

ECONOMICS EXPLAINED

EVERYTHING YOU NEED TO KNOW ABOUT
HOW THE ECONOMY WORKS AND WHERE IT'S
GOING

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and Lester Thurow*

NEWLY REVISED AND UPDATED

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ONE

Capitalism: Where Do We Come From?

We live in a capitalist economic system. Politicians constantly talk about capitalism, or if they don't like the word, about the free-enterprise system. We are constantly being told that capitalism is the wave of the future, or would be the wave of the future if only it were left alone, or sometimes that capitalism is in decline and will fall on its own weight, like the Roman Empire.

Perhaps there is no more important economic question than the future of capitalism, none that affects more deeply our private destinies and those of our children. As we will see in our next chapter, the great economists of the past were vitally concerned with this issue. Modern economists are wiser or blinder, depending on how you look at it, and say relatively little about our long-term prospects. Nonetheless, we feel that it is impossible to understand capitalism without at least some understanding of its roots. So we are going to begin the study of our economic system rather the way a doctor begins to become acquainted with a patient—by taking its history.

Many people speak about capitalism as if it were as old as the hills, as ancient as the Bible, implying that there is something about the system that accords with human nature. Yet, on reflection, this is clearly not the case. Nobody ever called the Egyptian pharaohs capitalists. The Greeks about whom Homer wrote did not comprise a business society, even though there were merchants and traders in Greece.

Medieval Europe was certainly not capitalist. Nor would anyone have used the word to describe the brilliant civilizations of India and China about which Marco Polo wrote, or the great empires of ancient Africa, or the Islamic societies of which we catch glimpses in *The Arabian Nights*.

What made these societies noncapitalist was not anything they possessed in common, for they were as different as civilizations could be, but rather, some things they *lacked* in common. To become aware of these lacks will give us a sharp sense of the uniqueness and special characteristics of capitalism itself.

To begin with, all these noncapitalist societies lacked the institution of private property. Of course, all of them recognized the right of some individuals to own wealth, often vast wealth. But none of them legally accorded the right of ownership to all persons. Land, for instance, was rarely owned by the peasants who worked it. Slaves, who were a common feature of most precapitalist systems, were only rarely permitted to own property—indeed, they *were* property. The idea that a person's property was inviolate was as unacknowledged as that his person was inviolate. The Tudor monarchs, for example, relatively enlightened as sixteenth-century monarchies went, could and did strip many a person or religious order of their possessions.

Second, none of these variegated societies possessed a central attribute of capitalism—a market system. To be sure, all of them had markets where spices, gold, slaves, cloth, pottery, and foodstuffs were offered for sale. But when we look over the expanses of ancient Asia, Africa, or the Egyptian and Roman empires, we can see nothing like the great web of transactions that binds our own economy together. Most production and most distribution took place by following the dictates of tradition or the orders of a lord. In general, only the small leftovers found their way to the market stalls. Even more important, there was no organized market at all to buy and sell land, or to hire labor, or to lend money. Markets were the ornaments of society, tradition and command its iron structure.

Under such conditions, the idea of economic freedom was held in little regard. When peasants were not free to move as they wished, when artisans were bound to their trades for life, when the relations of fieldworkers to their masters were that of serf to lord, who could worry about the right of contract or the right to withhold one's labor? The dis-

inction is crucial in separating capitalism from what came before: A capitalist employee has the legal right to work or not work as he or she chooses, and whereas this right may seem to count for little under conditions of Dickensian poverty, it must be compared with the near-slavery of the serf legally bound to his lord's land and to the work his lord assigned him.

In such a setting, moneymaking itself was not much esteemed. Ambitious persons from the better walks of life sought fame and fortune in military exploits, in the service of the court, or in the hierarchies of religion. In this regard, it is interesting to reflect how twisted and grasping are the faces of merchants depicted by medieval artists, in contrast to the noble mien of soldiers and courtiers. Moneymaking was generally considered to be beneath a person of noble blood; indeed, in Christendom it was a pursuit uncomfortably close to sin. Usury—lending at interest—*was* a sin—in fact, a mortal sin.

As a consequence of all this, society's wealth was not owned by "the rich"—that is, by those whose main efforts were aimed directly at moneymaking—but rather by the powerful, who seized it in the struggle for lands and privileges. Of course, the winners in this struggle became rich, sometimes unimaginably rich, but their riches flowed from their power, not the other way around. Julius Caesar, for example, became rich only because he was appointed governor of Spain, from which he profited fabulously, as all provincial governors were supposed to do and did.

Last, and in some ways most significant, economic life was stable. It may not have seemed so to the peasants and merchants whose lives were constantly disrupted by war, famine, merciless taxation, and brigandage. But it was very stable compared to the tenor of economic life in our own time. The basic rhythms and techniques of economic existence were steady and repetitive. Men and women sowed and reaped, potters and metalworkers turned and hammered, weavers spun and wove—all using much the same kinds of equipment for decades, generations, sometimes centuries. How similar are the clothes and utensils, the materials of buildings, the means of conveyance that we see in the background of a Renaissance picture to those that we can make out on a Greek vase! How little material progress took place over a thousand years! That gives us a sense of how vast a change capitalism would bring when it finally burst upon the historic scene.

MARKET SOCIETY EMERGES

Thus we see that far from representing an eternal "human nature," capitalism comes as a volcanic disruption to time-honored routines of life. We begin to understand the immense inertia that prevented capitalism from developing in most earlier societies. From one of these societies to another, of course, different obstacles and barriers stood in the way of creating an economic way of life built on principles utterly alien to those that existed. But in all these societies, perhaps no barrier was more difficult to breach than the hold of tradition and command as the means of organizing economic life, and the need to substitute a market system in their place.

What is a market system? Essentially, it is one in which economic activities are left to men and women freely responding to the opportunities and discouragements of the marketplace, not to the established routines of tradition or the dictates of someone's command. Thus, in a market system most individuals are not only free to seek work where they wish, but must shop around for a job; by way of contrast, serfs or tradition-bound artisans were born to their employ and could only with great difficulty quit it for another. In a market system anyone is free to buy up land or to sell it: a farm can become a shopping center. By way of contrast again, land in most precapitalist societies was no more for sale than are the counties of our states.

Finally, a market in capital means that there is a regular flow of wealth into production—a flow of savings and investment—organized through banks and other financial companies, where borrowers pay interest as the reward for having the use of the wealth of the lenders. There was nothing like this before capitalism, except in the very small and disreputable capital markets personified in the despised moneylender.

The services of labor, land, and capital that are hired or fired in a market society are called the *factors of production*, and a great deal of economics is about how the market combines their essential contributions to production. Because they *are* essential, a question must be answered: How were the factors of production put to use prior to the market system? The answer comes as something of a shock, but it tells us a great deal.

There were no factors of production before capitalism. Of course, human labor, nature's gift of land and natural resources, and the artifacts of society have always existed. But labor, land, and capital were

not commodities for sale. Labor was performed as part of the social duties of serfs or slaves, who were not paid for doing their work. Indeed, the serf paid fees to his lord for the use of the lord's equipment, and never expected to be remunerated when he turned over a portion of his crop as the lord's due. So, too, land was regarded as the basis for military power or civil administration, just as a county or state is regarded today—not as real estate to be bought and sold. And capital was thought of as treasure or as the necessary equipment of an artisan, not as an abstract sum of wealth with a market value. The idea of liquid, fluid capital would have been as strange in medieval life as would be the thought today of stocks and bonds as heirlooms never to be sold.

How did wageless labor, unrentable land, and private treasures become factors of production; that is, commodities to be bought and sold like so many yards of cloth or bushels of wheat? The answer is that a vast revolution undermined the world of tradition and command and brought into being the market relationships of the modern world. Beginning roughly in the sixteenth century—although with roots that can be traced much further back—a process of change, sometimes gradual, sometimes violent, broke the bonds and customs of the medieval world of Europe and ushered in the market society we know.

We can only touch on that long, tortuous, and sometimes bloody process here. In England the process bore with particular severity on the peasants who were expelled from their lands through the enclosure of common grazing lands. This enclosure took place to make private pasturage for the lord's sheep, whose wool had become a profitable commodity. As late as 1820 the Duchess of Sutherland evicted 15,000 tenants from 794,000 acres, replacing them with 131,000 sheep. The tenants, deprived of their traditional access to the fields, drifted into the towns, where they were forced to sell their services as a factor of production: labor.

In France the creation of factors of production bore painfully on landed property. When gold flowed into sixteenth-century Europe from the New World, prices began to rise and feudal lords found themselves in a vise. Like everything in medieval life, the rents and dues they received from the serfs were fixed and unchangeable. But the prices of merchandise were not fixed. Although more and more of the serfs' obligations were changed from kind (that is, so many dozen eggs or ells of cloth or days of labor) to cash, prices kept rising so fast that the feudal lords found it impossible to meet their bills.

Hence we begin to find a new economic individual, the *impoverished* aristocrat. In the year 1530, in the Gévaudan region of France, the richest manorial lord had an income of five thousand livres, but in towns, some merchants had incomes of sixty-five thousand livres. Thus the balance of power turned against the landed aristocracy, reducing many to shabby gentility. Meanwhile, the upstart merchants lost no time in acquiring lands that they soon came to regard not as ancestral estates but as potential capital.

This brief glance at economic history brings home an important point. The factors of production, without which a market society could not exist, are not eternal attributes of a natural order. They are the creations of a process of historic change, a change that divorced labor from social life, that created real estate out of ancestral land, and that made treasure into capital. Capitalism is the outcome of a revolutionary change—a change in laws, attitudes, and social relationships as deep and far-reaching as any in history.*

The revolutionary aspect of capitalism lies in the fact that an older, feudal way of life had to be dismantled before the market system could come into being. This brings us to think again about the element of economic freedom that plays such an important role in our definition of capitalism. For we can see that economic freedom did not arise just because men and women directly sought to shake off the bonds of custom and command. It was also thrust upon them, often as a very painful and unwelcome change.

For European feudalism, with all its cruelties and injustices, did provide a modicum of economic security. However mean a serf's life, at least he knew that in bad times he was guaranteed a small dole from his lord's granary. However exploited a journeyman, he knew that he could not be summarily thrown out of work under the rules of his master's guild. However squeezed a lord, he too knew that his rents and dues

*One of the many fascinating questions that surround the origins of capitalism is why it arose only in Europe and never in any other part of the world. One part of the reason is that the collapse of the Roman Empire left many towns without an allegiance to anyone. In time these towns, which were naturally centers of trading and artisan work, grew powerful and managed to bargain for privileges with kings and lords. Capitalism thus grew up in the interstices of the medieval system. A similar opportunity and stimulus did not present itself elsewhere. A controversial but important work on the rise of capitalism is Immanuel Wallerstein's *The Modern World System*, Academic Press, three vols., 1974, 1980, 1989. See also Fernand Braudel, *Capitalism and Civilization*, Harper and Row, three vols., 1981, 1982, 1984.

were secured by law and custom and would be coming in, weather permitting. Elsewhere, in China, India, and Japan, variants of this combination of tradition and command also provided an underpinning of security for economic life.

The eruption of the market system—better, the centuries-long earthquake that broke the hold of tradition and command in England and France and the Lowlands—destroyed that social underpinning. Thus the economic freedom of capitalism came as a two-edged sword. On the one hand, its new freedoms were precious achievements for those individuals who formerly had been deprived of the right to enter into legal contracts. For the up-and-coming bourgeois merchants, it was the passport to a new status in life. Even for some of the poorest classes, the freedom of economic contract was a chance to rise from a station in life from which, in earlier times, there had been almost no exit. But economic freedom also had a harsher side. This was the necessity to stay afloat by one's own efforts in rough waters where all were struggling to survive. Many a merchant and many, many a jobless worker simply disappeared from view.

The market system was thus the cause of unrest, insecurity, and individual suffering, just as it was also the cause of progress, opportunity, and fulfillment. In this contest between the costs and benefits of economic freedom lies a theme that is still a crucial issue for capitalism.

THE UNLEASHING OF TECHNOLOGY

The creation of a market society also paved the way for a change of profound significance in bringing about modern economic life. This was the incorporation of science and technology into the very midst of daily existence.

Technology is not, of course, a modern phenomenon. The gigantic stones that form prehistoric Stonehenge; the precision and delicacy of the monumental Egyptian pyramids; the Incan stone walls, fitted so exactly that a knife blade cannot be put between adjoining blocks; the Chinese Great Wall; and the Mayan observatories—all attest to mankind's long possession of the ability to transport and hoist staggering weights, to cut and shape hard surfaces, and to calculate complex problems. Indeed, many of these works would challenge our present-day engineering capabilities.

Nonetheless, although precapitalist technology reached great heights,

it had a very restricted base. We have noted already that the basic tools of agriculture and artisan crafts remained little changed over millennia. Improvements came very slowly. So simple an invention as a horse collar shaped to prevent a straining animal from pressing against its windpipe did not appear during all the glories of Greece and triumphs of Rome. Not until the Middle Ages was there a switch from the ox to the draft horse as a plowing animal (a change that improved efficiency by an estimated 30 percent), or was the traditional two-field system of crop rotation improved by adopting a three-field system. (See box on page 19.) Thus was precapitalist technology lavished on the needs of rulers, priests, warriors. Its application to common, everyday work was virtually ignored.

There were, of course, good reasons why the technology of daily life was ignored. The primary effect of technological change in daily activity is to increase output, to enhance the productivity of the working person. But in a society still regulated by tradition and command, where production was carried on mainly by serfs and slaves and custom-bound artisans, there was little incentive to look for increases in output. The bulk of any increase in agricultural yields would only go to the lord in higher rents, not to the serf or the slave who produced them. Although a lord would benefit greatly from increases in agricultural output, how could a great noble be expected to know about, or to concern himself with, the dirty business of sowing and reaping? So, too, any artisan who altered the techniques of his trade would be expected, as a matter of course, to share these advances with his brethren. And how could his brethren, accustomed over the years to disposing of a certain quantity of pots or pans or cloth in the village market, expect to find buyers for more output? Would not the extra production simply go begging?

Thus productive technology in precapitalist societies slumbered because there was little incentive to search for change. Indeed, powerful social forces were ranged against technological change, which could only introduce an unsettling element into the world. A society whose whole way of life rested on the reproduction of established patterns of life could not imagine a world where the technology of production was constantly in flux, and where limits were no longer recognized in any endeavor.

These inhibiting forces were ruthlessly swept away by the currents of the emerging markets for labor, land, and capital. Serfs were up-

THE DIFFERENCE TECHNOLOGY MAKES: THREE FIELDS VERSUS TWO

Until the Middle Ages, the prevailing system of cultivation was to plant half a lord's arable land in a winter crop, leaving the other half fallow. The second year, the two fields simply changed functions.

Under the three-field plan, the arable land was divided into thirds. One section was planted with a winter crop, one section with a summer crop, and one was left fallow. The second year, the first section was put into summer crops, the second section left fallow, and the third put into winter grains. In the third year, the first field was left fallow, the second used for winter crops, the third for spring planting.

Therefore, under the three-field system, only one third—not one half—of the arable land was fallow in any year. Suppose that the field as a whole yielded six hundred bushels of output. Under the two-field system, it would give an annual crop of three hundred bushels. Under the three-field system the annual crop would be two thirds of the area, or four hundred bushels—an increase of one third. Further, in those days it was customary to plow fallow land twice, and cultivated land only once. By cutting down the ratio of fallow to cultivated land, plowing time was reduced, and peasant productivity even more significantly improved. For more on this and other fascinating advances in precapitalist technology, see Lynn White, *Medieval Technology and Social Change* (Oxford: Clarendon Press, 1962); and Joel Mokyr, *The Lever of Riches* (New York: Oxford University Press, 1990).

rooted to become workers forced to sell their labor power; aristocratic landlords were rudely shouldered aside by money-minded parvenus; guild masters and artisans watched commercial enterprises take away their accustomed livelihood. A new sense of necessity, of urgency, infused economic life. What had been a more or less dependable round of life became increasingly a scramble for existence. The feeling that one's economic interests were best served by following in the footsteps of one's forebears gave way to the knowledge that economic life was

shot through with insecurity, and was at worst a race for survival in which each had to fend for himself or herself.

The growing importance of the market, with its impersonal pressures, radically altered the place of technology, especially in the small workshops and minuscule factories that were the staging areas of the capitalist revolution. Here the free-for-all brought a need to find footholds in the struggle for a livelihood. And one foothold available to any aspiring capitalist with an inquiring mind and a knowledge of the actual processes of production was technology itself—some invention or improvement that would lower costs or change a product to give it an edge on its competitors.

Thus in the late eighteenth and early nineteenth centuries capitalism raised a crop of technology-minded entrepreneurs, a wholly new social group in economic history. For example, there was John Wilkinson, son of an iron producer, who became a driving force for technical change in his trade. Wilkinson insisted that everything be built of iron—pipes and bridges, bellows and cylinders (one of which powered the newfangled steam engine of John Watt). He even constructed a much-derided iron ship—later much admired! There was Richard Arkwright, barber by trade, who made his fortune by inventing (or perhaps by stealing) the first effective spinning machine, becoming in time a great mill owner. There were Peter Onions, an obscure foreman who originated the puddling process for making wrought iron; Benjamin Huntsman, a clockmaker who improved the method of making steel; and a score more. A few, like Sir Jethro Tull, a pioneer in the technology of agriculture, were great gentlemen, but on the whole the technological leaders in industry were men of humble origin.

THE INDUSTRIAL REVOLUTION

The new dynamism gave rise to the Industrial Revolution, the first chapter of a still unfinished period of history in which startling and continuous changes revolutionized both the techniques of production and the texture of daily life.

A few figures tell the story. Between 1701 and 1802, as the technology of spinning and weaving gradually was perfected, the use of cotton in England expanded by 6,000 percent. Between 1788 and 1839, when the process of iron manufacture passed through its first technological

upheaval, the output of pig iron jumped from 68,000 to 1,347,000 tons. In France, in the thirty years after 1815, iron output quintupled, coal output grew sevenfold, and transportation tonnage mounted ten times. As for coal, England, the economic historian David Landes has written: “[I]n 1870 the capacity of Great Britain’s steam engines was about 4 million horsepower, equivalent to the power that could be generated by 6 million horses or 40 million men. . . . [T]his many men would have eaten some 320 million bushels of wheat a year—more than three times the output of the entire United Kingdom.”* It is no exaggeration to say that the Industrial Revolution rested on Watt’s marvel of simple ingenuity, the steam engine.

But even these figures do not convey a full sense of the effect of technology on daily life. *Things* became more common—and more commonplace. As late as the seventeenth century, what we would consider the most ordinary possessions were scarce. A peasant counted his worldly wealth in terms of a few utensils, a table, perhaps one complete change of clothes. In his will, Shakespeare left Anne Hathaway his “second-best bed.” Iron nails were so scarce that pioneers in America burned down their cottages to retrieve them. In the wilder parts of Scotland in Adam Smith’s time, nails even served as money.

Technology brought a widening, deepening, ever-faster-flowing river of things. Shoes, coats, paper, window glass, chairs, buckles—objects of solicitous respect in precapitalist times for all but the privileged few—became everyday articles. Gradually capitalism gave rise to what we call a rising standard of living—a steady, regular, systematic increase in the number, variety, and quality of material goods enjoyed by the great bulk of society. No such process had ever occurred before.

A second change wrought by technology was a striking increase in the sheer size of society’s industrial apparatus. The increase began with the enlargement of the equipment used in production—an enlargement that stemmed mostly from advances in the technology of iron and, later, steel. The typical furnace used in extracting iron ore increased from ten feet in height in the 1770s to over one hundred feet a century later; during the same period the crucibles in which steel was made grew from cauldrons hardly larger than an oversized jug to converters

*David Landes, *The Unbound Prometheus* (England: Cambridge University Press, 1969), p. 98.

literally as big as a house. The looms used by weavers expanded from small machines that fitted into the cottages of artisan-weavers to monstrous mechanisms housed in mills that still impress us by their size.

Equally remarkable was the expansion in the social scale of production. The new technology almost immediately outstripped the administrative capability of the small-sized business establishment. As the apparatus of production increased in size, it also increased in speed. As outputs grew from rivulets to rivers, a much larger organization was needed to manage production—to arrange for the steady arrival of raw materials, to supervise the work process, and not least, to find a market for its end product.

Thus, we find the size of the typical business enterprise steadily increasing as its technological basis became more complex. In the last quarter of the eighteenth century a factory of ten persons was worthy of note by Adam Smith, as we shall see in our next chapter. By the first quarter of the nineteenth century an ordinary textile mill employed several hundred men and women. Fifty years later many railways employed as many individuals as constituted the armies of respectable monarchs in Adam Smith's time. And in still another fifty years, by the 1920s, large manufacturing companies had almost as many employees as the populations of eighteenth-century cities.

Technology also played a decisive role in changing the nature of that most basic of all human activities, work. It did so by breaking down the complicated tasks of productive activity into much smaller subtasks, many of which could then be duplicated, or at least greatly assisted, by mechanical contrivances. This process was called the division of labor. Adam Smith was soon to explain, as we shall see, that the division of labor was mainly responsible for the increase in productivity of the average worker.

The division of labor altered social life in other ways as well. Work became more fragmented, monotonous, tedious, alienated. And the self-sufficiency of individuals was curtailed greatly. In precapitalist days most people either directly produced their own subsistence or made some article that could be exchanged for subsistence: peasants grew crops; artisans produced cloth, shoes, implements. But as work became more and more finely divided, the products of work became ever smaller pieces of the total jigsaw puzzle. Individuals did not spin thread or weave cloth, but manipulated levers and fed the machinery that did the actual spinning or weaving. A worker in a shoe plant made

uppers or lowers or heels, but not shoes. No one of these jobs, performed by itself, would have sustained its performer for a single day; and no one of these products could have been exchanged for another product except through the complicated market network. Technology freed men and women from much material want, but it bound them to the workings of the market mechanism.

Not least of the mighty impacts of technology was its exposure of men and women to an unprecedented degree of change. Some of this was welcome, for change literally opened new horizons of material life: travel, for instance, once the prerogative of the wealthy, became a possibility for the masses, as the flood of nineteenth-century immigration to the United States revealed.

However, the changes introduced by technology had their negative side as well. Already buffeted by market forces that could mysteriously dry up the need for work or just as mysteriously create it, society now discovered that entire occupations, skills acquired over a lifetime, companies laboriously built up over generations, age-old industries could be threatened by the appearance of technological change. Increasingly, productive machinery appeared as the enemy, rather than the ally, of humankind. By the early nineteenth century the textile weavers, whose cottage industry was destroyed gradually by competition from the mills, were banding together to burn down the hated buildings.

These aspects of change do not begin to exhaust the ways in which technology, coupled with the market system, altered the very meaning of existence. But in considering them, we see how profound and how wrenching was the revolution that capitalism introduced. Technology was a genie that capitalism let out of the bottle; it has ever since refused to go back in.

THE POLITICAL DIMENSION

The disturbing, upsetting, revolutionary nature of the market and technology sets the stage for one last aspect of capitalism that we want to note: the political currents of change that capitalism brought, as much a part of the history of capitalism as the emergence of the market or the dismantling of the barriers against technical change.

One of these political currents was the rise of democratic, or parliamentary, institutions. Democratic political institutions far predate capitalism, as the history of ancient Athens or the Icelandic medieval

parliamentary system shows. Nonetheless, the rise of the mercantile classes was closely tied to the struggle against the privileges and legal institutions of European feudalism. The historic movement that eventually swept aside the precapitalist economic order also swept aside its political order. Along with the emergence of the market system we find a parallel and supporting emergence of more open political ways of life.

We must resist the temptation of claiming that capitalism either guarantees, or is necessary for, political freedom. We have seen some capitalist nations, such as pre-Hitler Germany, descend into totalitarian dictatorship. We have seen other nations, such as Sweden, move toward a kind of social-minded capitalism without impairing democratic liberties. Moreover, the exercise of political democracy was very limited in early capitalism: Adam Smith, for example, although comfortably off, did not possess enough property to allow him to vote.

It is true, to be sure, that political liberties did not exist or scarcely existed in communist nations that have deliberately sought to remove the market system. This suggests, although it does not prove, that some vital connection exists between democratic privileges as we know them and an open society of economic contract, whether it be formally capitalist or not.

Because of the economic freedom on which the market system has always rested, the basic philosophy of capitalism from Adam Smith's day forward has been *laissez-faire*—leaving things alone.* As we study economics further, we will be tracing the evolution of that idea—the idea of leaving the market alone—as well as investigating what has happened to the system, both when it was left alone and when it wasn't.

It is much too early to take up that controversy here. Suffice it to say that if capitalism brought a strong impetus for *laissez-faire*, it also brought a strong impetus for economic intervention. The very democratic liberties and political equalities that were encouraged by the rise of capitalism became powerful forces that sought to curb or change the manner in which the economic system worked. Indeed, within a few years of Adam Smith's time, the idea of leaving things alone was al-

ready breached by the English Factory Act of 1833, establishing a system of inspectors to prevent child and female labor from being abused. In our own day that same political desire to correct the unhampered workings of *laissez-faire* capitalism has given rise to the Social Security system, which provides a social floor beneath the market, and to the environmental legislation that limits the market's operation in certain areas.

Thus, from the beginning, capitalism has been characterized by a tension between *laissez-faire* and intervention—*laissez-faire* representing the expression of its economic drive, intervention its democratic political orientation. That tension continues today, a deeply imbedded part of the historic character of the capitalist system.

*It is said that a group of merchants called on the great Colbert, French finance minister from 1661 to 1683, who congratulated them on their contribution to the French economy and asked what he could do for them. The answer was "*Laissez-nous faire*"—leave us alone. Since Colbert was a strong proponent of the complex regulations and red tape that tied up industry in France at this time, we can imagine how gladly he received this advice.