of society.”

Polanyi argues that the way that the state had tried to “integrate” society in Europe led to the imperfect re-uniting of economics and politics through mutual interference, which actually prevented either liberal economics or representative democracy from functioning satisfactorily:

“The road to a constructive reform of the capitalist system by democratic means was, however, blocked by a set of circumstances which were beyond the control of anybody. Society was helpless.”

What he means by this is that society was subject to the whims of the financial markets and their propensity to panic:

“Reform was met by panic: - flight of capital, slump of exchanges, ceasing of investment, mass unemployment, loss of incomes, bankruptcy, chaos and ruin. Long before this stage was reached, the reforming government was thrown out of office and the body politic had been forced to give up any attempt at reform in order to restore confidence.”

So can America avoid the anti-democratic, fascist turn? Polanyi poses the issue – which in essence comes down to making the democratic state the master, not servant, of the financial markets:

“It would be too early to say whether America has already achieved a plastic society, i.e., a society which can be shaped by the political state and other conscious social factors without danger of a fatal stoppage. If so, this would be mainly due to the absence of the control of the financial market over the credit of the state itself. The conflict of White House and Wall Street in the first years of the New Deal, in conjunction with the dropping of the gold standard, may have had greater importance than it is usually credited with.”

It will sadly now take a truly heroic effort by the American people to find a way of regaining control over Wall Street, whose interests seem for the moment to be fully “integrated” within the White House.

Lecture 5 brings the Series to a close, but without reaching an overall conclusion to the series. That said, it provides an historically fascinating look at the Russia (USSR) of 1940 – shortly before the Hitlerian invasion of June 1941.



Polanyi argues that the Russian Revolution of October 1917 was in line with those “western” revolutions of the 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> centuries, not something totally new, and that its socialist content was (save for the period of war communism that was in effect forced upon the fledgling state) almost absent. By the time of Lenin’s death,

“Tsarism was no more; the land was owned by the peasant; the various nations had been liberated from the domination of Great Russia. Nothing remained to be done but to settle down to some advanced form of agrarian democracy.”

There were major difficulties – the middle classes did not rally to the industrial working class’s cause, and the problem of Russia was essentially one of backward agriculture. Moreover, Marxian theory also held that it was not possible to leap straight from feudalism to a socialist revolution, without passing through the stage of capitalism.

But Polanyi clearly considers that – bar the 1929 crisis – Russia’s economic isolation might have ended. By the late 1920s,

“when Russia was ripe for normalization – return to the world market on a large scale; joining the Kellogg Pact – the international system was already at the breaking point. Five Year Plan Russia was thus ultimately the result not of forces operating in Russia alone, but of a general trend at work both inside and outside Russia at the critical period.”

The overturning of the traditional Marxian “stages” thesis, through the deliberate establishment of a socialist economy with its 5 year plans, starting in 1928, “was apparently much more closely related to the Age of Transformation outside Russia than to the overthrow of Tsarism in 1917.” If Russia did not industrialize fast, the new state would risk being destroyed.

He concludes,

“It was the tragedy of Russia, and not of Russia alone, that in spite of the socialist forms of integration the democratic tendency succumbed in the long run to the totalitarian trend. This was due primarily to the overwhelming force of fascism under the external pressure of which Russia, perhaps only for the time being, changed from a potential democracy into a despotic totalitarian state.”

So for Polanyi, despite his recognition that Russia had descended by this time into a despotic state, a little hope remained here too – perhaps this would only be for the time being, and perhaps the end of fascism, with its overwhelming force, might lead to a brighter future.

## From laissez-faire to neoliberalism

Since the 1970s, and symbolized by the moment when Nixon unilaterally dismantled the Bretton Woods system and delinked the dollar from gold, the forces of unregulated, globalised finance capitalism have been unleashed and swept through the world, accompanying material and technological advances, allied to increasing insecurity and risks. The ideology of the self-regulating market in everything has increasingly dominated. As trade unionism has weakened, the power of labour to protect itself, or to get the national state to protect it, has significantly diminished.

Yet at the moment when utopian neoliberalism seemed triumphant, its political force in its western “heartland” has suddenly weakened. A major proportion of “society” has, apparently suddenly, decided that the brave new world is not to its liking. The result, as we know, has included the Brexit Referendum and the election of Donald Trump as US President.

In recent essays, such as [Ann Pettifor’s] [“Brexit and its Consequences”](#), we have argued that these events reflect an inchoate form of counter-movement:

“Karl Polanyi predicted in *The Great Transformation* that no sooner will today’s utopians have institutionalized their ideal of a global economy, apparently detached from political, social, and cultural relations, than powerful counter-movements—from the right no less than the left—would be mobilized (Polanyi, 2001). The Brexit vote was... just one manifestation of the expected resistance to market fundamentalism. The Brexit slogans ‘Take Back Control’, ‘Take Back Our Country’, and ‘Britannia waives the rules’ represented an inchoate and incoherent attempt to subordinate unfettered, globalized markets in money, trade, and labour to the interests of British society... Brexit has endangered British society in yet another way, but the vote was, I contend, a form of social self-protection from self-regulating markets in money, trade, and labour.”

Much the same can be said of Trump’s election, but the situation there is still more dangerous – not only because of America’s military and economic power, but because on the evidence so far, the trend to authoritarianism, xenophobia and intolerance is even stronger.

In Polanyi’s own words from late 1940, we face the risk of “an integration of society... if democracy proved too weak... on an authoritarian basis.” Which would be, he added, “at the price of the sacrifice of democracy.”

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We would like to express our deep thanks to Bennington College, in particular its Crossett Library director, Oceana Wilson, and to Kari Polanyi Levitt, for giving us permission to reproduce the Five Lectures, in typed form as written in 1940 by

Polanyi, and [available on the college's website](#). We have transcribed the text word for word from these facsimile typed papers.

The Bennington College website also includes copies of the minutes, cited above, in which the college's President, Robert Leigh, proposes that invitations be extended to three resident lecturers, "as a contribution to the plight of foreign displaced scholars". The current President of the United States might with advantage reflect on the benefits of this approach.

*Jeremy Smith and Ann Pettifor*  
*London*  
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## **Introduction by Kari Polanyi Levitt**

*Emerita Professor of Economics, McGill University, Montreal*

The recovery of five lectures under the title *The Present Age of Transformation*, delivered by Karl Polanyi in Bennington College in 1940, is indeed serendipitous. It invites a comparison of the collapse of the 19<sup>th</sup> century liberal economic order in the Great Depression and its transformative consequences, with the contemporary unraveling of its neoliberal reincarnation and the rise of right-wing populist politics in the Atlantic heartlands of capitalism.

We express our thanks to the chief librarian of Bennington College for her initiative in posting these long-forgotten lectures and to Ann Pettifor and Jeremy Smith for making them available as electronic documents accompanied by their excellent summary and commentary. As noted in their introduction to the five lectures, *The Great Transformation* was briefer than originally outlined. The subject matter of the lectures on America and Russia was not elaborated in part 3 of the book. When Stalingrad turned the tide of war toward an allied victory, Karl and Ilona hastened to leave for England early in 1943 to participate in discussions on the post-war political and economic future of Europe. The two penultimate chapters (19 and 20) were left for colleagues to complete. Before leaving the US, Polanyi obtained a contract for a popular version of the *Great Transformation* called *The Common Man's Masterplan*, to be sent from England in 1943. A draft of this document indicates a programmatic approach to a socialist post-war Britain.

The first three lectures constitute a summary outline of *The Great Transformation*. On reading these lectures, in view of the rising tide of nationalist populist political currents in Europe, Britain and America today, I note the importance Polanyi ascribes to the role of the nation in lecture three:

“The more intense international cooperation was and the more close the interdependence of the various parts of the world grew, the more essential became the only effective organizational unit of an industrial society on the present level of technique: - the nation. Modern nationalism is a protective reaction against the dangers inherent in an interdependent world.”

The lectures pose for me the question – can today's political trend to forms of “modern nationalism”, increasingly authoritarian in some countries, be seen as a response of the same kind as occurred in the 1920s and 30s? This requires a careful comparison between the two eras – between an economic order sustained by a monetary system designed to protect the value of money in the interest of the rentier (the gold standard), and contemporary economic globalization, or neoliberalism. In particular, we need to assess the impacts of each “economic order” on national society, as well as the respective responses within national societies. I hope that reading these lectures afresh, written at such a critical historical juncture, may stimulate deeper reflection on these themes, and help us develop positive responses to the daunting challenges we are now confronted with.

# Lecture 1: The Passing of 19<sup>th</sup> Century Civilization

Lecture I. The Passing of 19th Century Civilization.

Introduction: The Institutional Approach.

The subject matter of these lectures is a vast and unique event: the passing of 19th century civilization in the short period that elapsed between the first and the second wars of the 20th century.

## Introduction: The Institutional Approach

The subject matter of these lectures is a vast and unique event: the passing of 19<sup>th</sup> century civilization in the short period that elapsed between the first and the second wars of the 20<sup>th</sup> century.

At the beginning of this period, 19<sup>th</sup> century ideals were paramount, indeed their influence had never been greater; by its close hardly anything was left of that system under which our type of society had risen to world leadership. Within national frontiers representative democracy had been safe-guarding a regime of liberty, and the national well-being of all civilized nations had been immeasurably increased under the sway of liberal capitalism; the balance of power had secured a comparative freedom from long and devastating wars, while the gold standard had become the solid foundation of a vast system of economic cooperation on an almost planetary scale. Although the world was far from perfect, it seemed well on the way towards perfection. Suddenly this unique edifice collapsed. The very conditions under which our society existed passed forever. The tasks which face us in the present cannot, we believe, be understood except in the light of this tremendous event. It is both national and international, political and economic – all our institutions are involved. The historian is at a loss where to start.

## The Conservative 'Twenties and the Revolutionary 'Thirties

The Great War of 1914-18 had been, on the whole, true to 19<sup>th</sup> century type: one alignment of great powers against another; belligerents and neutrals; soldiers and civilians; business and warfare; - all distinct and separate. Defeat resulted in a treaty which was intended to insure that life should continue very much as before. The War was about nothing in particular and had settled nothing essential; yet it had been more terrible than all its predecessors.

The trend of the 'Twenties was distinctly conservative. The spectacular revolutions and counter-revolutions of 1917-23, even when they were more than upheavals

resulting from the shock of defeat, introduced no new element into Western history. Not only Hindenburg and Wilson, but also Lenin and Trotsky, were in the 19<sup>th</sup> century tradition. The tendency of the times was simply to establish, or eventually to re-establish, the system commonly associated with the ideals of the English, the American and the French revolutions of the 17<sup>th</sup> and 18<sup>th</sup> centuries. Radical policies served traditional aims. The Great War had been, in the main, an attempt to overcome by fruitless violence the difficulties which bogged the system since the beginning of the century; in the peaceful 'Twenties this effort was intensified, but the effects of the War had merely enhanced those difficulties.

Suddenly in the early 'Thirties, with an awe-inspiring vehemence, change set in. Its landmarks were the abandonment of the gold standard by Great Britain and subsequently by all other countries; the Five-year Plans, especially the collectivization of the farms in Russia; the launching of the New Deal; the National Socialist revolution; the collapse of the balance of power in favor of autarch empires. By 1940 every vestige of the international system had disappeared, and, except for a few enclaves, the people were living in an entirely new institutional setting.

### **The Theory of External Causation**

This bird's-eye view of the quarter-century, 1914-39, shows clearly that change was sudden and world-wide, including in its range countries of the most various social and political complexion. Only a cause external to them all could have had such an effect. It was natural that contemporaries should have seen this event in the storm of blood and anguish of the Great War of 1914-18. But even at this short distance it appears, as we have seen, that the Great War, as well as the post-war revolutions, were themselves only an extension of the 19<sup>th</sup> century, and formed merely a phase in a process of much greater depth and amplitude. We are thus forced to the conclusion that some other international development had silently shaped the course of history, until, by the end of the 'Twenties, change surged forth in a vast transformation. We submit that this underlying comprehensive event was no other than the dissolution of the international system upon which our civilization had unconsciously depended for its life and growth.

The gradual changes leading up to this result were in progress long before the War 1914-18, but remained unnoticed at the time. Actually the system had been working under an increasing strain even since the turn of the century. In politics the formation of opposing alliances marked the end of the balance of power which presupposed the existence of a number of independent national policies and was therefore incompatible with a system of permanent power-groups. In the economic field, this was accompanied by trade rivalries which disclosed the inability of the gold standard to organize a world economy without putting an undue strain on the national systems. But the Great War 1914-18 which resulted merely impoverished and brutalized the world without alleviating its troubles; eventually the Western treaties even aggravated them. For it is easy to see that the permanent disarmament of the

defeated countries removed the very basis of the balance of power and thus made the political problem insoluble. This again reduced the chances of a re-floating of world economy, and, quite apart from its other weaknesses, the gold standard could not be expected to function except in conjunction with an international political system assuring some measure of peace. Now that this safe-guard against devastating wars had disappeared, a fortiori, all attempts to restore the gold standard were bound to fail. In its endeavor to ease the tension under which the political and economic mechanism of the 19<sup>th</sup> century was laboring, the Great War had weakened that order fatally. The strenuous restorative efforts of the 'Twenties were doomed to failure and their climax proved the threshold of catastrophe. When the international system finally collapsed, no country could remain unaffected.

### **The Facts**

The theory of the dissolution of the international system is strikingly borne out by the fact that everywhere the crisis was focused on foreign events, mostly on questions of currency and exchange. There was hardly an international political crisis in Europe which had not a monetary origin. Exchanges were the all-embracing factor during the 'Twenties. From the melting away of the external values of the Central European currencies to the World Economic Conference more than a decade later, there was an almost universal endeavor to return to the pre-war monetary systems. An unbroken sequence of currency crises linked the indigent Balkans to the affluent U.S.A. through the elastic band of an international credit system which transmitted the strain of the imperfectly restored currencies first, from Eastern to Western Europe, and then from Western Europe to the United States, until America herself was borne down by the weight of the accumulated deficits of the greater part of the countries of the world. The trade depression which broke over Wall Street in 1929 waxed to a hurricane owing to the tension which had been latent on the Danube and the Rhine since 1919. When, in the early 'Thirties, the two Anglo-Saxon countries went off gold, the watershed between two periods of history was passed. While the 'Twenties had still directed all their efforts to the preventing of the final breakdown of the gold standard, the 'Thirties reversed this trend and exerted their energies toward adapting themselves to the accomplished fact of such a breakdown. In some cases the foreign situation turned more on political than on economic questions. But we need not attempt at this stage to distinguish too finely between the economic and the political aspects of the international system. It suffices that no analysis of the crisis can be adequate which does not allow for the principle of external causation.

### **The International System**

As a matter of fact, the international system was both political and economic. The gold standard had become the basis of a world economy which embraced capital markets, currency markets and commodity markets on an international scale. This state of affairs was factual rather than legal; the people who benefited by it hardly



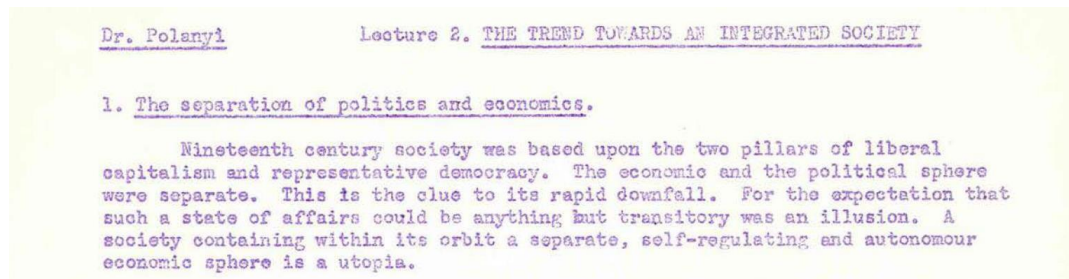
realized its existence. In the political field there was nothing strictly comparable even to this informal organization. The balance of power which safe-guarded the nations from major wars and apart from which a world currency system such as the gold standard would not have been possible, had even less the character of a legal institution than the gold standard. But social organization does not depend for its functioning on formal sanctions. As a rule, a society does not become conscious of the true nature of the institutions under which it lived until those institutions have already passed.

However, the prevalence of the economic factor within the international system cannot be overlooked. The effective organization of the world was economic, not political. It was economic strain which caused the imperial rivalries, and smoothed the path to the Great War. It was the restoration of the economic system of pre-war days to which the statesmen of the 'Twenties bent all their energies; reparations, stabilization of the exchanges, international debts, foreign loans, trade embargoes and cost of living indices were the immediate concern of the politicians as well as of the masses. And economic autarchy was the one universally dominant trend in the 'Thirties.

But the breakdown of the international economic system stands itself in need of explanation. The attempt will take us far afield, for such an enterprise involves no less than the defining of the nature and origin of the present crisis. In other words, it involves a definition of our basic institutions, capitalism and democracy, in general human terms.

It is to this task that our next lecture will be primarily devoted.

## Lecture 2: The trend towards an integrated society



### 1. The separation of politics and economics

Nineteenth century society was based upon the two pillars of liberal capitalism and representative democracy. The economic and the political sphere were separate. This is the clue to its rapid downfall. For the expectation that such a state of affairs could be anything but transitory was an illusion. A society containing within its orbit a separate, self-regulating and autonomous economic sphere is a utopia.

On the face of it, this may seem a paradoxical statement. Nothing appears more obvious to us than that a society should contain these two institutional systems as distinct and different as the needs which they serve. For have not human beings economic wants such as for food and political wants such as for safety and protection? However much a person may prefer butter to guns, or, for that matter, guns to butter, as long as he is in his senses, he will never mistake the guns for the butter. It seems to be in the very nature of things that there should be separate economic and political institutions in society.

On closer investigation, however, this turns out to be a gratuitous assumption with no more to substantiate it than the conventions and habits of a few generations. Human beings must have food and safety, but they need not have a separate set of institutions to satisfy those wants, i.e., institutions based on a distinctive motive and directed by a separate set of people acting on such a motive. On the contrary, apart from the limited experience of some nineteenth century societies, all human societies of the past seem to have been based on the institutional unity of society, i.e., one set of institutions was designed to serve both the economic and the political needs of society.

## 2. A price- or market-economy

Liberal capitalism is, essentially, a price- or market-economy. This means that the production and distribution of goods is controlled by prices resulting from the functioning of markets.

There are markets for all types of goods: commodity markets for all sorts of commodities; capital markets for the use of capital; estate markets for the use of land; labour markets for the use of labour-power. In this way every factor of production has its market.

Accordingly, there are prices for all types of goods: prices for commodities called commodity prices; prices for the use of capital called interest; prices for the use of land called rent; prices for the use of labour called wages. Thus every factor of production has its price.

The result of the action of the markets is twofold:

The production of goods, according to their varying quantities and qualities, is determined, and the resources of the country, whether land or labour, capital or commodities, are automatically disposed of.

This distribution of the goods thus produced is determined by the same mechanism. For some of these prices form the income of those who sell certain goods. Thus there is interest for the sellers of the use of capital; rent for the sellers of the use of land; wages for the sellers of the use of labour-power; and lastly there is profit for the sellers of all sorts of commodities, profit being the surplus of selling prices over costs (the latter being of course simply the prices of the goods necessary for the production of the goods in question). The total of these incomes buys the total of the goods produced within a definite period of time. The pricing system thus automatically distributes the goods produced under it.

So such for the bare mechanism of a market-economy, presented in a schematic way. If one conceives for a moment that hundreds of thousands of elaborate goods are produced by many millions of people and then distributed amongst them by and through this mechanism which regulates every detail of the technological, financial and consumptive process, then you must agree that this is an achievement of the human mind compared to which the pyramids of Egypt appear as trivial. No wonder that when it first appeared on the horizon of our consciousness it dazzled and bewildered man as if his eye had met the naked Sun. The Industrial Revolution and the machine age with which our European society was pregnant thus became the sources of an inspiration sufficiently powerful to carry mankind through the Inferno of early industrialism until the tremendous material benefits of the system began actually to appear.

But there was also another reason for the dogmatism of the liberal economist. For the more developed a price- or market-economy is the more extreme it must be in the application of its principles. If the early Free traders like Adam Smith seemed dogmatic, their dogmatism was as nothing to that of the later Manchester school, and Manchester liberals themselves were wavering and compromising in comparison to the present day protagonists of liberal capitalism. A Cobden and a Bright appear as mere opportunists when contrasted with the unbending fanaticism of a Lionel Robbins or a Ludwig von Mises.

The reasons for this fact are fairly simple. A market-economy if it works at all, works only as long as you do not interfere with prices, whether commodity prices, rent, wages or interest. For a self-regulating system of prices is dependent for its working on there being a surplus of selling prices over costs; nothing can be produced unless such a surplus exists. Therefore if selling prices fall, costs must be allowed to fall also. This is independent of human volition, of sentiments or ideals. Production at a permanent loss is automatically excluded by the rules of the game.

This is why there must be under this system a free market for all factors of production, not only for commodities but also for land, labour and capital. Unless the price system is flexible and prices are allowed to move freely according to the intercommunication of the various markets, the system ceases to be self-regulating even in principle and the vast mechanism must fail, leaving mankind in immediate danger of mass unemployment, cessation of production, loss of incomes and consequent social anarchy and chaos.

### 3. Society and the market

But the apparently simple proposition that all factors of production must have free markets implies in practice that the whole of society must be subordinated to the needs of the market system. Amongst the factors of production there are land and labour, both of which can be treated as commodities only on a more or less fictitious basis. For labour means the human beings of whom society consists, and land is only another word for the mother earth on whom they subsist. In the attempt to establish a separate market-economy within society, the whole of society is thus subordinated to the needs of a market-economy. Almost unwittingly an unheard of thing is brought into existence: - an economic society, i.e., a human community based on the assumption that society depends for its existence on material goods alone.

Such an assumption is demonstrably false. The safety of life and limb is at least as vital as the daily food; nor is there any definite preference for bread and butter, if the alternative is to be killed outright. But if a society should permanently exist there are a number of other requirements for which it must provide such as reasonably stable relationships to our environment, i.e., to nature, our neighbours, our craft; military qualities of the members of society including health and physique; a sufficiently

stable outlook on the future such as would allow the laying of the foundations of human character and the raising of a new generation. Clearly these requisites cannot be substituted by an abundance of material goods alone. The 'Satanic mill' of the market would soon dispose of a society which would allow its land to be atomized or to be left unused; which would allow its labour power to be overstrained or to be left to rust; which would permit its credit system to run into an inflation or to throttle business according to the whims of a blind mechanism removed by its very nature from the needs of the living community embodied in every human society.

The real nature of the dangers thus become apparent which are inseparable from the market-utopia. For the sake of society the market mechanism must be restricted. But this cannot be done without grave peril to economic life and therefore to society as a whole. We are caught up on the horns of a dilemma: - either to continue on the paths of a utopia bound for destruction, or to halt on this path and risk the throwing out of gear of this marvellous but extremely artificial system.

#### **4. The original unity of society, and the present trend towards integration**

The separation of the political and the economic sphere is the unique peculiarity of our type of society. Neither the tribal, nor the city state, nor the feudal societies of the past knew this trait. In all these societies one set of institutions provided for the satisfaction of the various human needs such as for safety and protection, justice and order, material goods, sexual life and reproduction. The religious, the ceremonial, the family and other institutions of tribal or feudal society do not provide for such a separation. Mercantilism also, the immediate predecessor of our present society, was a politico-economic doctrine based on the institutional unity of society.

The utopian character of a market-economy explains why it never could be really put into practice. It was always more of an ideology than of an actual fact. Factory legislation and protectionism, Trade Unions and the Church were the outstanding factors in the violent reaction against the assumptions of an unrestricted market for land and labour. In other words, the separation of economics and politics was never carried completely into effect. The integration of society began even before the movement for a market-economy had reached its climax.

But this development merely increased the strain on the social system. For the mutual interference of industry and state, economics and politics, was not disciplined by any higher principle. The working class made use of the institutions of the democratic state in order to protect itself against the worst effects of the competitive system; the lenders of business on their part made use of industrial property and finance to weaken political democracy. This is the false integration of which late nineteenth century society showed so many examples. The adherents of a market-economy justly point out that tariff policies and monopolistic trade union practices were often directly responsible for the aggravation of slumps and the restriction of trade. What they do not see is that these protective measures of the State and of

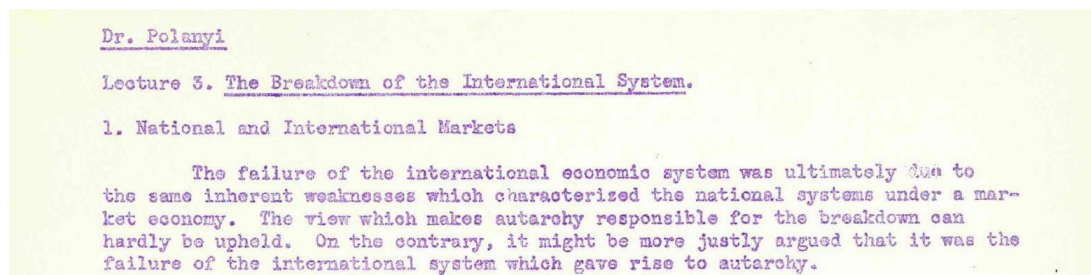
voluntary organizations were the only means to save society from destruction through the blind action of the market-mechanism.

In post-war Europe the separation of economics and politics developed into a catastrophic internal situation. The captains of industry undermined the authority of democratic institutions, while democratic parliaments continuously interfered with the working of the market mechanism. A state of affairs was reached when a sudden paralysis of both the economic and the political institutions of society was well within the range of the possible. The need for re-integration of society was apparent.

This was the critical state of affairs out of which the fascist revolutions sprang. The alternative was between an integration of society through political power on a democratic basis, or, if democracy proved too weak, integration on an authoritarian basis in a totalitarian society, at the price of the sacrifice of democracy.

The American social system is, in my conviction, not faced with this tragic dilemma. But if loss of freedom should be avoided, it will have to take two steps at the same time: - accept the need for integration and achieve it through democratic means.

## Lecture 3: The Breakdown of the International System



### 1. National and International Markets

The failure of the international economic system was ultimately due to the same inherent weaknesses which characterized the national systems under a market economy. The view which makes autarchy responsible for the breakdown can hardly be upheld. On the contrary, it might be more justly argued that it was the failure of the international system which gave rise to autarchy.

The term world market seems to suggest the existence of some market external and additional to the national markets. Such a separate international market, however, does not exist. In respect to each national market the other national markets form together the international market, every part of which, therefore, is under a definite jurisdiction and carries on its dealings in one currency.

Thus in order to link up the various national markets to one international market, it is essential that apart from the absence of any legal obstacles to trade, the various national currencies should be exchangeable at a stable rate. Unless such stable external values are provided, neither international capital markets, nor commodity markets are possible.

What exactly do we mean by stable external values and how can we provide them? By external value of the currency we mean the amount of foreign banknotes one can get in exchange for one's own. By internal value we mean the purchasing power of one's money at home which simply depends on the price level. If the rate of exchange is to be kept stable there must be parity of purchasing power between the currencies; in other words, the price level at home should not be allowed to rise



relatively to the price level in other countries. It follows that in order to protect the external value of the currency, we must allow the internal value of the currency, i.e., the price level, to fluctuate.

This simple but stringent requirement has far-reaching implications. In a market-economy everything depends upon prices. If the surplus of selling prices over costs disappears, production must be curtailed. Unemployment ensues, wages and profits decrease, the system is thrown out of gear. Inevitably this tends to happen whenever the price level is being artificially depressed in order to keep exchanges stable. Now, in principle, the system should automatically right itself, for if selling prices drop, costs should follow after a while, thus restoring the surplus of selling prices over costs. However, as we have seen, a self-regulating market-system is a utopia. No society could stand its devastating effects once it got really going. Hardly had laissez-faire started when the State and voluntary organizations intervened to protect society through factory laws, Trade Union and Church action from the mechanism of the market. In consequence of these protective measures the price system lost its elasticity, costs ceased to be flexible, wages tended to become rigid. It is thus easy to see that the very measures which were originally designed to protect society internally against the effects of a market-economy eventually increased the difficulties of the working of an international market-economy. Factory laws and Trade Unionism called for external protection, i.e., custom tariffs as a supplement. One of the factors tending to disrupt the international system thus came from inside the national systems themselves.

## **2. National boundaries as shock-absorbers**

This, however, is not the whole story. The need for the external protection of national markets sprang from the nature of international division of labour under a market system. This external factor was equal in force to the internal; between them they refuted the axiom of Free Trade.

International division of labour is an unmitigated boon. But how far can it be achieved through a market-economy? That is the question.

If international division of labour is effected by competition and consequent elimination of the less efficient, then much will depend upon the rate at which the change proceeds as well as upon the dimensions of the units involved. As long as the competing units are small as e.g. the various farms of a neighbourhood or grocers in a suburb, the dislocation caused by the elimination of the unfit will be slight in comparison to the advantages accruing to the community as a whole through better services; even the eliminated man himself might find some compensation in the opportunity offered in the improved community system. But given larger and larger units, the position will no more be the same; if whole countrysides, countries or continents compete, the elimination of the less efficient may involve the ruin and destruction of whole communities. Then the system, far

from being a blessing, becomes a deadly danger and must be checked at all costs. It might also happen that along with the growth of the units, the rate at which the process of the dividing up of labour proceeds increases, thus leaving no time for the displaced units to adjust themselves. While a slowly increasing division of labour effected by the market mechanism would be purely beneficial, a fast rate of change might work out as a machinery of sheer destruction.

Incidentally, this helps to explain the sudden rise of the nation-states to first rate importance in the course of the 19<sup>th</sup> century. The stupendous increase of general well-being which sprang from the growing division of labour in the world could be secured only by the spreading of the market system. But the great dangers inherent in that system, both internally and externally, forced the state to take measures of protection which constituted the state to an unprecedented degree a vital unit of communal existence. The more intense international cooperation was and the more close the interdependence of the various parts of the world grew, the more essential became the only effective organizational unit of an industrial society on the present level of technique: - the nation. Modern nationalism is a protective reaction against the dangers inherent in an interdependent world.

### 3. A historical outline

A bird's-eye view of the economic and social history of the 19<sup>th</sup> century will bear out this analysis.

The scene is England, the home and center of the movement. Let us begin with economic liberalism or laissez-faire and then proceed to the period of the building up of world markets or Free Trade. The first refers to national, the second to international economy.

#### a. Laissez-faire

For some 250 years England had been living under the regulative system which was only another name for mercantilism. Every factor of production was regulated in its action by statute. Labour was organized under the Statute of Artificers (1563) as well as under the Poor Laws of the same and later years. The price as well as the supply of labour was determined by public authority. Common law settled the forms of the use of the land. In the countryside since 1662 labour was bound to the parish; at the same time the import of grain was prohibited, except in case of famine. Navigation Laws restricted carriage and shipping. The export of wool was prohibited. Prices were fixed under the Assizes for bread and ale as well as by corporation rules; wages were assessed by the magistrate; interest was restricted by law; commerce was controlled so as to prevent the development of unregulated markets.

The Industrial Revolution was already well on the way when these regulations were repealed in order to build up a market economy. As late as 1795 the medieval “right to live” was still effectively acknowledged in the ‘allowance system’ which assured the labourer of an income whether he found work or not. Not before the repeal of the allowance system in the Poor Law Reform of 1834 was laissez-faire accepted and labour made a commodity.

But the protective counter-move of society against laissez-faire began almost as soon as laissez-faire itself. By 1847 the Ten Hours Bill was passed, and a few years later the Trade Union movement was started for good. The birthdate of the consumer’s cooperative was 1844. And by the early ‘Fifties the Christian Socialists were filing their protests against economic liberalism. The legislative predominance of laissez-faire had lasted hardly more than a generation.

While the working people had been fighting against economic liberalism under the lead of Owenism and Chartism, they gave up the struggle in the ‘Fifties and turned whole-heartedly to liberalism themselves. Not they, but rather the owning classes represented the interests of a partly conservative, partly social protectionism. This was the time when Joseph Chamberlain, the radical factory owner of Birmingham, launched his campaign for social legislation and universal suffrage, turning soon after to protectionism and imperialism.

This change over from internal to external protectionism as symbolized in the career of Joe Chamberlain was forced upon the world by the effects of Free Trade.

b. Free Trade.

Free Trade started as a great success, especially for England, the world’s factory, with its monopoly of manufacturing processes based on iron and coal.

But this happy period lasted only from 1846, i.e., the repeal of the Corn laws, to the depression of 1873-1885, by the end of which the world had ceased to be free trading. Again the counter-move was due to the very effectiveness of the principle involved.

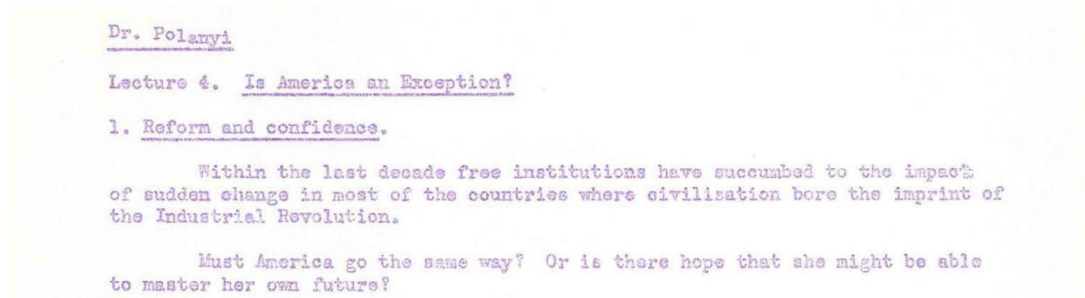
For hardly had the steam-ship made its appearance on the oceans than world division of labour began to show its claws. A torrent of cheap overseas grain flooded the markets of Europe and threatened to destroy the livelihood of millions of the most conservative cultivators of the soil. The social system in itself was in peril, for the Continental peasant is not a farmer, i.e. a small business man engaged in agriculture, but a member of a traditional social group which must live on the land or perish.

#### 4.

The coming of the agrarian tariffs was the beginning of protectionism in Europe. Industrial tariffs followed to compensate the factory owner for his loss of competitive power. Real wages of the workers had now to be safeguarded against the effects of rising food prices. To the owners the burden of factory laws and social benefits were balanced by the advantages deriving from tariffs, bounties and other kinds of subsidies. Soon the two kinds of protectionism, internal and external, merged into a closely knit tissue which destroyed the flexibility of the economic system altogether.

This happened about the last quarter of the 19<sup>th</sup> century. From that time onward it was the chief concern of the state to relieve the strain under which the economic system was working, partly by strengthening the shock-absorbing qualities of the national boundaries, partly by adding political to economic pressure on the international markets. The first started protectionism, the latter imperialism as a new and fatal force in world affairs.

## Lecture 4. Is America an Exception?



### 1. Reform and confidence

Within the last decade free institutions have succumbed to the impact of sudden change in most of the countries where civilization bore the imprint of the Industrial Revolution.

Must America go the same way? Or is there hope that she might be able to master her own future?

The breakdown of the international system must, of course, affect America like all other countries. The passing of the gold standard as the chief instrument of international division of labour will alter her relationship to other national economies, just as her foreign policies will have for a long time to come to be shaped by the disappearance of the balance of power system as practiced during the century 1814-1914.

But the response of a people to the stimulus of change is mainly the result of its internal organisation. Therefore, though the present catastrophe is of an international order, the answer to our question will largely depend upon the degree to which the institutions of American society can be regarded as analogous to those of the stricken communities of Europe.

The rise of fascism on the European continent was due to the fact that the vitally necessary reform of liberal capitalism could not be carried through under our democratic institutions. Such a reform was inevitable owing to the devastating effects of a separate, self-regulating economic system on the tissue of society. This permanent danger had given rise to the activities of the modern political state as well as of trade unionism and other essentially conservative movements which attempted to protect society against the disastrous effects of the automatism of the market-

economy, not, however, without impairing seriously the functioning of that same economy in other respects.

The strain was thus merely shifted from the original separation of economics and politics – a clearly utopian endeavour – to their imperfect re-uniting through mutual interference. Neither liberal capitalism nor representative democracy could function satisfactorily under such conditions. The latent peril to the community as a whole could not be eliminated by the methods of a haphazard integration. The road to a constructive reform of the capitalist system by democratic means was, however, blocked by a set of circumstances which were beyond the control of anybody. Society was helpless.

This is easy to see. Reform had to aim mainly at three desiderata: levelling of the trade cycle; security of tenure for the employees; redistribution of purchasing power. But no effective measures could be taken by the body politic in either direction without practically stopping the economic mechanism upon which society depended for its everyday existence. For reform could be achieved only through changes in the legal definitions of property, any attempt at which started a panic on the financial markets. These depended for their functioning entirely on confidence, a psychological situation which was naturally incompatible with any uncertainty as to the definition of property rights. Reform was met by panic: - flight of capital, slump of exchanges, ceasing of investment, mass unemployment, loss of incomes, bankruptcy, chaos and ruin. Long before this stage was reached, the reforming government was thrown out of office and the body politic had been forced to give up any attempt at reform in order to restore confidence.

## **2. The 19<sup>th</sup> century in Europe and America**

Any parallel between Europe and America which is restricted to the 19<sup>th</sup> century is bound to produce most depressing results. Europe's past then appears as America's future, with a consistency which induced some authors to set out a regular time-table for this country. The accumulation of capital, the concentration of ownership, the centralization of production, the passing of competition, the rise of monopolies, the incidence of the trade cycle, the emergence of an imperialist foreign policy, the growth of class tension, the introduction of factory legislation, social insurance and trade unionism all seemed to have their American counterparts in the giant trusts and Wall Street, big business methods, dollar diplomacy, the I.W.W., the Pinkerton men, the A.F. of L., the C.I.O., the New Deal legislation, and, bigger and better than all its European predecessors, the unexampled slump and mass unemployment of the Nineteen-thirties, and as time went on, similarity seemed to become even closer and closer.

It is hardly surprising that the majority of scholars did not see much reason for hope that the institutional development in America would follow other lines than those which resulted in the tragic deadlock of European history.

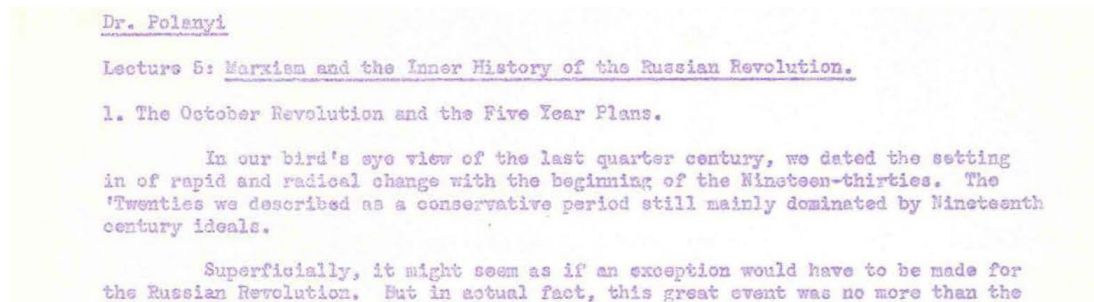
### 3. State and Industry in America

A different picture presents itself, however, if the parallel is extended to the more distant past. America's beginnings reach back almost two centuries before the oncoming of the Industrial Revolution. A comparison of the history of the two hemispheres in this period would reveal that on the decisive question of the relationship of economics and politics, industry and state, they diverge strongly. While America was founded and carried on as a society, which only quite recently started to develop a state in the strict sense of the term, European countries at least since the 16<sup>th</sup> century possessed a state power on which the actual social system rested. When after the advent of the Industrial Revolution social relationships became mainly economic, American society continued to exist by the strength of the convictions of its members, and the establishment of a state possessed of any substantial powers was still actually prevented by the Constitution. It was only as recently as the beginning of the 'Thirties that the federal government struck out on a line directed towards the establishment of a political state with real powers in internal affairs. It was a question of decisive importance to the future of this country whether this new state power would prove an effective instrument of the reform of the economic system while remaining basically democratic.

It would be too early to say whether America has already achieved a plastic society, i.e., a society which can be shaped by the political state and other conscious social factors without danger of a fatal stoppage. If so, this would be mainly due to the absence of the control of the financial market over the credit of the state itself. The conflict of White House and Wall Street in the first years of the New Deal, in conjunction with the dropping of the gold standard, may have had greater importance than it is usually credited with. For at that period not only the character of the nascent state but also its relationship to the financial market may have been determined. The basis on which the future integration of state, industry and other independent social factors will have to proceed in America is still far from clear; yet it might well be the case that the fatal condition of a helpless society has been finally overcome in this country.



# Lecture 5: Marxism and the Inner History of the Russian Revolution



## 1. The October Revolution and the Five Year Plans

In our bird's eye view of the last quarter century, we dated the setting in of rapid and radical change with the beginning on the Nineteen-thirties. The 'Twenties we described as a conservative period still mainly dominated by Nineteenth century ideals.

Superficially, it might seem as if an exception would have to be made for the Russian Revolution. But in actual fact, this great event was no more than the continuation of the French Revolution on Russian soil. It was only with the Five Year Plans and the collectivization of the farms that something essentially new entered into the history of Western civilization. This, however, did not happen until the early 'Thirties, when the Age of Transformation started on a planetary scale.

This approach, which naturally follows from our general propositions, raises a number of questions. If the October Revolution of 1917 did not aim at introducing socialism into Russia, why did this revolution take on a socialist character, at least for a time? And what connection was there, if any, between the first period of the Russian revolution, 1917-1923, and the Five Year Plan period dating from 1928, which deliberately aimed at making Russia a socialist country?

The official presentations of the Russian Revolution are too inaccurate to be of any use on this point. They differ widely even from one another as the successive stages of the revolution call for new justifications. The official history of the Communist Party omits to mention a number of decisive events and bears but little reference to the facts. The Trotzkyist literature, again, misrepresents the Five Year Plan period almost as badly as the Stalinist literature misrepresents the October Revolution. Also its interpretations of Marxism follow too closely on the lines of the traditional doctrine

to be of much help in forming a judgment on the relevance of Marxism to socialist thought in general.

A study of the original documents is the only safe way of approach. This will include Lenin's speeches and articles, also some of his earlier works, as, e.g., that on the Land question; some speeches and articles of Stalin; Trotzky's historical works, especially his short account of the October Revolution, published in England in 1919; John Reed's "Ten Days"; as well as Rosa Luxemburg's and K. Kautsky's contemporary criticisms. For the intermediate period 1925-1928 the official reports of the conferences of the Party are the main source of reference.

## 2. General outline

The October Revolution of 1917 regarded itself as, and actually was, a continuation of the Western revolutions of the 17<sup>th</sup>, 18<sup>th</sup>, and 19<sup>th</sup> centuries. Accordingly, the leaders of the October revolution were reluctant to introduce socialist elements into their program and, subsequently, did so only under the pressure of circumstances. This is emphatically true of Lenin himself, by the time of whose death "war communism" was an episode of the past and the October Revolution had virtually spent itself. Tsarism was no more; the land was owned by the peasant; the various nations had been liberated from the domination of Great Russia. Nothing remained to be done but to settle down to some advanced form of agrarian democracy.

But the overthrow of autocracy had come at a time when the middle classes themselves were already too suspicious of popular democracy in Europe to give whole-hearted support to the revolution. Thus the industrial workers of the towns became the bearers of the revolt with the tragic result that their political self-preservation became identified with the survival of the revolution itself. However, the fact remained that agriculture, not manufacture, was backward Russia's main industry and this industry could not be reconciled to the political power of the workers. The market-economy of the country-side suffered increasingly from the interference of the state, which had nationalized the manufacturing industries, while these industries on their part were all but strangled by the sabotage of the country-side. Still, given a functioning international system, both political and economic, of which Russia could form a part, and these tensions might well have been overcome in time.

But, by the end of the 'Twenties, when Russia was ripe for normalization – return to the world market on a large scale; joining the Kellogg Pact – the international system was already at the breaking point. Five Year Plan Russia was thus ultimately the result not of forces operating in Russia alone, but of a general trend at work both inside and outside Russia at the critical period.

### 3. Bolsheviks and Narodniki

Marxian theory of history culminated in a veritable time-table of economic development. Upon feudalism, capitalism must follow, and upon capitalism, socialism. There can be no 'skipping'; for the sequence is determined by the development of the means of production. Socialism presupposes an abundant supply of capital in the form of plant and machinery, which cannot be present in a backward agrarian feudal society. No society can pass from feudalism to socialism without having first passed through capitalism. Socialists stand for economic evolution: therefore, in a feudal country they stand for capitalism, in a capitalist country for socialism.

In backward agrarian Russia this outlook was of first importance. Ever since the 'Eighties the chief opponents of the Marxists had been the Narodniki (populists or folk-socialists, we might call them), who denounced the endeavour to introduce capitalism into Russia as a piece of fantastic and immoral pedantry. The Marxist retort was that the Narodnik was a reactionary who was hiding his hatred of machinery and progress behind a sentimental denunciation of capitalism. A Russian Marxist thus identified his whole personality and outlook with the program of introducing capitalism into Russia by the overthrow of Tsarism and the destruction of the feudal land-owning system. The French revolution which established the rule of the bourgeoisie, that was the need of the hour in Russia. Any other aim would have been denounced as sheer adventurism, if not as camouflaged reaction.

But what exactly, then, should the task of a socialist party in the overthrow of Tsarism be?

The answer was: To carry the bourgeois revolution to its utmost limits, so as to prevent counter-revolution and to secure the common people their full democratic rights; this would prevent the bourgeoisie from defrauding the workers of their share of the common victory, as had happened in some revolutions of the past. But at the same time, socialists should not countenance economic demands in the name of the workers, for this would introduce a socialist element into the revolution – a premature step, which must inevitably lead to defeat and to the victory of the counter-revolution.

The Marxian doctrine as we may see imposed a very serious measure of self-limitation upon the leaders of the Russian working class movement.

### 4. Lenin's interpretation of the doctrine

In February 1917 the long-expected bourgeois revolution had taken place in Russia, the Tsar had been forced to resign, and the so-called Provisional Government under Kerenski was set up. It was supported to a greater or lesser extent by all the peasant and working class parties, until Lenin's return from exile in the first days of April.

Lenin's opposition to the Provisional Government was a completely new line to the Party. He argued that unless the working class was vigilant, the War would be continued; the revolution would be stopped: and the counter-revolution would be successful. He opposed any violent action against the Provisional Government, which had the support of the Petrograd Soviet, but pressed for a Bolshevik control of the Soviets (in which they had but a very few representatives). The control of the Soviets through the Bolsheviks would be the best guarantee for the forcing of the bourgeois revolution to its utmost limits.

### **5. Trotsky and the 'permanent revolution'**

Trotsky alone had foreseen that the revolution in Russia would not be a purely middle class revolution. He inferred this from the nature of world development in our time. He argued that the overthrow of Tsarism would become a world event; that although Russia in the course of this event would move towards socialism, she could not successfully establish it; but that, in the long run, she would be saved from the consequences of her own backwardness by the world revolution and the subsequent victory of socialism in the more advanced countries of Western Europe. This is the theory of the 'permanent revolution'. It brought the orthodox Marxian theory of social development into line with the policy of Russian socialists who were trying to formulate their tasks in a coming middle class revolution.

### **6. The Bolsheviks forced to take socialist measures.**

Accordingly, the course of this October Revolution ran through a series of contradictions. The main function of the revolution was achieved on traditional lines: Tsarism was destroyed; feudal forms of land-owning were abolished; the races of the Empire were freed from the domination of the Great Russians. But the actual institutional development was very different from that originally intended by the Bolsheviks.

Their three main points of policy had been: Democratic Republic; nationalization of the land; industrial capitalism. Actually, neither of these points was achieved: a) the Constituent Assembly was dissolved before it started to function and the Democratic Republic was thus indefinitely postponed; b) the nationalization of the land meant the renting of the land to the peasants by the State, a point on which Lenin especially insisted as the purest form of a capitalist land tenure: nothing came of it, as the peasants were determined to own the land themselves and the Bolsheviks had to give way; c) the refusal of the Bolsheviks to countenance any economic demands of the workers was in vain for the disorganization of production and the subsequent sabotage of the owners forced them step by step to take over one industry after another.

For a short time it seemed as if Russia would go socialist. By the middle of 1918 industry was nationalized and under the pressure of foreign intervention 'war communism' started. This was a genuine attempt to abolish money and the market and to institute an economy of state-barter. It ended with the terrible disaster of the famine. Lenin proclaimed the necessity of a return to capitalism and declared that 'war communism' had been a departure from all the Party had ever taught on the transition to socialism.

With the New Economic Policy (NEP) in 1921 the free market for grain was restored. But unless this breathing space could be used to bring about a world revolution, the political victory of the peasants could not be prevented and the power of the industrial workers would have to go. This was the view of Lenin.

## **7. The intermediate period**

For almost five years the decision was postponed. During this period the original drive of the October Revolution had ceased. In order to maintain themselves the urban workers were interfering increasingly with the peasant food supplies and the agricultural raw materials of industry. But the manufacturing industries were too inefficient to maintain themselves on the basis of free exchanges, and thus they had to extend the range of State intervention in spite of its deleterious effects on their supplies. The choice seemed to be between the return to 'war communism' advocated by Trotzky, and the consistent continuation of the NEP with the acceptance of a free market economy and the liquidation of the power of the workers.

## **8. The Five Year Plans**

The actual decision was entirely different. It dropped the Marxian thesis of the impossibility of socialism in a backward agrarian country, and, in the Five Year Plans, started out to industrialize Russia on a socialist basis. No procedure more contrary to the Marxian philosophy of the determining influence of given economic conditions on policies could be imagined. That this line won through can hardly be explained by the Marxian ideologies of the leaders; in effect, Five Year Plan Russia was the outcome of a new revolution. No wonder that very few of those engaged in the overthrow of Tsarism took part in this second revolution. The deliberate establishment of a socialist economy was apparently much more closely related to the Age of Transformation outside Russia than to the overthrow of Tsarism in 1917.

Still, the democratic inspiration of the October Revolution had a very important result. When the conflict of State and industry arose in Russia in acute form, the outcome was different from that in other countries of the Continent. In Russia the state took over the industrial system, adding agriculture to the sphere of the nationalized manufactures. In other countries, the institutions of democracy were

abolished and the reform of the economic system was attempted under fascist leadership. It was the tragedy of Russia, and not of Russia alone, that in spite of the socialist forms of integration the democratic tendency succumbed in the long run to the totalitarian trend. This was due primarily to the overwhelming force of fascism under the external pressure of which Russia, perhaps only for the time being, changed from a potential democracy into a despotic totalitarian state.

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\*Cover Image: Fascists in battle with police, Paris, February 1934, from [Wikipedia](#)

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