

# A NEW ECONOMIC ORDER

*Edited by*  
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EDITOR OF "THE WORLD TOMORROW"



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## **A NEW ECONOMIC ORDER**

## FOREWORD

“WAYS of Transforming the Present Competitive System into a Coöperative Order” was the subtitle of this symposium as originally planned. Instead of discussing an economic Utopia in general terms, it was thought wiser to concentrate upon specific ways and means of getting from where we now are to a more ideal economic society. Fourteen chapters of the present volume are devoted to this procedure. Competent students of the respective proposals outline what has already been accomplished and evaluate the significance of the various measures. This collaboration gives in compact form the conclusions reached by a group of specialists in the different fields and should furnish clues as to the answer to the question, “Well, what can we do about it?”

It was later decided that these special studies would have increased interest and value if the trees were brought together so that we could see the woods. What is the nature of the present capitalist system? What are its achievements and values? What are its defects and dangers? What rivals are in the field? What is the promise and the peril of the suggested alternatives? And so eight chapters were added in which the pros and cons of the passionately jealous world-movements are set forth by qualified exponents. The task of creating an equitable economic order is so complicated and the issues at stake are so crucial that an open-minded examination of the

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rival systems is urgently demanded. The whole discussion is concluded with the presentation of two different conceptions of the wisest strategy to adopt in seeking to bring about the desired social changes.

KIRBY PAGE.

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## **PART ONE: RIVAL WORLD MOVEMENTS: PRO AND CON**

### **1. THE CASE FOR CAPITALISM**

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## 1. THE CASE FOR CAPITALISM

*by* EDWIN R. A. SELIGMAN

### I. THE ORIGIN OF CAPITALISM

**P**ERHAPS the best way to lead up to a discussion of capitalism is to trace the history of our present economic system.

The early medieval community was largely self-supporting. Most of what was produced on the spot was consumed locally; and most of what was consumed was produced locally. When exchanges between neighboring communities arose, the market was largely local; the use of money had virtually disappeared; and there was little accumulation of wealth. As in every primitive society, we find slight differentiation of function, a relative equality of conditions and a low standard of life.

In the course of time the trader and merchant assumed greater proportions, and some communities produced a surplus which was sold in a wider market. The rising standard of life created a demand that could not be satisfied by purely local production. Towns developed and industry sprang up. By the thirteenth century we find the new system under way—a combination of feudalism with the guild system.

The community was no longer self-sufficient nor was production any longer locally coterminous with consumption. Exchanges developed to a national market in a few commodities and even to the beginnings of an international market in a half-dozen staple goods. Agriculture yielded a surplus which was slowly increased by the profits of trade. The craftsman was marked off from the farmer and after a time from the merchant. Buying in the local

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market the raw material that he needed, the guild master retained in his hands the remaining stages of production, fashioning at home the raw material into a finished product and selling it, again at home, to the consumer. Population increased slowly; tradition and custom held their sway; accumulation of wealth, apart from the feudal castles and a few patrician homes, was insignificant; the church frowned upon the attempt to live on loans rather than on work; and goods were produced chiefly to order. It was only in a few places, first in Italy, and then in Germany, that we find sporadic examples of financial and commercial capital as well as the beginning of a larger development in occupations like mining and the textile industry.

A rude jolt to economic life was given by the downfall of Constantinople, the closing of the eastern trade routes, the all-sea voyages, and the discovery of America. The prodigious output of the precious metals and the profits of the overseas trade engendered an accumulation of wealth which is sometimes called the beginnings of capitalism. The new conditions widened the market, prepared the way for a national life, initiated competition, changed the attitude of men to wealth, and broke down the usury laws. As capital permeated industry, it became increasingly difficult for the mass of craftsmen to retain in their hands the entire process of production. The wealthier individual, fairly well supplied with funds, now controlled not only the purchase of the raw material but the disposal of the finished goods, leaving to the craftsman at home only the intermediate process of working up the raw material into a finished product. Capital, in other words, came in at the beginning and the end of the economic process, the so-called domestic system developed,

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and all manner of alterations in social and political life ensued.

The next stage, at the close of the eighteenth century, was marked by the industrial revolution, generally associated with the great inventions. The two factors which played the chief rôle were the growth of a wider market, which made mass production profitable; and the accumulation of capital, aided in England by the looting of India's fabled treasures, which rendered it possible. The result was the factory system. The capitalist no longer limited himself to the purchase of the raw material and the disposal of the finished product, but assumed control of the intermediate process, with the ownership of both the premises and the tools; and the old-time independent worker became a factory hand.

We thus reach a definition of capitalism as that form of economic life which, resting on the desire to earn profits, places in the hands of a specific class the control of every stage in the process of production from the supply of the raw material to the sale of the finished product on the market.

## II. THE CHARACTERISTICS OF CAPITALISM

Capitalism may be discussed from the point of view of its form, its relations, and its spirit.

So far as the technique is concerned, capitalism is often described as the machine age. This is not quite accurate. A machine is a mechanical contrivance; but the process is often chemical rather than mechanical. Nor is the term, the factory system, entirely acceptable; an open-hearth furnace is not a factory.

The terms, machine and factory age, are therefore cir-

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cumlocutions. Capitalism may more properly be described as a system, resting on private property, of indirect or roundabout production for gain whereby the forces of nature are used to an increasing extent to supplant the exertion of human beings. From the technical point of view capitalism is labor-saving *par excellence*.

On the basis of this technique are built the forms of modern industry: mass production, integration, and standardization.

While division of labor is found almost from the beginning, the possibilities of specialization have been immensely enhanced. Mass production has rendered possible a regularization of output and a decrease of cost, so that with every fall in price continually new strata of consumers are reached.

Mass production has, for its correlative, standardization. The turning out of immense quantities means the creation of uniform products. The assembling of standardized parts or, as it has more recently been called, simplification, is one of the most potent factors in lowering costs and widening consumption, that is, in multiplying wealth and welfare.

Mass production and standardization, however, cannot take place without integration of industry. Machinery not only enlarges the size of the individual business unit, but consolidates like as well as unlike units into larger wholes. Numberless are the advantages of combination, consolidation, and concentration: savings through the ability to buy in large quantities; avoidance of cross freight by locating establishments at different places; ability to sell at a smaller percentage of profit, as in the chain stores; opportunities for large-scale experiments;

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capacity to use in one branch the by-products of another; and the wider view which comes from an interchange of ideas in a comparison of experimental methods. Combination and integration in short are the taproots of modern efficiency.

In contrast to the forms of modern capitalism, stand the relations which it engenders. The capitalist has relations to his fellow producers, his employees, and his customers. In other words, the relations of capitalism are those of competition, of wage-payment, and of the market.)

While it is true that every one will normally endeavor to outdo his neighbor, the extent to which he can go is limited by the environment. In the Middle Ages custom reigned supreme and the community was dominated by the idea of a fair price. To seek to undersell one's neighbor was frowned upon; devices to attract trade through advertising, window dressing, or any of the modern expedients were unheard-of. Want and use were the characteristics of the pre-capitalistic society. Especially modern is the idea that competition is the soul of trade, and that the objective of business is to buy cheap and to sell dear.

Capitalism not only sets off one producer against another but it creates the distinction between laborer and employer. Under capitalism the workman is divorced from the means of production; so that capital and labor are identified with separate classes. Without capitalism there would never be any socialism.

The third relation is that of producer to consumer. Under capitalism, production is for the market; under the guild system production was primarily to order. Capitalism is not only national but international in scope. The

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producer finds his outlet in distant places; the consumer enjoys the products of every clime; the investor is a citizen of the world.

While the forms and the relations of capitalism are significant, perhaps the most important contrast is the underlying spirit. The threefold aspects of this are individualism, the profit motive, and calculation.)

Individualism is indeed not completely new nor all-embracing. History in fact may be written in terms of the oscillation of individual and associated action. It is none the less true, however, that capitalism has given a prodigious stimulus to individualism because capital largely replaces the necessity of the individual's dependence upon others. The competition which has whetted his appetite and sharpened his activity has given him a new confidence in his own capacity. The modern adage of every man for himself and the devil take the hindmost would have been impossible in the placid atmosphere of an earlier age. The individualism of modern capital reflects itself in political and social liberty, and is attended with the strengthening of the idea of private property.

The second manifestation of the underlying spirit is the profit motive. When the medieval philosophers touched this topic, they defended trade, if at all, on the theory of self-support. The accumulation of wealth beyond that point was illegitimate. Apart from the inequality between the feudal landlord and the peasant, which was supposed to reside in the order of things, and except for the occasional merchant princes, there was comparatively slight disparity of wealth. The guildsman took more pride in the quality of his work than in the price it fetched. Just as political economy originated with the appearance of profits as an important element in the scheme of distribu-

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tion, so the endeavor to make money lies at the heart of the modern age.

As a consequence of this, economic life has been shot through by the orderly methods to which foreigners sometimes apply the term rationalization or Fordism. In our country, one aspect of this is familiar as scientific management. In a broader way, the modern spirit may be said to consist in the application of more exact calculation in the accomplishment of the aim to make money or to earn profits.

### III. AN APPRAISEMENT OF CAPITALISM

Perhaps the most common indictment of capitalism deals with competition. In the fierce struggle to gain the mastery, practices sometimes developed which were inimical to the public good. In the United States cut-throat or unfair competition showed itself about half a century ago in the field of transportation. As this spread to other fields, it occasionally happened that the greatest profits to the individual were not synonymous with the maximum benefit to the consumer. Another weakness resided in the wastes of competition. Where there are so many units, each struggling to secure the mastery, the absence of co-ordination has sometimes engendered an extravagance or a carelessness which limited output.

The next point concerns the relations of capital and labor. Where machinery assumed such importance it was perhaps natural that the laborer should be put on the same plane. In the guild system the journeyman and apprentices generally formed a part of the craftsman's household. As the factory hand developed it was more difficult to retain the human touch. Long hours, low wages, in-

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human treatment, unsanitary quarters, unprotected appliances,—these are only a few of the abuses against which the laborer had to struggle.

Scarcely less significant was the growth of unemployment. In the Middle Ages there were undoubtedly poverty and misery; but population increased only slowly and production proceeded on more or less regular lines. With the development of capitalism there came at least the possibility of periodic or constant overproduction. The growth of population created a labor market, always ready to supply the occasional needs of modern production, thus engendering unemployment, sporadic and continuous.

Another aspect of capitalism is of wider import. As a result of standardization we tend to dress alike, to eat alike, to feel alike, and to think alike. What faces us is the possibility of a drab uniformity with a check upon the radiant spontaneity that is responsible for the development of art and for the growth of the thought and action which impart savor to existence.

A final danger of capitalism is the growing disparity of wealth. Even though it is not true that the poor are growing poorer, it is indisputable that the rich are getting richer more rapidly than the poor are. In the absence of an economic democracy it becomes increasingly difficult to preserve political democracy.

How then in the face of these facts is it possible none the less to retain one's faith in the essential validity of capitalism?

Here we must endeavor to distinguish as in every institution between its use and its abuse. Moreover, we must remember that when great changes take place in social or economic conditions there is always a period of adjust-