The Jus Semper Global Alliance

Living Wages North and South

The Neo-Capitalist Assault Essay Three of Part I (The Economics of Reference)

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The Birth of a New Paradigm

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From time to time TJSGA will issue essays on topics relevant to The Living Wages North and South Initiative (TLWNSI). This paper is the third in the series "The Neo-Capitalist Assault" –a collection in development about Neoliberalism.

This is the narration of the increasing conflict of opposing economic interests between the European empires that caused the Great War of 1914 and of the excesses of the Gilded Age and of money speculation that gave way to the Great Depression in the U.S. Its purpose is to further explain the process of economic theory and show how the excess of Capitalism finally gave birth to the Keynesian paradigm that puts emphasis on the responsibility of governments to balance the economy to procure the general welfare of society. The essay opens stressing that, despite the tremendous economic progress in Europe, the structure that caused the impoverishment of workers remained; for the accumulation of wealth, which relied on the exploitation of labour, dominated the view of governments and economic centres of power.

Summary

The golden age of Europe was the XIX century, for it enjoyed unprecedented progress. Although Europe experienced strong demographic growth, it was balanced with strong economic, scientific and cultural advancement. Over a century of progress in Europe began after the French revolution of 1789, and it ended with World War I, the Great War of 1914. And, between 1870 and 1914, Western Europe and the United States enjoyed the strongest economic growth of the period. It was economic liberalism that dominated the expansion of these nations. Capitalistic expansion, namely, the formation and accumulation of wealth, anchored in the industrial revolution, received untrammelled support from European governments. As in regards to the condition of labour, as previously noted, there was little consideration for its plight, until the end of the first half of the century, when legislation, as a reaction to overt exploitation, began to mitigate the misery of the poor. This, of course, did not change the economic structure where the roots of labour impoverishment lay; for the golden age of European Capitalism, which relied on the exploitation of labour for wealth accumulation, dominated the views of the governments and of the economic centres of power. Indeed, wealth accumulation was the ultimate objective in those days. Great Britain and France were the leading powers for most of the century, with Germany joining them after

1870. The century was especially the brightest for Great Britain, the most successful empire builder, where the so-called second British Empire extended over seven seas.

The Great War of 1914 and the End of Economic Progress. The European scenario

Throughout much of the XIX century, concurrently with economic progress, there were constant conflicts between the various European nation-state powers, as well as within their borders. During the first half of the century, a struggle between liberal movements against oppressive monarchs and governments dominated the scene, until the collapse that came about with the revolutions of 1848 in France, Italy, Germany and Austria, and substantial unrest in most of the remaining countries of continental Europe. Then, up to 1870, the Europeans managed to agree, although reluctantly, that tolerance and controlled government reforms were preferable to recurrent social unrest. At the time, liberal movements were constantly challenging absolutist moves that continued to block democracy in the old continent.

Nonetheless, after 1870 and until the Great War, growing rivalries between militaristic imperial powers entered an intense period. There was much competition between the colonial powers for the accumulation of wealth. The formation of capital was then directly associated with land property. Thus, the expansion of the national territory and, within this, of private property was the most direct path to capital accumulation. This was also an era with a new kind of imperialism; where economic control did not need to have formal political control but, preferably, just enough influence to control the economy. Thus, the need to seize new areas of influence to control the land's resources sparked an intense competition, and big rivalries arose between the economic empires.

John Maynard Keynes, perhaps the most celebrated economist of the XX century, and whom I will revisit at various stages throughout this work, explained in his "The Economic Consequences of the Peace" that, until 1870, European countries became specialized in their own products, while as a whole they were able to become self-sufficient. As to the pressure on the food supply due to the increase in population, in contradiction with Malthusian beliefs, it was balanced by the availability of agricultural products from the United States. Then, after 1870 and up to 1900, the pressure on the food supply became clearly reversed as productivity in agriculture as well as in industry grew with larger economies of scale, and as emigration to the new countries increased. In fact, it was easier and cheaper to buy food during that period.[1] However, these changes also had their negative effects. The availability of agricultural products from the United States caused a tremendous crisis in the agriculture of Great Britain. And, although Britain's agricultural technology was more sophisticated, there was no possibility of competing against the huge economies of scale of the United States' mid-west. In the rest of Europe, import tariff barriers were erected to protect agriculture, but, with Britain, the free trade spirit reigning in the air, never considered such measures. In fact, Disraeli, Prime Minister at the time, had predicted the demise of agriculture since 1846. However, when this finally occurred four decades later, and he had the power, he did nothing to oppose the consequences of untrammelled free trade, of which, in fact, he was a loyal supporter.[2]

Unfortunately, by 1890, productivity began to wane and, as internal demand in the U.S. began to absorb the greater part of its agricultural production, prices began a steady rise. The law of diminishing returns was exerting its influence in the fields, and population continued to grow. Notwithstanding this event, Europe managed to achieve, once again, a balance in the rising prices of its products through the importation of cheap agricultural staples from Africa. Of course, the cheap prices of these imports were obtained at the expense of the cost of the labouring hands that worked the fields in Africa, many still working under conditions of slavery, in spite of the fact that, by then, slavery had been declared illegal by the European powers.

Nevertheless, for Europe, the last quarter of the XIX century, was a kind of "Gilded Age". An age that Keynes considered illusory and utopian for it made the life of the middle classes of Europe rather comfortable and even luxurious, at the expense of the workers exploited in this renewed colonialism imposed on the continents of Africa, Asia and the New World. Thus, he saw an unsustainable economic system. However, in Europe, for the bourgeois inhabitant of its metropolises, this state of affairs was seen as the normal thing; and any deviation from it as "aberrant, scandalous and avoidable". For the bourgeoisie, Keynes explained, *the politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions and exclusions, which were to play the serpent to this paradise*,[3] had no bearing on their daily lives. This, of course, was all shattered in 1914 with the explosion of hostilities.

Up to the time of the Great War, Germany, the Austro-Hungarian Empire and Russia had experienced great increases in population. Demographic growth had been so strong that in Germany, even after the war, population decreased by only 5%, despite the loss of over six million lives. However, Germany, until then, had been able to cope with demographic increases by maintaining its industry at full capacity and the economy virtually under full-employment. Keynes described, in his work, the inherent instability of Europe's economic system. Keynes drew his view on the social conditions of Europe prior to the Great War in what he called "The Psychology of Society". This psychology was based on a "double bluff or deception"; namely, the strong mental condition of labour to accept a very small share of the wealth generated by their work and the little consumption of that wealth by the capitalist classes. He laid out the socio-economic structure of the European states, clearly showing the great inequalities in the distribution of wealth. And, although he admitted some improvements in the quality of life among the masses, he exposed the great accumulation of wealth in the hands of a few, whom he referred to as "the new rich". Keynes denounced in this work that the great accumulations of wealth that occurred during the fifty years prior to the war would have never come about without the great exploitation of the masses. He wrote: *The railways of the world, which that age built as a monument to posterity, were, not less than the pyramids of Egypt, the work of labour which was not free to consume in immediate enjoyment the full equivalent of its efforts*.[4] He labelled the accumulation of wealth as the new religion of Europe and chastised this excessive accumulation for being the main factor for its instability before the war. Elaborating on this instability, he described the faultiness of the economic system based on three specific factors: the excessive population dependent on a complicated and artificial organization; the psychological instability of the labour and capitalist classes —which generated a very unequal distribution of wealth and an excessive accumulation with insufficient capitalists' consumption—; and the instability of Europe's claim and dependence on the food supplies of the New World.[5]

In the realm of economic thought during the fifty years prior to the Great War, the classical school gradually moved into what became to be known as neoclassical economics. Many contemporary economic authors regard this period as something more than a "little change of depth" from the classical view. It was a gradual move from macroeconomics into microeconomics. The essential change of depth was the move from supply-side economics into a supply-and-demand theory of values and a theory of distribution of income and of the factors of production. There were numerous micro-economists, both in Britain and in continental Europe that contributed to the discipline: the French Cournot, Dupuit, and, later, Leon Walras, the Austrians Menger, Wieser and Böhm-Bawerk and, in Britain, Jevons and, especially, Alfred Marshall, Keynes' mentor, with whom microeconomics was regarded as synonymous of Marshallian economics. They all focused on the many intricacies, both theoretically and empirically, of all the variables that affect, in an enterprise, the supply and demand equation; and worked to define a very complex general system of equilibrium, as Walras attempted, or a partial system of equilibrium, as Marshall did.[6] As to macro-economics, it retained the same classical paradigm, assuming that the free market forces would attain the full employment of the labour and capital resources and achieve the best level of welfare of society in a market environment that assumed perfect competition, in spite of the obvious contradictions that attested to the opposite. Keynes successfully challenged this assumption of full employment of labour and capital, after the Great War when he broke all orthodoxy to cut the impasse in economic growth created by the resilient recession that began in 1929 in the U.S. and extended into Europe, as we shall later see.

The U.S. Scene Prior to the Great War

In the fifty years prior to the Great War, the U.S. embarked on a major industrialization stage and an economic revolution. This was anchored in the creation of a domestic market, made possible by the expansion of the railroads. Population increased three fold between 1860 and 1920, and income increased even more. This was also the time when the giant companies and big trusts took form and dominated many of the industries. The wealth of the nation increased considerably and, for many, a continuous prosperity, albeit with cyclical periods of recession and increased unemployment, elevated the quality of life. This long prosperity also increased immigration and catapulted the country onto the world stage as the new industrial power.

However, this was also the time of the "Gilded Age": That time when rampant greed and the roughest kind of Capitalism and individualism went untrammelled. As previously noted, Professor Sumner and some other intellectuals promoted the idea of the survival of the fittest to human societies (Social Darwinism of Herbert Spencer and Walter Bagehot) and considered that government aid to the unfortunate was wrong. Thus, big capital began its quest for utter power and wealth. First, the "pools" initiated the formation of monopolies, which a few years later gave way to the big trusts. The trusts were initially the combination of the stocks of various companies into one great big financial trust that had the power to control the industry, set the price and establish the rules of business. But, obviously, trusts not only immediately controlled the industry, but also eliminated all competition and became organizations so powerful that they could muscle their will upon a state (legally or illegally). Standard Oil, U.S. Steel, International Harvester, American Tobacco, Western Union and AT&T gave way, subsequently, to the "money trusts". Morgan was the first and biggest of all; and, at the turn of the century, it effectively controlled a dozen of the largest banks and three of the largest insurance companies.

In 1890, the Sherman Anti-Trust Act was enacted, in response to increasing public criticism. However, the law was drafted so ambiguously on purpose that it seldom achieved any balancing justice. In 1895, in one of many cases, the U.S. Supreme Court determined that controlling 98% of all sugar refining was not an act restrictive of freedom of commerce, since, alas, commerce was a mere accident of manufacturing. The unconvinced and dissenting opinion of Judge Harlan provided an accurate illustration of the business mentality at the time when he argued that "commerce can fall into the absolute control of "combinations" with powerful financial might, who, act solely based on greed and self-interest, with no moral restraint and with an economic power so pervasive that it threatens our institutions. [7] During all of that period, the Supreme Court consistently favoured this most extreme vein of *laissez faire* Capitalism: barbarian Capitalism.

Of course, this environment was, again, only possible due to one factor. Indeed, the recurrent event of huge wealth accumulation and concentration into a few hands occurred as a direct result of the working classes being completely exploited and oppressed. This was true despite the fact that democracy and liberty were clearly acknowledged by society. For it was considered one of the intrinsic virtues of this new powerful nation. But, as in many instances in human history, the general mood —of those sharing the benefits— was to assume that freedom and democracy were permeating all ranks of society and, thus, many put deaf ears and took this assumption for granted.

However, for the U.S. worker, things were increasingly different. Freedom and justice were much more concepts than a reality. The industrialization of the country brought to life one of the most negative effects of modern Capitalism. With mass production and the formation of huge conglomerates, the relationship between workers and their employers became completely impersonal; and the inherent unbalance between capital and labour became ever so more dramatic. As it happened in England before and, concurrently with the U.S., in most western European countries industrialization broke the traditional social relationships between the different classes. Urbanization grew geometrically and the former farmers or country labourers who knew their employers, and even their families, would move to a place were they became a simple commodity in the whole process. By the same token, the workers in the small factories or workshops, who were used to negotiating personally their wages and general conditions with the owners, were now dealing with a boss who was also dealing with a thousand other workers; and, thus, inevitably, in a very impersonal fashion.

Nonetheless, the relation between capital and labour, if it was always unbalanced by the terms of hiring and the setting of the wages, became even more unbalanced with the formation of the corporations. In the small workshop, one worker was an important asset to the owner. In a huge conglomerate, one worker was a completely irrelevant commodity that could be displaced at once by another more willing. But the worker could not afford to leave and not provide for his family, so he would yield to the will of the boss. For the corporation, instead, a worker was perfectly replaceable, and more so with new ever more efficient machines that eliminated part of the need for labour.

As for labour unions, the first natural reaction to the new environment was to organize. However, this movement was met by an unprecedented reaction by the centres of power. It was a distinctive vein that ran in U.S. society. The United States, so eager to become different from Europe, achieved its desire in many ways, but some of these ways were very unfortunate. In the fifty years prior to the Great War, of those attitudes taken to the extreme, the most visible one was the concept of *laissez faire*. There was a distinct pursuit of power and wealth at any cost. Scruples were virtually absent from this ethos. And so, Capitalism was taken to the extreme point that the entire economical system was treated with a double ethical framework. The combination of capital into greater entities was considered in tune with natural laws, but the organization of labour was regarded as conspiracy. Government was obliged to protect the interests of corporations but the aid to labour was regarded as intrinsically wrong, or it was branded as Socialism, which, in this country, meant Communism, as noted previously. Thus, more so than almost anywhere else, government sided with "free enterprise" and oppressed labour. In some cases, Capitalism became so barbarian that there were incidents of industrial Feudalism. It is well known that there were some towns, inside a company's property, where visitors needed a written permit to enter the town. Not surprisingly, although there has been much improvement with the plight of workers, this vein has not died yet. Extreme incidents keep popping up every now and then. In the 1990s, incidents of hidden slavery of illegal Mexican workers in some ranches in Southern California and of exploitative sweatshops in Los Angeles, with the workers held as virtual prisoners, have been denounced in the press.

Back in the last quarter of the XIX century, the organization of workers took some time to agree on their objectives and gained leverage. "Mainstream" labour was also debating whether to integrate blacks into their organizations. For the black population, things, of course, were much worse. At last, by the turn of the century, labour organization was definitively on the mend and growing. By then, labour movements were increasingly concentrating on specific demands to improve the terms of hiring. Wages were, for the most part, substantially below what was considered a decent quality of life. At the turn of the XX century, work shifts were generally of ten hours or more. The steel industry had twelve-hour shifts, seven days a week, and the textile industry became famous for its sweatshops, which still exist. Labour conflicts grew substantially, but employers usually received the complete support of the government and its forces of order. Their ethos was simple. Any measure to protect the corporation was regarded as protecting order, while any labour movement was regarded as a show of violence. In those days, it was not rare for the federal government to resort to the use of the army or at least to threaten labour with it, in defence of the corporations. In 1894, President Cleveland sent an army regiment to Chicago to break a railroad strike. A few years earlier, in 1886, the Chicago police attacked and shot several workers at what became known as the "Haymarket riot". Evidently, the law was generally on the side of the enterprise. And even when local government sided with justice, such as Illinois Governor John P. Altgeld, who had demanded the removal of federal troops in 1894, the Supreme Court would reinterpret the law, or the lack of law, to remove any obstacle against corporate interests. In that case, the Supreme Court ended up jailing Altgeld for six months for disobeying its judicial order to stop the strike.[8]

In summary, the fifty years prior to the Great War of 1914 in the U.S., were truly "Gilded"; namely, a time of the most rampant kind of unrestrained, barbarian and immoral Capitalism that this country had ever experienced. The trust barons, also known as the "robber barons", amassed immense fortunes with almost unlimited power. Their kind of *laissez faire* paradigm was, certainly, the farthest away from the ideas of their founding fathers, which envisioned a free market full of a myriad of individual merchants and producers in opposition to the merchant monopolies of the previous era. Moreover, although after the passing of the Sherman Anti-trust act and other legislation, such as the Clayton Act and the Federal Trade Commission Act in 1914, trusts were eventually broken, the U.S. economy would remain until now —and increasingly— dominated by huge corporations.

In Europe, monopolies were not outlawed. They were considered a central part of the classical economic system as it was pragmatically applied, but their monopolies were no kind of "robber trusts". This mere fact allowed for a substantially less unjust economic environment, albeit, still far from economic justice or from the visions of the classical economists, as I have previously noted. This allowed several European nations to make some progress in labour legislation. Of course, none of this happened in the European colonies or in the newly independent nations controlled by them. There, conditions remained as exploitative and libertine as ever.

Nevertheless, at this point in time, the U.S. was behind one generation from Western Europe. Up to 1930, U.S. legislation was far behind that of Germany and Denmark and of commonwealth countries like Australia and New Zealand. Workers were invariably the least protected while industry was invariably the most protected. Workplace safety offered also the worst conditions. Beginning with the government workers, labour legislation began to be enacted as early as 1868. But the judiciary power invariably sided with the employers, whom convinced them of the impropriety of such thinking, and blocked its application, on occasions labelling this legislation as the first steps towards Socialism. Racism also played its role. Invariably, the industries with the highest concentration of immigrants and minorities had the most difficulties in spite of the fact that many of the union leaders were immigrants who had brought their ideas from the other side of the Atlantic. By 1914, several European nations had pension plans, unemployment insurance and workers compensation.[9] In Germany, these benefits existed since the 1880's through Chancellor Bismark's sponsorship. In the U.S., they did not come true until the New Deal era. Employers had systematically blocked government legislation of this sort. They refused to acknowledge any type of responsibility for their workers, even when accidents occurred because of the lack of safety in machinery. From their perspective, government was supposed not to mingle in the activities of business, except to provide infrastructure and services such as postal service, –low– tax collection, and the protection of "free enterprise" from the evils of socialists and anarchists. The concept of the common good did not even flow through their ears.

Happily, things have not remained the same. Nonetheless, I feel compelled to emphasize how crude and inhuman economic life in the U.S. became; and that it was not until it had reached almost inconceivable extremes, that those in the civil society who were benefiting from economic progress, or were not directly trapped in the exploitative cycle, at last began to react. I also believe that this distinctive vein of barbarian capitalism has remained, at times prevalent and at times in the background, but always powerfully latent, and that it is having a profound influence on the kind of globalization process that the entire world is now experiencing. This economic ethos, in its barbarian vein, has today somewhat moderated, but it is much more sophisticated and continues to permeate economic thought, dominating both world trade and economic policy in many nations.

Up to the beginning of the Great War, capitalism, indeed, brought the era of the greatest economic progress and of rampant extreme and unscrupulous individualism. Since its ethos was the unrelenting pursuit of wealth, power and glory at any cost, as could be suspected, it was also at the centre of the Great Crash that occurred subsequently after the Great War, as we shall see. For this barbarian vein of U.S. capitalism, in spite of the growing efforts to civilize it, was immersed in a real Darwinian survival of the fittest. There were many instances of people making explicit support of it. Corruption and amorality were rampant in industry and politics; so extremely that, until the beginning of the XX century, most attempts to curve it and transform it were largely ineffective. The twisted ways of the "robber barons", and of most other sorts of industrialists and speculators, only began to lose ground when the "stinking smell" was so fouled that society began to denounce it. The most effective action was carried out by the "Muckrakers", a group of writers that took the term from President Theodore Roosevelt, who first used it for the same purpose. They wrote both fiction and non-fiction —including books and magazines— to expose corruption in business and politics. One of the most famous works, "The Jungle", by John Sinclair, is evocative of a Darwinian world in which one immigrant confronts such a corrupt, exploitative and unsanitary working environment, that he turns to Communism. The work was so shocking that it is credited with having been instrumental in the passage of the Pure Food and Drug Act of 1906, enacted to protect consumers from adulterated products. This began to be the turning point, the moment when U.S. society suddenly came to realize the great social disparities and injustice, and the great chunk of poverty that was intertwined in the middle of its social fabric. A strong reform spirit arose and public opinion turned. Thus, in spite of the vested interest of its "robber oligarchy", many of the urban slums in the cities of this nation were improved or transformed, but many new ones continued to spring. It was, anyhow, the beginning of some sense of social justice, but then the war broke out.

The U.S. and Europe in the Aftermath of the Great War

Up to the brink of war, the enormous progress and great wealth brought to the young nation had been so vigorous that it had catapulted the U.S. onto the world stage as a world power. It also kicked off the era of U.S. imperialism, anchored in its Manifest Destiny and the Monroe Doctrine. The Spanish-U.S. War of 1898 was the official launching of the U.S. as a neo-colonial power. With its vast natural resources, and its vast productive land areas, it had experienced an explosive economic growth unsurpassed in the world. It was as a result of the fifty years prior to the Great War of 1914 that the U.S. had arrived at an economic phase, which excesses had produced, along with an immense productive capital, an immense speculative environment. This trend was not derailed by the war and continued all the way up to the Great Crash. Kenneth Galbraith cites the great Florida real estate scam of 1920 as typical of the time.[10]

The reasons that originated the Great War of 1914 are not in the realm of this work. It should be enough to say that the state of the domestic economies of the belligerent nations was not at the root of it. It was the competing chauvinistic rivalries between the powers for the economic and political expansion of their empires. The rivalries of Germany, in particularly, made it eager to acquire territories and launch a naval race against Britain and pushed many in Europe into what became known as the "armed peace",[11] not much different in concept from the detente present state of those nations with weapons of mass destruction. Germany was, at the time of the war, a powerful industrial state with a healthy economy, but the Kaiser was looking for a place in the sun. What he obtained instead was the complete devastation of his country and a drastic stop to fifty years of economic progress in Europe and the U.S.

While the war in Europe devastated its infrastructure and resources, including at least thirteen million lives, the cost for the U.S. was rather low in comparison, for only fifty thousand lives were lost. And the financial cost of the war for the U.S., which was around $42 billion,[12] –about 10% of the total cost of the war–, was supposed to be paid by the defeated nations. Thus, the U.S., with no reconstruction to embark in and a limited war expense, continued through the path of economic growth. Unfortunately, the enormous losses of Europe, the war reparation arrangements and the spiralling of the speculative mood in the U.S., stopped the trend of progress in this nation.

Keynes was concerned from the start of his career for the very unequal distribution of wealth in most western countries. It was visually evident that there had been much economic progress, but there was limited or no social progress, and, as I have explained, he argued against the unequal distribution, in his "The Economic Consequences of the Peace", as a key source of economic instability. However, the main purpose for his first book was to show the total lack of viability of the compensation arrangements imposed on losing nations, and especially on Germany, to repair the damage and the cost of war.

When the armistice was reached in 1919 and the Versailles treaty was signed, the winning allies imposed so stringent conditions on Germany that its chances of recovery were severely crippled. In fact, the allies demanded that Germany cover the entire cost of the war with reparation payments that would extract all capital for generations to come. The logic was simple: they lost the war and they caused the war; therefore, they would then pay all costs of the war. The allies did not see in these conditions, which they imposed, the demise of their own recovery and of their future prosperity.[13]

The impossibility of recovery in the foreseeable future was precisely the main purpose of Keynes' "The Economic Consequences of Peace". His argument was that Germany's economy had been completely intertwined for the last fifty years with all of Europe, and, thus, it carried such a weight that crippling its recovery would only dramatically cripple the recovery of the winning allies. Keynes criticized the allies for their shortsightedness. They were not acknowledging the increasing internationalization of their economies. In his work, he explained that Germany was the leading customer for many European countries and the second customer for Great Britain and the third for France, and Germany was the leading supplier of many goods for many countries, including being the second supplier to Britain, France and Belgium. Furthermore, east of the Rhine, it was the largest investor in industry, and its organizational prowess played a critical role in the prosperity of Eastern Europe. In a nutshell, Germany was the most important trading partner of Europe and the major source of direct capital investment for the development of eastern European nations. It was, therefore, critical to the recovery of the winning allies not to impose such nearsighted conditions on Germany and, in fact, allow for its recovery, in order for the allies themselves to reach recovery.[14]

Keynes was absolutely right. The first initial agreement required reparations by Germany payable over forty-two years up to 1962. Through the Treaty of Versailles, the allies would make Germany pay the entire costs of the war, so that Britain and France would pay in turn their war debts to the U.S. However, the allies had no choice but to admit to the merit of Keynes arguments against the arrangement, albeit they initially received them with strong criticism. Reparations of the war initially demanded a colossal sum for Britain and France, but they subsequently reduced them substantially. Between 1921 and 1932 a variety of plans to make Germany pay war reparations, each requiring a smaller sum, were drawn with no success. In fact, until 1929 Germany had been experiencing a net inflow of capital by way of U.S. loans, until all loans to Europe were halted the day of the Great Crash on Wall Street.[15] At the end, Keynes was right on both counts. Germany needed to be allowed to recover in order for all of Europe to recover, and, indeed, the economic system was inherently faulty, for it was based on very unstable outside conditions and a very unequal distribution of wealth. In consequence, by imposing such conditions, the roots of the subsequent great crises were being laid down.

From the end of the Great War, and up to the crash of 1929, Europe began a hard and slow recovery, many times with declining periods. The European economy was, indeed, in dire straits. With the substantial dismemberment of their imperial domains, many economic systems were disrupted. In 1913, the economy of imperial Europe was very much intertwined with the rest of the world, but, in 1919, it had lost its supremacy, dropping significantly its weight in the world's trade, from a share of 52.6% to 45.5% in 1928 in total exports.[16] The centre of economic power was gradually shifting towards the United States. The Central Powers, –Germany and Austria–, who were suffering the most due to the reparations imposed, were the slowest to recover; and this did not actually commence until the U.S. demands for payment, from both winner and defeated nations, were abandoned in the early 1930s. In 1923, Germany's Weimar Republic, suffering hyperinflation, fell into arrears in its reparation payments, creating substantial repercussions and further animosities between all parties involved, including the U.S. However, in spite of the caustic conditions resulting from the war, Europe did experience some degree of economic growth during the 1920s, and, as part of this recovery, significant gains in social progress were achieved. Inflation and unemployment were reduced, though not much in Germany, the working day was finally reduced to eight hours, affordable housing was made available and social security became a normality from thereon. That same year, Sweden, a non-aligned state, embarked on a long and successful social democratic rule. However, the recovery of Europe was very precarious and uneven. In addition to the stringent terms of reparation, many of the political and social problems that were prevalent before the war remained unresolved in its aftermath. The Great War had also exacerbated the already obsessive nationalism and now the Bolsheviks were in control of Russia.

The Road to the Great Crash

In the U.S. in the meantime, the country turned inwards and nationalism became extreme. The rise of Communism in Russia sparked a scare in public opinion, which began to be obsessive. Urban life consolidated its position as the icon of U.S. culture —cities became the geographic unit where most of the population lived— and a new, more disinhibited vision of life emerged.

In the economic realm, the energy of the nation focused on the return to the "normality before the war". The *laissez faire* paradigm remained the official ethos, but government remained an instrument of the big corporations. New trade barriers were erected in line with the increasing protectionist mood. Inflation increased during the first years of the post-war era but a general optimism reigned, and the economy continued to grow up to 1929. Monopolies, of course, were not touched. The new industrialists were now acting more than ever as neo-mercantilists. Government not only supported but also promoted the fusion of more and more companies into huge conglomerates. Between 1919 and 1929, four thousand firms merged and six thousand others disappeared.[17] The federal government even proposed to amend the Sherman Anti-Trust Law in favour of big business.

Social inequalities remained rampant, and racism and other types of fanaticism created special havoc in the realm of social justice. Blacks, Catholics and Jews were increasingly ostracized and attacked. Legislation, passed in 1921 and 1924, discriminated in favour of immigrants from northwestern European countries.[18] Moreover, as a consequence of the scare generated by the communist's control of Russia, the unions were increasingly attacked and accused of being instruments of Bolshevism, albeit their perpetual enemies, the corporate core, certainly used the occasion to weaken labour organizations for their own personal reasons. Thus, many incidents of union intimidation occurred; of which, the murder —actually a legal execution— of union activists Sacco & Vanzetti in 1927 was, perhaps, the most scandalous. The steel, coal and textile industries were famous for their exploitation in the XIX century and remained staunchly opposed to social justice in the 1920s. They remained opposed to a reduction of hours of work, and sometimes to a day of rest and other labour demands. In some cases, historians described the factory environment as Dantesque. A picture of U.S. Steel, for example, describes it as a militaristic and autocratic organization. The norm there was still twelve-hour workdays, seven days a week; the same as in the XIX century. The union went into a strike but the company defeated the union by accusing it of Communism.[19] Similar labour conflicts in other industries, such as the railroad industry, also occurred, and, almost unabated, corruption between government and big business continued during the Harding Administration.

Detached from the miseries of labour, which represented a very substantial segment of the population, a general optimism reigned among the middle classes and the wealthy, and speculation grew untrammelled. This was the time when many moral values changed. The "roaring twenties" was the age of the "flapper" girls, of Charleston and Jazz. However, beyond an abandonment of the Victorian values of social decorum, the more profound traditional ethics of White-Anglo-Saxon-Protestant culture were being changed as well. The "WASP" ethics of stoic work discipline and the family, which, to a certain point, restrained individualism, were gradually changed. Modernity changed the focus of society from the family and the small community to urban life and individualism; and, with it, there was an emphasis on the unrestrained pursuit of opportunities for profit and on easy enrichment and pleasure. Much more so than in Britain, the quest for economic gain in the U.S. was always tempered by old puritan values of the first immigrants; of working to fulfil the need for personal realization in his own vocation; and, as the head of the family, to fulfil the role of provider of its material needs. The concept of saving was an important part of this work ethic. With the habit of saving in order to buy material things, hedonistic impulses were restrained. To buy something, you needed to save the necessary amount first. This was the proper cultural behaviour, but the forces unleashed by the trusts and corporations, immersed in sheer greed, fuelled the ethics of individualistic and hedonistic flair behaviour. The corporations needed to boost consumption by offering a myriad of products, many of doubtful intrinsic utilitarian value other than as superficial status symbols of material success, found their way during this period of general optimism. Daniel Bell comments in his *The Cultural Contradictions of Capitalism*, that the strongest force that propelled this change of ethos was the availability of easy credit. Credit eliminated the need to save in order to acquire and, thus, the individual hedonistic impulses were suddenly susceptible to their immediate fulfilment.[20]

There were certainly opposing reactions to the new urban modernistic and hedonistic culture. These reactions came from the upholders of the small communities' traditional rural values. Nevertheless, these reactions were coming from a tradition that could not articulate its view in an enticing and rationale manner, in sync with the new times and, thus, it attempted to force itself in an authoritarian way. The most notorious incident was of course the "prohibition" of alcohol consumption, but it was a lost cause. Authoritarian ethics contradicted the values of a new Capitalism, shaped by the need for generating massive consumption and an apparently new kind of individual freedom. Traditional values contradicted Capitalism's conscious self-prevarication in order to convey the new ethos: untrammelled individual and immediate self-gratification. The old puritan ethic of sober conduct and self-discipline, of saving in order to buy, was now the antithesis of the new ethos. Having things, pursuing impulsive desires and finding immediate satisfaction were now possible with the availability of an increasing variety of credit. Having was now more important than being. Perceived value was now more important than intrinsic spiritual values, and having things was the path to enhancing his or her personal image. Capitalism was constantly reinventing itself in a revolutionary manner. Thus, notwithstanding the strength of opposing traditional forces, the new consumer society, by appealing to some of the most primitive instincts of human character, decisively triumphed and a new ethos was born.

The general optimism of people in the U.S. was anchored on a vision of enduring great prosperity. It was thought of as a well deserved time, after all the previous struggles and after the end of the Great War. Nonetheless, the stock market crash was not the only key factor that cut this mood and created the depression. The stock market was part of a slowing trend that began at different moments through the 1920s.

Although there was economic growth overall, it was unequal, and several sectors of the economy, for a variety of reasons, were not participating. The farming sector, which enjoyed high prices during the war, embarked on the financing of infrastructure, but then suffered bad harvesting seasons, which did not allow them to repay their debts. The steel, coal and textile industries were plagued by labour unrest and other problems, and, thus, despite the support from the federal government, did not participate in the growth of the economy. The banking industry, with its excessive dispersion, was very unstable. Between 1923 and 1929 banking bankruptcies were occurring at the rate of two per day.

Concurrently, a speculative mood was growing. The speculation in commodities and real estate moved into Wall Street, and an ever-increasing speculative boom, that began in 1924, sustained itself almost unabated until October of 1929, the month of the Great Crash. Galbraith explains that promiscuous trading by speculators dominated the scene. Craftsmen of the trade with a general understanding of the game joined to bid up the price of stock and worked forcefully to call the attention of evermore people to the pool of buyers, many of them naive, with little instinct for the game, who fell victims of their own greedy instincts and, thus, sought the opportunity for easy profit. The speculation spiral was at its climax when the "money trusts" engaged in the game of creating ghost companies with the sole purpose of buying stock to bid up the price one two, three and manifold, effectively creating several companies in chain, solely to raise the price of their own stock issues.[21] To make things worse, much of these buying sprees were financed with bank money. The speculating companies issuing the stock, and then creating ghost companies to buy the stock, would do it with bank loans. Railroads and utility companies were also purchased in this pure speculative form. Then, the "connoisseur," namely, the perpetrators of the boom conspiracy, pulled the plug and the market crashed. Its consequences lasted until the end of World War II, and it remained one of the key variables that fuelled the subsequent crises in inter-European affairs.

The Economic Devastation of the United States and the Gradual Change of Paradigm

The Great Crash and its subsequent Great Depression were the worst social and economic crises that the United States has experienced since its Civil War. Furthermore, with the rising weight of the U.S economy in the world, especially after the downfall of Europe, the influence of the depression years was very pervasive. All the European countries involved in the War suffered the economic fall of the U.S. in many ways, and, in the less developed world, things would not get any better for many years.

It is not the purpose of this work to illustrate in detail how things changed immediately for the worse as a consequence of the Great Crash. There is immense literature relative to the roots and consequences of these events. My interest is to illustrate how it took the greatest debacle for the world to change its views; that is, for those that control the strings of capitalism's centres of power. And how, for the first time, a new economic paradigm slowly emerged, which, in my opinion, gave birth –after World War II– to the only occasion in modern times when mankind has been able to attain some degree of both social and economic progress, concurrently, both in developed and developing nations.

First, it took the depression for the U.S. to change its own views regarding wealth creation and accumulation and to acquire some sense of the need to achieve some degree of social justice. The core of U.S. barbarian capitalism continued to oppose it but public opinion, fuelled by unquestionable evidence, prevailed to make the changes.

The Great Crash created a complete chaos whose major features were a rapid pauperization of a large segment of the social fabric. The crash was, in essence, part of a deflationary movement in the economy. Commodity prices and industrial production were already falling in the immediate months before the crash. Of course, the stock market speculation was an additional feature, which made the entire situation a lot worse, but it followed a switch into a recessionary trend of the entire economy at large, combined with the speculation itself. In other words, the mood among those with capital to invest –or with no capital but the means to borrow and invest– was inclined for opportunistic moves to make a lot of money quickly and easily. There was no mood to think long-term and work hard gradually into sustainable opportunities, directly investing into real entrepreneurial business alternatives. Thus, the stock market speculation was not the sole cause of the depression, but it fuelled it tremendously making it much worse, with grave and long-lasting consequences.

To summaries the transcendental consequences of this sad event in the U.S., I will say that, at the peak of its deflationary movement, in 1933, almost all economic indicators had been reduced by at least half of their previous value. About one-fourth of the work force was unemployed, that is, about 15 million people. The stock market value was one-fifth of its previous value; farming revenue and foreign trade went to one-third. In the first three years of the depression, 5,000 banks closed their doors. The rate of bankruptcies in the industry went up from two per day to almost five per day.[22]

The dramatic collapse of the economic system put immediately into question its very viability. It questioned the economic theory that had sustained the system, especially in its pragmatic mode, for it was not able to sustain the factors of production moving forward through a dynamic system as laid down in its postulates. The collapse seriously cracked the foundations of the system. The market was in such disarray that it no longer warranted the feasibility of capital investment, nor the maintenance of production, much less of the labour force and of the use of resources. Everything had collapsed.

However, next to this questioning, was the credibility of those who had applied economics for the benefit of their own interest. Thus, the very image of the industrialists and of the entrepreneurs, as those supposedly capable of creating general prosperity, was shattered; and, with it, their capacity for stopping the deflationary impulse was even much less credible. However, what made them lose all credibility was their behaviour during the crises. Of all the features of these crises, the most startling to me is the evident lack of morality of those in control of the centres of power. This attitude was then also noticed by society. What made it startling was their behaviour before the obvious tragedy being experienced by the majority of the population. For those in control of the moneys were privileging their acts and financially saving VIP's in society and government by selling them stock at below market prices. The "money trusts" were giving special treatment to those who they had on a list. It may sound today somewhat naive to expect otherwise. But the regular citizen then, who indeed naively thought of them as honourable people in their ways of going about their business, realized their real conduct, and public opinion turned against them. This had great consequences.

Previous to the appointment by the electorate of Roosevelt as the new president of the U.S. in 1932, the traditional economic rhetoric continued to reign. Hoover's attitude towards the depression was the same as always. Namely, that the free forces of the market would recover and growth would resume as soon as confidence had returned. Alas, a familiar sound lately, every time the neo-capitalist global economy comes into question: "the economy is fundamentally sound" is the response. However, back then the lack of a new approach and the backlash of the European recession, which was reacting in turn to the U.S.' own, hit hard and made things all the more worse in 1931. Still Hoover's lukewarm reaction did fundamentally nothing to alleviate the crisis. On the contrary, when the veterans of the Great War marched into Washington to demand payment of their war bonuses, they were harshly repressed by the army and kicked out with their families and few possessions from the city. The republican cause had just signed its epitaph for the upcoming presidential election of 1932.

The Birth of a New Paradigm

In 1933, Franklin D. Roosevelt's administration was inaugurated after three consecutive republican administrations. There was a crisis of utmost emergency, and Roosevelt acted swiftly sending many initiatives to Congress, which conformed a series of programs that came to be known as the New Deal. Contrary to the usual wrangling, they were approved immediately due to the dramatic situation. Roosevelt, in his New Deal programs, and as counselled by his advisers, moved forward to implement a number of economic actions, most of them standing in complete disregard of traditional theory. John Maynard Keynes is considered to have been very influential in these decisions. Keynes wrote an open letter to Roosevelt advising him to move in this direction. In any case, the key actions of the New Deal can be summarized into the four following strategies:[23]

• Stop the fall in aggregate demand. As demand contracted, firms were cutting prices, then cutting wages and then laying off people. Thus, the first government measure, in sharp contrast with economic theory and against the hard battle being waged with the trusts and other monopolies, was to allow companies in the same trade to come together, effectively inhibiting competition, in order to sustain prices, stop layoffs and, therefore, sustain aggregate demand. However, the strategy supported union organization to protect and affirm the interests of labour. That way they were attempting to counterbalance the additional strength given to the now overprotected big industry. This went totally against the Sherman Anti-trust Act and other laws drawn to curve the combination of companies. However, this action, embodied in the NRA (National Recovery Act), did not last very long and it was derogated in 1935. Big industry had resorted once again to monopolistic practices increasing prices beyond necessity. This infuriated many groups: small companies losing out to big ones; true liberal pundits concerned with the concessions to big business; consumers upset by the rise of prices; labour disillusioned by the practical implementation of their social vindications; and, ironically, big business itself, resenting the intrusion of government in its turf.[24] That the further *oligopolisation* of industry was an emergency measure, a measure of last resource, there was no doubt. That it was a temporary action, it was. Nevertheless, it was, in all likelihood, a big dilemma for Roosevelt's advisers, who were mostly true liberals and, thus, opposed to big business. They wanted to sustain price levels to recover aggregate demand in order to stop the vicious circle of deflation. In the end, it was a good moral: never to incorporate big business to a social cause, even to a national cause; for money admits no nationality and takes no cause but its own.

Fortunately, labour was not let down. The Wagner Law of Industrial Relations was very soon enacted to replace the labour portion of the NRA (Section 7(a))[25]. The government's support of labour was no token measure. The support of labour unions was incorporated into a broad industrial organization policy. Beginning with the NRA, Congress instituted over 500 codes to regulate workers' rights and stop child labour exploitation, still prevalent at the time, and to reduce the number of daily working hours. The fruits of this legislation did not come easily. The business establishment fought furiously to oppose the government's meddling with its labour relations. Such a thing was simply not part of its vocabulary, but, in the end, the conglomerates, after suffering numerous strikes in which the government correctly remained neutral, finally surrendered and recognized the workers' right to organize and improve their terms of hiring.

• Rescue of the primary sector. The second strategy was to save the farm sector by controlling production –avoiding over production of specific agricultural commodities– supporting farmers of a single product and setting minimum price guarantees –a policy that has remained in place until today. Additionally, the New Deal provided assistance for the refinancing of rural real estate, which was in big disarray. During the Great War, farmers had enjoyed high prices and were encouraged to get loans for the farms and for equipment. Thus, when the depression arrived they were caught in a dire situation. At the end, the primary sector strategy was generally successful in achieving its objectives, albeit it suffered substantial opposition, especially from the U.S. Supreme Court, traditionally a staunch defender of economic orthodoxy. Thus, the court derogated substantial legislation but new legislation was expediently enacted to replace it.[26]

• Boost consumption and investment through monetary policy and revamping of the banking and insurance industries. The third measure encompassed a series of monetary policy actions aimed at making U.S. products competitive, further supporting the push to increase and sustain depressed agricultural prices and encouraging economic growth overall. Concurrently, the Banking Industry, which was substantially unregulated and extremely atomized, needed a complete overhaul. The first immediate measure was to close the banks for a few days to jump start them with a new basic reorganization structure and to instil enough confidence in the people as to return to the use of their services. As a consequence of the depression, there was a huge mountain of defaulting loans, and banks were collapsing at the rate of five a day, as already noted. Moreover, the other big factor for their collapse, were the corrupt practices of both the banking and insurance industries, which were publicly revealed through a formal congressional audit. This was the basis of the decision to completely overhaul them. The new Glass-Steagall Banking Law implanted much more regulation. It also separated commercial banks from investment banks, and it completely limited but cancelled the use of loans for speculative operations. These policies worked very effectively and stopped almost completely the rash of bankruptcies of the previous months.[27] The new law had many other regulations, such as the formation of the new FDIC to protect deposits and new legislation to control stock and bond transactions.

What did not work were the monetary policies. Roosevelt abandoned the gold standard, devalued the dollar and "pegged" it back to gold at a higher price. The intention was to move into a controlled gold-exchange currency at a much more competitive level to boost exports. Concurrently, the government embarked on a gold buying program to boost the price of gold, expecting to increase the value of agricultural commodities, which traditionally had moved in line with the price of gold. Lastly, it brought interest rates down, this time in line with orthodox monetary policy, while providing a pool of funds to banks through the purchase of government securities. The hope was to stimulate the demand of loans to boost productive investments and generate some aggregate consumption spending. However, none of these measures met the expectations.[28] The gold buying program was cancelled, and demand for credit had to wait for a while.

• Recover the employment base. This was the key of all the emergency measures of the New Deal: the government's employment of the unemployed for public works. Although it was conceived to be a temporal measure, it became part of the new paradigm, as I will discuss later. The deliberate creation of jobs through two expressly created agencies, the Public Works Administration (PWA) and the Works Progress Administration (WPA), and the direct aid with checks to millions of persons to alleviate their suffering through the Federal Emergency Relief Administration (FERA), became the central part of the strategy to sustain Civic Society and the country's sense of confidence. The aims of the Roosevelt's administrations strategy were accomplished in 1937. In that year, economic indicators had returned to the 1929 level prior to the crash. Through a variety of schemes, there was broad support of the unemployed and others in need. Even college students, teenagers and children not enrolled in school were provided with part-time jobs in the millions.[29] The policy of deliberately creating jobs to provide for the victims, of what I regard as a combination of bad times, sheer greed and a financial orgy of speculation, directly generated a good level of aggregate spending, helping to stabilize the crisis and setting the stage for gradual and final recovery. The means of job creation was obviously government spending, which, as advised by Keynes, was executed by way of new government debt in diametrical difference with traditional economic wisdom.

In one of Galbraith's analysis of the Great Depression, he ponders the transformation of the classical paradigm as a consequence of the economic catastrophe. He presents the idea of the natural emergence of a new paradigm with unused production capacity and unemployment as the new equilibrium reached under relative recession. This new equilibrium is the opposite of Say's law, which presupposes an equilibrium scenario under full employment and full capacity and never a recession except as a brief event. For, according to his law, supply always finds its own demand, as discussed in essay II. This would be accomplished by adjusting prices and wages. Up to the Great Crash, albeit long before it was recognized that the economy moved in cycles of good and bad times, it was still assumed that recessions were temporary and that full employment of labour and output capacity was the normal state. The crash changed all that. Thus, the new paradigm consisted of a new equilibrium with unemployment and unused capacity. Galbraith explained that the views changed due to two main factors: people will not spend when the future is perceived with uncertainty, and manufacturing costs and labour costs are not very flexible as previously assumed. In times of recession, production costs will not go down easily and labour will not, in all likelihood, lower its wages.[30] Thus, in bad times, production is cut and workers are laid off all together. This is what happened during the depression. With lower sales, less capacity was used and then workers were laid off which reduced sales further and fuelled more and more the recessive trend. This created a new equilibrium at its worst possible level.

A key point in Galbraith's logic is that, in societies with uneven distribution of wealth, during a recession the wealthy stop spending, which worsens dramatically the entire situation, with the rest losing their livelihood. Whilst in a more reasonable distribution scenario, the pervasiveness of the depression effect would be much more tenuous and short lasting. Nonetheless, in the Great Depression, as in the first scenario, the economy reached a stationary equilibrium at a very low level, where the rich and the not less affected indeed reduced their spending and the rest reached near starving conditions. This, of course, was only possible because wealth distribution was indeed very uneven.

I want to make a pause at this point to emphasize that the new emerging equilibrium was not the depression scenario but, rather, the measures taken to correct it, which meant government intervention in the economy breaking with the old paradigm. The ethos of these paradigm was scholarly developed by Keynes and put into practice by most nations as events unfolded in the next two decades. However, the new equilibrium that Galbraith was referring to was one where the wealthy do not suffer and could comfortably live, whilst the not so fortunate majority faces really dire circumstances under which to live. This is a major argument among those of us who propose that a reasonable distribution of wealth is the best engine for a sustainable economic paradigm. The essence of Galbraith's emphasising of the matter was that the perpetrators of the crisis not only did not suffer, but also could easily envision the idea of a near depletion equilibrium becoming the status quo of the economy. This very real situation of low employment and of great sub-utilisation of economic capacity, Galbraith argues, further defeats Say's law of full capacity with full employment equilibrium; a result of an unequal distribution of personal income, which, in practice, has come to be the norm in the market system. Thus, there is a truth to all this, which is the least attractive for those enjoying wealth: that a reasonable fair distribution of income is optimal for the market economy.[31]

I would also like to bring back at this point John Stuart Mill's vision of the stationary state. For him a time of stagnation was the optimal time for government to devote itself to implementing redistribution schemes. However, the startling recession of 1929 is in paradox from that of John Stuart Mill's stationary state. For Mill the stationary state was when there were no more new customers to sell to, to keep fuelling economic growth. However, Mill specifically had in mind a developed economy with a reasonably distributed wealth. Even when his ideas were drawn from Victorian England, where adequate distribution was not the case, he was thinking ahead of his times and presumed, against orthodoxy, that the Malthusian principle of diminishing returns would not occur because population growth would be controlled. This scenario was not yet the case either in the U.S. in the 1920's. However, what did happen in the U.S., in line with Mill's philosophy, was that the stagnation of the economy and the very uneven distribution of wealth prompted the change of economic structures and the implementation of schemes for wealth redistribution. This was the object of the New Deal. In essence, what Mill's theories and depression realities illustrate, is that when a system stops moving its dynamic forces forward, its principles have, for all practical purposes, failed; and, thus, structural adjustment –or, more precisely, a new economic paradigm– is required. This was a transcendental event of utmost importance in western economic history.

Beginning with the New Deal and ending with the Bretton Woods agreements of 1944, a new economic paradigm, generally known as the Keynesian system, as we shall see, emerged in reaction to the evident failure of the classical system. Thus, the economic world, for the next thirty years, regarded the classical system, after all things considered, as a *corpus mortem*.

Notwithstanding these facts, in 1937, under unrelenting attacks by the Supreme Court, bipartisan conservative forces in congress, big business and the middle class, Roosevelt cut spending and tightened credit to balance the budget. The immediate result was a convulsive industrial drop of 33% in the next ten months from June of 1937.[32] This was undisputable evidence that the "invisible hand" of barbarian *laissez faire* economics would not correct its self-inflicted chaos. Government intervention and regulation was needed. Like Galbraith asserts, with the new slump there was not a more compelling reason to go back to the Keynesian paradigm. And, thus, the government went back to public spending to fuel the economy and things began to get better again but with much more difficulty. A new agriculture assistance program was launched and Congress passed more improvements in labour legislation; but in 1939, there were still 10 million unemployed. Never before had a U.S. government taken a social program and shown sensitivity to those affected by the whims of industry and Wall Street. Nonetheless, Roosevelt's administration ran out of time to reach a full recovery; it would take WW II to achieve that. There should be no doubt, however, that a full recovery was not reached in great part due to the opposition of the conservative forces. After the last additions to labour legislation passed in the first half of 1938, no other reform legislation was approved for the remainder of the decade, for the conservatives, with their favourite obsession, accused Roosevelt of being a "Communist worm". And, so, Roosevelt conceded the defeat of his economic policy, becoming effectively a lame duck in this area. The New Deal was dead and he moved on to focus on foreign policy.

That the New Deal policies, especially the employment programs, had enough muscle as to abate the crisis and stabilize the economy, there is no contention in spite of numerous critics. The previous events clearly attest to this fact. It should be emphasized, however, that, except for the lowering of interest rates, all the other measures discussed were in tacit disagreement with classical and neoclassical economic theory. They were also in total disagreement with the vested interests of the economic centres of power of this nation, especially with the industrial trusts' magnates and the financial tycoons. Sheer greed was always their ulterior motive; nothing to do with true economic philosophy as previously exposed. They demanded a *carte blanche* right, and nothing less, to exploit all resources at hand, including human "commodities", and they were prepared to do whatever necessary to retain their supposedly divine right.

In spite of the many hurdles, many other complementary emergency measures were implemented, like the government funding of assistance provided on the refinancing of home mortgages and the Tennessee Valley Authority program. Some of these measures remained in effect in some form after the crisis, but the landmark of the New Deal was the Social Security program. In 1935, an incipient Social Security system was enacted in the midst of always-staunch opposition from the traditionally conservative, mean-spirited souls who controlled the monies. Nevertheless, these were the foundations of a welfare system in the U.S. that has lasted until today. It leaves much to be desired when compared to the European concept, or even that of Japan or those of many developing nations. It is because of the always-latent obsessive desire from the neo-capitalists to privatize the entire government, if it were possible, that the concept of the Welfare State in the U.S. is a limited one. However, precisely because of, in my opinion, a particularly adverse cultural and political environment, it is a true social conquest; an admirable piece of social justice which was only possible when the barbarian vein of capitalism was at its weakest.

A New Philosophy of Government

This was indeed the enactment, in the United States of America, of the concept of the welfare state, and above this lay the birth of a new economic paradigm. Thus, for the first time in its history, the United States gave way to a new philosophy of government. With the crises, created in the greater part by a complete abuse of the classical system, an important formal regulating role of government took place. Roosevelt, through a change in the composition of the Supreme Court in 1937, was able to redefine the role of the executive branch.[33] This allowed a turn around in the traditional pragmatic arrangement between business and government, prevalent in this nation. No longer, in spite of many set backs and an eternal struggle, would the government resort again to be a mere fan on the side lines of those who practised business, with the sole office of providing infrastructure and services, collect low taxes, and protect "free enterprise" from its perpetually imagined devils. From thereafter, and until the arrival of Neoliberalism, the government would play a very active role, as a full member in the drafting of the economic policies of the nation. There was also a turn around in the financial world's decision-making process. Its issues would no longer be decided in the boardrooms. Government, through the Fed and the Treasury, would be holding the baton of financial and economic policy. This meant putting the government in the driving seat of the nation's economic and financial management, just as Keynes had argued. For the first time, Wall Street was forced to accept federal regulation; and, with it, eliminate much corruption and financial tricks.

Above all things considered, the concept of the government's purpose and responsibilities was demolished by the Great Depression and, thus, inevitably transformed. When, in 1937, the government was forced to go back to orthodoxy and there was an immediate return to deep recession, one of its most prominent advisers, Mariner Eccles, the head of the Fed, illustrated with great clarity the central concept in the philosophy of government relative to economic matters, when he argued that when private investment decreases, governments must take over and act as a compensatory agent in the economy and do exactly the opposite of that done by individuals and corporations.[34] As would be expected, the New Deal advisers also insisted that monopolies must always be controlled and reduced because of their tendencies to maintain prices high and inhibit competition. This was a logical reaction to the policies incorporated in the NRA, an issue where Roosevelt enjoyed little partisan support.

The move of the U.S. government, through the New Deal, to incorporate the concept of the Welfare State into the central realm of its responsibilities, was nothing more than the reconciliation of pragmatism with the spirit of democratic government. It was also a reconciliation with the classical system as defined by Adam Smith and the subsequent political economy of the classical school. In essence, it was a reconciliation with the idea of the common good as the sole purpose of all acts of a democratic government; namely, to procure the general welfare of all ranks of society. There is some controversy on whether the Roosevelt Administration was very influenced by Keynes' views. However, regardless of how influenced Roosevelt was, Keynes' new paradigm would become the most influential concept in economic policy in the West for the next forty years.

In its praxis, the most transcendental fact of the New Deal was the government's incorporation of the obligation to look for those dispossessed by the industrial society as part of its responsibilities. It took the ultimate responsibility for the welfare of society if the private sector establishment did not fulfil it. It took issue, by intervening, in making sure that those affected were protected and reincorporated into the economy, not only as a temporary emergency measure, but also as the permanent duty of government. It became responsible for providing an adequate level of social justice. Then, there was still a long way to go in this, and there still is today; but, at least then, the foundations of a new government ethos were erected: The unavoidable need to permanently regulate the free forces of the market in order to protect the common good.

The Consequences in Europe

In Europe, the Great War and the U.S. Great Depression postponed a stable recovery and real progress until after World War II. The consequences of the Great Depression were felt with considerable intensity, especially, in those countries where the U.S. represented an important outlet for their exports. The recovery of Europe after the Great War, as earlier noted, had been inconsistent and very precarious. The first years between the war and the Great Crash were marred with high inflation, unemployment and significant social unrest. Germany was economically paralyzed and Russia, now in the hands of the Bolsheviks, had isolated itself from the rest of Europe. For the Eastern European countries located between Germany and Russia, the economic consequences were especially devastating. For these nations, semi-industrialized, with still important agrarian economies, the collapse of Germany and the isolation of Russia cut many of their exports' markets and their source of industrial investment, and pulled them down as well into depression and hyperinflation.

Since the armistice, Germany had been paying its debts with scarce reserves of gold. Then, when it fell into arrears in its payments in 1923, Germany negotiated better conditions and received a U.S. loan of $800 million, which enabled it to recover its industrial capacity; but, then, after the U.S. Great Depression and the halting of new loans, Germany went again into a deep slump. The impact of the Great Crash, in fact, was so strong on Europe's precarious recovery, that, by 1931, the U.S. had to accept a moratorium from all European debtors, and, two years later, about 30 million people were unemployed in all of Europe.[35]

By 1933, a conference in London, attended by many countries, sought to move them into an agreement to mitigate the situation. However, the conference failed. Beginning with the U.S., the conference's participants had previously resorted to protectionist measures, abandoning the gold standard, devaluing their currencies to make them competitive and establishing protectionist tariffs against imports. It was obvious that taking a protectionist position was not going to help any of the industrialized nations to generate growth, since every protectionist measure was triggering retaliation. Nonetheless, beginning with the U.S., each country decided to weather the storm individually, seeking its own benefit exclusively, instead of converging into a collective arrangement. They were striving to protect their domestic industry, their employment base and, ironically, their export markets;[36] but, obviously, since everybody had erected countervailing tariffs and, no intent of removing them was reached, international trade remained depressed. No deviation from their protectionist position occurred and, thus, no clear recovery fuelled by increased trade was accomplished. Recovery for most would then come slowly, with great difficulty and incomplete for the immediate years to come. For others it would take much longer.

In Germany the harsh years of hyperinflation and scarcity of goods that resumed with the impact of the U.S. depression, had generated substantial social upheaval. Extreme forces on both the left and the right, especially of Socialist, Communist and ultra right Nationalists, entered into permanent and violent confrontation. Unfortunately, there is no doubt that the rise of Hitler was directly connected with the social unrest that the Great Depression provoked in that nation. In 1923, Hitler, banking on the unrelenting economic crises, managed to rise with the wave of social discontent. He was appointed Chancellor in 1933 and, through violent means, proclaimed himself the "Fuehrer". Hitler moved swiftly on the economic front. That same year he suspended all further payments to cover the reparations of the war. By that time, with all the Great War's belligerent nations, including the U.S., immersed in their own depression crises, the reparation conditions had become largely irrelevant. Hitler moved to implement a full employment – full-production strategy, combining Keynesian economics with socialist measures. He banned the right to strike and put people to work in the autobahns and on the new Volkswagen project, which was to provide all families with an automobile, and devoted substantial resources to rearmament production.[37] By 1936, Germany had recovered completely from the depression. Two years later, Germany had accomplished the strongest recovery among the belligerent nations –except for the USSR– with production more than doubling that of 1932,[38] but, as Galbraith pointed out, the fact that Germany reached full capacity before the war, put Hitler at a strategic disadvantage against the allies to sustain his various military fronts. The allies did not reach full resource employment until the war went into full intensity. Obviously, a state of depressed use of resources had its military advantages in the brink of war.

Britain was also already in deep recession, as a consequence of the Great War, and in 1926 it was hit with a general strike. After the Great Crash, the feeble recovery attained disappeared. Its financial crises reached its peak in 1931; and, in September of that year, Britain took the pound off the gold standard. The subsequent year, unemployment reached its peak with three million unemployed.[39] Then recovery began. Nevertheless, as with most of the Western world, complete economic recovery did not occur until World War II, when human and manufacturing capacities went into full use. Real progress would not start until 1946.

Of all the belligerent nations during the Great War, France was the least affected by the Great Depression due to its culture and polity. In contrast to the U.S. and Britain, France had no quarrel with the government directly intervening in the economy. Economic issues are not central to French mentality. Culture and social issues are their priorities. And, thus, since economic policy is secondary, it is used to accommodating the needs of society, as it sees fit in a very pragmatic fashion. Government did, indeed, intervene in the economy as much as necessary in order to provide for all areas of society, sustaining employment and consumption as much as possible. Thus, the slump was much more benign; but, again, actual progress and complete recovery from the Great War did not start until the end of World War II.

In Retrospective

In the hundred years prior to World War II, capitalism had risen to its zenith in the broadest terms. It had achieved unprecedented economic growth, transforming life in western society through its industrial revolution. It doomed old social traditions of centuries to the books of history at a pace never seen. It fuelled the prodigious advancement of technology, changing the lives and customs of entire societies, changing their social and moral values and achieving real material progress, increasing societies' quality of life and transforming civilization's idea of itself.

Nevertheless, with it, it also took man's worst instincts and, with its intrinsic power, it multiplied its own negative effects exponentially. Worst of all, it made of hypocrisy a norm, a value, and a desirable trait of human character in modern society. For in the name of individualism and freedom it justified the systematic exploitation of those that were unluckily born in disadvantage.

Prior to liberal philosophy, there was no discrepancy between its praxis and its postulates for there was no ethos that had sought equality and a general welfare. Capitalism had been born barbaric from inception as a result of the will of absolutist monarchs reigning at the time in Western Europe. It generated the competition of the merchant monopolies where state and companies combined and conducted economic warfare. It was totally oppressive, undemocratic and, thus, inhumane. It was as a reaction to this economic system that liberal economic thinking developed. Unfortunately, in the last two centuries, after the rise of liberal economic thought, Capitalism has become, most often, a tool of manipulation to achieve the most narcissists' needs of man. Distorting true liberal thinking based on individual freedom, it has oppressed millions of people making use of theories as indefensible as Social Darwinism as it deems convenient. It is then an ineluctable reality, that the kind of Capitalism that has reigned in most countries, for the longest time, has been its most barbarian vein.

As a result, hypocrisy dominates its praxis. The original liberal economic thought had always evolved around the idea of social justice. The idea of the common good, of the general welfare of all ranks of society, was always embedded in its postulates, but the greed of individuals always betrayed its original intention. Thus, what was generally applied, were minimally different versions of the same barbarian root, utilizing a praxis convenient only to those in positions of power. In consequence, barbarian capitalism combined with autocratic leadership and nationalism, generated the worst social conflicts of our time.

Everything has been, from thereafter, based on economic power. In the last century, as noted, war became a tool of empires for enhancing economic power. Empires were vying for increasing territorial gains and further accumulation of wealth. This had nothing to do with the common good or the general welfare of society. Whenever attempts in this direction were carried out, usually crushing opposition came from each nation's centres of power in their defence of the status quo. Their rationale was usually faulty and always hypocritical. This generated such extreme reactions as Communism and Nazism and millions of people dead as a result of two world wars.

Indeed, it took over 150 years of struggle, since the French revolution, to attain a minimal platform of welfare in the most advanced countries. The Welfare State as an entity only became an integral part of the social structure after World War II, as we shall see in the next essay. Nonetheless, the always-latent barbarian vein of capitalism has remained in power, except for a few decades; and, thus, remains on the watch threatening to reduce the Welfare State even further or, if possible, eliminate it altogether. It is a myopic view, self-centred, short-term driven and ultimately perverse; and it has indeed reduced the idea, realm and quality of the Welfare State in the last thirty years, even when there is ample evidence that protecting the social fabric and empowering people through direct regulation is the only realistic path to sustained economic growth.

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