## **World Economy**

### The Formation of a Science of World-Economics

by Rudolf Steiner

### Fourteen lectures given in Dornach, 24th July to 6th August, 1922 GA 340

Translated by A. O. Barfield and T. Gordon-Jones

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BARAN STENSONESS

# WORLD-ECONOMY

The Formation of a Science of World-Economics

**RUDOLF STEINER** 

Fourteen lectures given in Dornach 24th July-6th August, 1922

Translated by A. O. Barfield and T. Gordon-Jones

Rudolf Steiner Press 35, Park Road, London NWI 6XT

First English Edition 1936/37 Second (revised) Edition 1949 Third Edition (clothbound and paperback) 1972

Translated from shorthand reports unrevised by the lecturer. The original texts of the lectures are published in German under the title Nationalökonomischer Kurs. (No. 340 in the Bibliographical Survey, 1961, of the Complete Edition of the works of Rudolf Steiner.) This English edition is published by permission of the Rudolf SteinerNachlassverwaltung, Dornach, Switzerland.

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ISBN 0 85440 267 5 clothbound 266 7 paperback

Made and Printed in Great Britain by The Garden City Press Limited, Letchworth, Hertfordshire SG6 1JS

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# World Economy

### EDITORIAL NOTE TO THE FIRST EDITION (1936)

It was at the end of the Great War, when the modern world was waking from one of its greatest follies, that Rudolf Steiner actively sought to bring social balance and humane reasoning to a world distraught.

He gave it a new method of education as a firm foundation for the process of recovery and with it the fundamental remedy for a sick social order — the separation and co-ordination of the three-fold order existing in the spiritual-cultural life, the political life of rights and the economic life. The remedy is logical, practical and humane.

Many years before this, he had started his public career with a book called *The Philosophy of Spiritual Activity* — the last two words of this title being his own rendering of the word *Freiheit* (freedom); and upon this his life and work are mainly based.

But in the post-war Anarchy, mankind has been too much occupied with national and party passion, and the pursuit of pleasure, to desire to understand "Freedom," and now the forces of dictatorship and dogma are arrayed against liberty, peace and brotherly trust.

Nevertheless a number of students have been working steadily on the lines of Dr. Steiner's thought, and at last it has been possible to produce in English this translation of a course of lectures, which answers so many questions and suggests the path upon which all adequate solution of modern economic problems can be found. For these lectures take no rigid, dogmatic form; they yield a treasure of living conceptions which, having life in them, are capable of growing along with the economic phenomena themselves. They should therefore interest all those readers who long to be creative in their thinking, rather than accept as adequate a merely contemplative economic theory.

The translators have not departed from the form in which the lectures were given, well knowing the distinction which Rudolf Steiner made between the written and the spoken word. Hence these lectures are not to be considered as essays. After conscientious study and with knowledge of the subject the small Committee entrusted with the task have produced a translation, the merits of which must be gratefully acknowledged. Their work will stand in this country as a foundation for study of this important subject.

By way of introduction to the book I am glad to submit a foreword from two members of the Committee of Translation. As the reading of these lectures may stimulate a desire to work further on the lines of Rudolf Steiner's thought, I feel it necessary to add that lectures on this subject are given and a study-group conducted in the English Section of the General Anthroposophical Society, of which notices may be obtained from 54 Bloomsbury Street, W.C. 1.

Other works by the author are specified in the advertisements at the end of the book.

THE EDITOR.

# World Economy

### FOREWORD

All Rudolf Steiner's work in the sphere of practical human affairs is founded upon knowledge of Man as a being of body, soul and spirit.

In *The Threefold Commonwealth,* his fundamental work in the field of social life, published in 1919, Dr. Steiner shows that man has a threefold relationship to the social order. He has the task of developing his own soul and spirit, his individuality; he has the right and the obligation to live in peace with his fellow-men; and he needs certain material things for his bodily and spiritual life. The true form of social order is, therefore, one which "orders" aright these three relationships in social life. The spiritual requires freedom for its full development; the man-to-man relationships call for laws which embody simply what is fair and just, and before which all members of the community have equal rights and obligations; the economic life needs full scope for individual ability together with the impulse of brotherly trust working through an organisation of "economic associations." In such associations the practical experience of all

those persons engaged in the economic life could flow together with a force capable of applying a practical Economic Science to the new problems created by the transition (partial as yet) from national economies to World-Economy.

In 1922, Dr. Steiner, in response to a request from students of Economics, gave, in the fourteen lectures contained in this book, advice for the formation of an Economic Science which would enable mankind to master the complicated facts of world-economics. In these lectures he shows that the economic process is an organic one in constant movement and that it can be known in its reality only by a method of thinking which immerses itself in the phenomenon and creates living mobile pictures of all its changing phases. The lectures themselves manifest a new way of economic thinking and demonstrate the method by which the economic life can be mastered by the human spirit in association. It is, the author says, the task of the economic scientist to make this contribution "to the healing of our civilisation and to the reconstruction of our human life."

Because the subject is dealt with in this fundamental way, no knowledge of previous Economics is necessarv for an understanding. What is needed on the part of the reader is the goodwill to apply an activity of thinking free from pre-conception and bias. The method of presentation allows the reader to think for himself and stimulates him to do so. The diagrams, which have had to be printed in their completed form, were, in fact, built up in the course of the lecture, and the student who actually does this for himself in the course of his reading will gain a fuller understanding of them.

Economic problems are but a part of the social problem of how people can live together in such harmonious relationships that each may have scope for the exercise of individual capacities while uniting with others to satisfy the spiritual and bodily needs of the whole community. Dr. Steiner, therefore, so treats the problems of Economics that what belongs to the economic and what to the legal and spiritual members of the threefold social organism is clearly seen.

The advice for the solving of social problems which the author gives in these lectures, and in his other social works, takes the form of general ideas which can be acted upon in freedom under changing conditions of time and space. Readers who experience from these works a moral stimulus to their social aims may wish to seek in his *Philosophy of Spiritual Activity* enlightenment upon the way in which general ideas can be translated into free human deeds.

> T. G. J. A. O. B.

# **World Economy**

### LECTURE I

Dornach, 24<sup>th</sup> July, 1922.

LADIES AND GENTLEMEN,

Today I intend a kind of introduction. In tomorrow's lecture we shall begin and try to give a more or less complete picture of the questions of social and political economy which man today must set before himself.

The subject of Economics, as we speak of it today, is in reality a very recent creation. It did not arise until the time when the economic life of modern peoples had become extraordinarily complicated in comparison with earlier conditions. As this Course is intended primarily for students of Political Economy, it is necessary by way of introduction to point out this peculiarity of the economic thinking of today.

After all, we need not go very far back in history to see how much economic life has changed, even during the nineteenth century. You need only consider this one fact: England, for example, already had, during the first half of the century, what was practically the modern form of economic life. There was comparatively little radical change in the economic structure of England in the course of the nineteenth century. The great social questions which arise out of economic questions in modern times were being asked in England as early as the first half of the nineteenth century: and those who wanted to think of social and economic questions in the modern sense could pursue their studies in England at a time when in Germany — for instance — such studies must have remained unfruitful. In England, above all, the conditions of trade and commerce on a large scale had already come into being by the first third of the nineteenth century. Through the great development of trade and commerce in the economic life in England, a foundation was already there in the shape of trade capital. In England there was no need to seek for any other starting-point for modern economic life. They simply had to apply the trade capital resulting from the consolidation of trade and commerce even as early as the first third of the nineteenth century. Starting from this time, everything took place in England with a certain logical consistency; only we must not forget that the whole of this English economic life was only possible on the basis originally given by England's relation to her colonies, especially to India. The whole of the English economic system is unthinkable without the relationship of England to India. In other words, English economic life, with all its facility for evolving large sums of capital, is founded on the fact that there lies in the background a country which is, as it were, virgin economic soil. We must not overlook this fact, especially when we pass from England to Germany.

If you consider the economic life of Germany you will see that in the first third of the nineteenth century it still essentially corresponded to economic customs which had arisen out of the Middle Ages. The economic customs and relationships within Germany in the first third of the nineteenth century were essentially old: consequently the whole tempo of economic life was different in Germany from what it was in England during the first third, or even the first half, of the nineteenth century. In England, during the first half of the century, there was already what we may call a reckoning with quickly changing habits of life. The main character of economic life remained essentially the same: but it was already adaptable to quickly changing habits. In Germany, on the other hand, habits of life were still conservative: economic development could afford to advance at a snail's pace, for it had only to adapt itself to technical conditions, which remained more or less the same over long periods, and to human needs, which were not rapidly changing.

But in this respect a great transformation took place in the second third of the nineteenth century. Then there rapidly took place an approximation to English conditions, a development of the industrial system. In the first half of the nineteenth century Germany had been in all essentials an agrarian country: now it was rapidly transformed into an industrial country, far more rapidly than any other region of the Earth.

But there is an important fact in this connection. We might describe it thus: In England the transition to an industrial condition of life took place instinctively: nobody knew exactly how it happened. It came like an event of Nature. In Germany, it is true, the medieval character still existed in the first third of the nineteenth century. Germany was an agrarian country. But while the outer economic conditions were taking their accustomed course in a way that might almost be called medieval, human thinking was undergoing a fundamental change. It came into the consciousness of men that something altogether different must now arise, that the existing conditions were no longer true to the time. Thus the transformation of economic conditions which arose in Germany in the second third of the nineteenth century took place far more consciously than in England. In Germany people were far more aware of how they entered into modern capitalism: in England people were not aware of it at all. If you read today all the writings and discussions in Germany during that period concerning the transition to industrialism, you will get a remarkable impression, a strange impression, of how the people in Germany were thinking. Why, they actually looked upon it as a real liberation of mankind: they called it Liberalism, Democracy. Nay, more, they regarded it as the very salvation of mankind to get right out of the old connections, the old binding links, the old kind of corporation, and pass over to the fully free position (for so they called it) of the individual within the economic life. Hence in England you will never meet with a theory of Economics such as was developed by the people who received their education in Germany in the height of the period which I have now characterised. Schmoller, Roscher and others derived their views from the heyday of this "Liberalism " in Political Economy. What they built up was altogether in this sense, and they built it with full consciousness. An Englishman would have thought such theories of Economics stale and boring; he would have said: "One does not trouble to think about such things." Look at the radical difference between the way in which people in England talked about these things (to mention even a man like Beaconsfield, who was theoretical enough in all conscience) from the way in which Richter or Lasker or even Brentano were speaking in Germany. In Germany, therefore, this second period was entered into with full consciousness.

Then came the third period, the period essentially of the State. It is true, is it not, that as the last third of the nineteenth century drew near, the German State

was consolidated purely by means of external power. That which was consolidated was not what the idealists of `48 or even of the 1830's had desired: no, it was the "State" that was consolidated, and moreover by means of sheer force. And this State, by and by, requisitioned the economic life with full consciousness for its own purposes. Thus, in the last third of the nineteenth century, the structure of the economic life was permeated through and through by the very opposite principle to the previous one. In the second third of the century its evolution had been subject to the ideas of "Liberalism." Now its evolution became altogether subject to the idea of the State. This was what gave the economic life in Germany, as a whole, its stamp. It is true that there were elements of consciousness in the whole process, and yet in another sense the whole thing was quite unconscious.

But the most important thing is this: Through all these developments a radical contrast, an antagonism *of principle*, was created, not only in thought but in the whole conduct of economic life itself between the English and the Mid-European economy. And, ladies and gentlemen, on this contrast the manner of their economic intercourse depended. The whole economy of the nineteenth century, as it evolved into the twentieth, would be unthinkable without this contrast between the West and Middle Europe. The way in which men sold, the way in which they found a market for their goods, the way in which they manufactured them, all this would be unthinkable without this contrast.

This was the course of development. First the economic and industrial life of England became possible on the basis of her possession of India: next it became possible for the whole economic activity to be extended on the basis of the contrast between the Western and the Mid-European economic life. In effect, the economic life is founded not on what one sees in one's immediate surroundings, but on the great reciprocal relationships in the world at large.

Now it was with this contrast that the world as a whole entered into the state of world-economy and — could not enter! For the world continued to depend on that instinctive element which had evolved from the past, and the existence of which I have just indicated in describing the antithesis between England and Mid-Europe. In the twentieth century, though the world was unaware of the fact, we stood face to face with this situation. The antithesis became more and more immediate, it became deeper and deeper: and we stood before this great question: The economic conditions had evolved out of these antitheses or contrasts and, having done so, they were carrying the contrasts themselves ever more intensely into the future. And yet, if the contrast were to go on for ever increasing, economic intercourse would become impossible. This was the great question of the twentieth century: The contrast had created the economic life: the economic life had in turn enhanced the contrast. The contrast was calling for a solution. The guestion was: How are these contrasts or antagonisms to be resolved? The further course of history was destined to prove that men were incapable of finding the answer.

It would have been practical to talk in words like these in 1914, in the days of peace. But, in place of a solution, there came the result of failure to find such a world-historic solution. Such was the disease which then set in, seen from the economic aspect.

You must recognise that the possibility of all evolution always depends on contrasts or antitheses in the last resort. I will only mention one example. Through the fact that the English economic life had been consolidated far earlier than the Mid-European, the English were unable to make certain goods at prices as cheap as were possible in Germany. Thus, there arose the great contrast or antagonism of competition, for "Made in Germany" was simply a question of competition. And when the war was over, this question could arise: Now that people have knocked each other's heads in, instead of seeking a solution of existing contrasts, how can we deal with the matter? At this time I could not but believe in the possibility of finding human beings who would understand the contrasts which must be brought forth in another domain. For life depends on contrasts, and can only exist if contrasts are there, interacting with one another. Thus in 1919 one could come to the point of saying: Let us now draw attention to the real contrasts or contra-positions towards which world-historic evolution is tending — those of the economic life, the political life of rights and the spiritual-cultural life — the contra-positions of the threefold social order.

What, after all, was the actual situation when we believed that we must bring the threefold idea into as many human heads as possible? I will only describe it externally today. The important thing would have been to bring the threefold idea into as many heads as possible before the economic consequences ensued which afterwards took place. You must remember when the "Threefold Commonwealth " was first mentioned, we did not yet stand face to face with the monetary difficulties of today. On the contrary, if the Threefold Commonwealth had been understood at that time, these difficulties could never have occurred. Yet once again we were faced by the inability of human beings to understand such a thing as this in a really practical sense. When we tried to bring the Threefold Commonwealth home to them, people would come and say: "Yes, all that is excellent: we see it perfectly. But, after all, the first thing needful is to counteract the depreciation of the currency." Ladies and was: "That is gentlemen, all that one could answer contained in the Threefold Order. Set to work with the Threefold Order. That is the only means of counteracting the depreciation of the currency." People were asking how to do the very thing which the Threefold Commonwealth was meant to do. They did not understand it, however often they declared that they did.

And now the position is such that if we are to speak once more today to people such as you, we can no longer speak in the same forms as we did then. Today another language is necessary: and that is what I want to give you in these present lectures. I want to show you how one must think once more today about these questions, especially if, being young in years, one will still have an opportunity to play one's part in shaping the immediate future.

Thus, on the one hand, we can characterise a certain period — the nineteenth century — in terms of world-historic economic contrasts. But we might also go still farther back and include the time when men first began to think about Political Economy at all. If you take the history of Political Economy you will see that everything before that time took place instinctively. It was only in modern times that there arose that complexity of economic life, in the midst of which men felt it necessary to think about these things.

Now I am speaking, in effect, for students. I am trying to show how students of Economics should find their way into this subject. Let me, therefore, now relate the most essential thing on which it all depends.

You see, the time when men had to begin to think about Political Economy was just the time when they no longer had the thoughts to comprehend such a subject. They simply no longer had the requisite ideas. I will give you an example from Natural Science to indicate that this is so.

We as human beings have our physical bodies, which are heavy just like any other physical bodies. Your physical body will be heavier after a midday meal than before: we could even weigh the difference. That is to say, we partake in the general laws of gravity. But with this gravity, which is the property of all ponderable substances, we could do very little in our human body, we could at most go about the world as automata, certainly not as conscious beings. I have often explained what is essential to any valid concept of these matters. I have often said what man needs for his thinking. The human brain, if we weigh it alone, weighs about 1,400 grammes. If you let the weight of these 1,400 grammes press on the veins and arteries, which are situated at the base of the skull, it would destroy and kill them. You could not live for a single moment if the human brain were pressing downward with its full 1,400 grammes. It is indeed a fortunate thing for man that the principle of Archimedes holds good. I mean that every body loses so much of its weight in water as is the weight of that fluid which it displaces. If this is a heavy body, it loses as much of its weight in water as a body of water of equal size would weigh. The brain swims in the cerebro-spinal fluid, and thereby loses 1,380 grammes: for such is the weight of a body of cerebro-spinal fluid of the size of the human brain. The brain only presses downward on to the base of the skull with a weight of 20 grammes, and this weight it can bear. But if we now ask ourselves: What is the purpose of all this? then we must answer: With a brain which was a mere ponderable mass, we could not think. We do not think with the heavy substance: we think with the buoyancy. The substance must first lose its weight. Only then can we think. We think with that which flies away from the earth.

But we are also conscious in our whole body. How do we become thus conscious? In our whole body there are 25 billions of red blood corpuscles. These 25 billions of red corpuscles are very minute. Nevertheless they are heavy: they are heavy for they contain iron. Every one of these 25 billions of red corpuscles swims in the serum of the blood, and loses weight exactly in accordance with the fluid it displaces. Once again, therefore, in every single blood corpuscle an effect of buoyancy is created — 25 billion times. Throughout our body we are conscious by virtue of this upward driving force. Thus we may say: Whatever foodstuffs we consume, they must first, to a very large extent, be divested of their weight: they must be transformed in order that they can serve us. Such is the demand of the living body.

Ladies and gentlemen, to think thus and to regard this way of thinking as essential, is the very thing men *ceased* to do just at the time when it became necessary to think in terms of Political Economy. Thenceforward they only reckoned with ponderable substances: they no longer thought of the transformation which a substance undergoes in a living organism — as to its weight, for example, through the effect of buoyancy.

And now another thing. If you call to mind your studies of Physics, you will remember the physicist speaks of the "spectrum." This band of colours is created with the help of the prism: red, orange, yellow, green, blue, indigo, violet. So far (from the red to the violet) the spectrum appears luminous. But, as you know, before the region which shows a luminous effect, what are called the infra-red rays are assumed to exist: and, beyond the violet, the ultra-violet rays. If, therefore, one speaks merely of light, one does not include the totality of the phenomenon: for we must go on to describe how the light is transformed in two opposite directions; we must explain how, beyond the red, light sinks into the element of warmth and, beyond the violet, into chemical effects. In both directions the light, as such, disappears. If, therefore, we give a theory of light alone, we are giving a mere extract. (The current theory of light is in any case not a true one. It is significant that in the very time when mankind had to begin to think consciously of Political Economy, human thinking upon Physics was in such a condition as to result, among other things, in an untrue theory of light).

I have, however, mentioned the matter here with some reason: for there is a valid analogy. Consider for a moment not the economy of peoples, but, let us say, the economy of sparrows or the economy of swallows. They too, after all, have a kind of economy. But this — the economy of the animal kingdom — does not reach far up into the human kingdom, Possibly in the case of the magpie we may indeed speak of a kind of animal capitalism. But what is the essence of animal economics? It is this: Nature provides the products, and the animal as a single creature takes them for him-self. Man does indeed reach down into this animal economy: but he has to emerge from it.

The true human economy may be compared to the part of the spectrum which is visible as light. That which reaches down into Nature would then be comparable with the part of the spectrum which extends into the infra-red. Here, for example, we come into the domain of agriculture, of economic geography and so forth. The science of Economics cannot be sharply defined in this direction: it reaches down into a region which must be grasped by very different methods. That on the one hand.

But on the other hand — just under the influence of the very complicated relations of today — it has gradually come to pass that our economic thinking fails us once more in another direction. Just as light ceases to appear as light, as we go on into the ultraviolet, so does human economic activity cease to be purely economic. I have often characterised how this came about. The phenomenon began only in the nineteenth century. Till then, the economic life was still more or less dependent on the capability and efficiency of the individual human being. A Bank prospered if some individual in it was a thoroughly capable man. Individuals were still of real importance. I have often related, as an amusing example, the story of the ambassador of the King of France who once came to Rothschild. He was trying to raise a loan. Rothschild happened to be in conversation with a leather merchant. When the ambassador of the King of France was announced, he said: "Ask him to wait a little." The ambassador was terribly upset. Was he to wait, while a leather merchant was in there with Rothschild? When the attendant came out and told him, he simply would not believe his ears. "Go in again and tell Herr Rothschild that I am here as the ambassador of the King of France." But the attendant brought the same

answer again: "Will you kindly wait a little?" Thereupon he himself burst into the inner room: "I am the ambassador of the King of France!" Rothschild answered: "Please sit down: will you take a chair?" "Yes, but I am the ambassador of the King of France!" "Will you take two chairs!"

You see, what took place in the economic life in that time was placed consciously within the sphere of the human personality. But things have changed since then: and now, in the *great* affairs of economic life, very little indeed depends on the single personality. Human economic working has to a very large extent been drawn into what I am here comparing with the ultraviolet. I refer to the workings of Capital as such. Accumulations of Capital are active as such. Over and above the economic, there lies an ultra-economic life, which is essentially determined by the peculiar power inherent in the actual masses of Capital. If, therefore, we wish to understand the economic life of today, we must regard it thus: It lies in the midst between two regions, of which the one leads downward into Nature and the other upward into Capital. Between them lies the domain which we must comprehend as the economic life properly speaking.

Now from this you will see that men did not even possess the necessary concept to enable them to define the science of Economics and set it in its proper place within the whole domain of knowledge. For, as we shall presently see, it is a curious thing: but this region alone (which we have compared with the infra-red) — this region which does not yet reach up into the sphere of economics properly speaking — this alone is intelligible by the human intellect. We can consider, with ordinary thinking, how to grow oats or barley and so forth: or how best to obtain the raw products in mining. That is all that we can really think about with the intellect which we have grown accustomed to apply in the science of modern time.

This is a fact of immense significance. Think back for a moment to what I have just indicated as the concept which we need in science. We consume heavy substances as food. That they can be of use to us, depends upon the fact that they continually lose weight within us. That is to say, within the body they are totally transformed. But that is not all. They are changed in a different way in each organ: it is a different change in the liver from that in the brain or in the lung. The organism is differentiated and the conditions are different for each substance in each single organ. We have a perpetual change of quality along with the change from organ to organ.

Now, it is approximately the same when, within a given economic domain, we speak of the value of a commodity. It is nonsense to define some substance as carbon, for example, and then to ask: How does it behave inside the human body? The carbon, even as regards its weight, becomes something altogether different from what it is here or there in the outer world. Likewise, we cannot simply ask: What is the value of a commodity? The value is different according as the commodity is lying in a shop, or is transported to this place or that.

Thus, our ideas in Economics must be altogether mobile. We must rid ourselves of the habit of constructing concepts capable of definition once and for all. We must realise that we are dealing with a living process, and must transform our concepts with the process. But what the economists have tried to do is to grasp such things as Value, Price, Production, Consumption and so forth with ideas such as they had in ordinary science. And these were of no use.

Fundamentally speaking, therefore, we have not yet attained a true science of Economics. With the concepts to which we have grown accustomed hitherto, we cannot answer the question, for instance: What is Value? Or, what is Price? Whatever has Value must be considered as being in perpetual circulation: likewise we must consider the Price, corresponding to a Value, as something in perpetual circulation. If you simply ask: What are the physical properties of carbon? you will still know absolutely nothing of what goes on in the lung, for example, although carbon is also present in the lung. For its whole configuration becomes quite different in the lung. In the same way, iron, when you find it in the mine, is something altogether different from what it is in the economic process. Economics is concerned with something quite different from the mere fact that it "is" iron. It is with these unstable, constantly changing factors that we must reckon.

Forty-five years ago, I came into a certain family. They showed me a picture. I think it had been lying up in a loft for about fifty years. So long as it lay there, and no one was there who knew any more about it than that it was the kind of thing one throws away in a corner of the loft, it had no value in the economic process. Once its value had been recognised, it was worth 30.000 gulden quite a large sum of money in those days. What did the value depend on in this case? Purely and simply on the opinion men formed of the picture. The picture had not been removed from its place, only men had arrived at different thoughts about it. And so in no case does it depend on what a thing immediately "is." The conceptions of Economics are the very ones which you can never evolve by reference to the mere external reality. No, you must always evolve them by reference to the economic process as a whole: and within this process each thing is perpetually changing. Therefore we must speak of the economic process of circulation before we can arrive at such things as Value, Price and so forth. In the economic theories of today, you will observe that they generally begin with definitions of Value and Price. That is guite wrong. The first thing needful is to describe the economic process. Only then do those things emerge with which the theorists of today begin.

Now, in the year 1919, when everything had been destroyed, one might have thought that people would realise the need to begin with something fresh. Alas, it was not the case. The small number of people who did believe that there must be a new beginning, very soon fell into the comfortable reflection: "After all, there is nothing to be done." Meanwhile, the great calamity was taking place: the devaluation of money in the Eastern and Middle countries of Europe, and with it a complete revolution in the social strata: for it goes without saving that with each progressive devaluation of money, those who live by what I have here compared to the ultra-violet must be impoverished. And this is happening to-day, far more perhaps than people are yet aware. And it will happen, more and more completely. Here, above all, we are directed to the idea of the living, social organism. For it is evident that this devaluation of money is determined by the old State frontiers and limitations. The old State frontiers and limitations are interfering with the economic process. The latter must indeed be understood, but we must first gain an understanding of the social organism. Yet all the systems of Political Economy — from Adam Smith to the most

modern — reckon, after all, with small isolated regions as if they were complete social organisms. They do not realise that, even if one is only using an analogy, the analogy must be correct. Have you ever seen an elaborate or fullgrown organism, such as the human being, for instance, in this drawing — and immediately beside it a second one, and here a third, and so forth? (see Diagram 1) They would look quite pretty — these human organisms, sticking to one another in this way: and yet with elaborate and full-grown organisms there is no such thing. But with the separate States and Countries, this is the case. Living organisms require an empty space around them — empty space between them and other living organisms. You could at most compare the single States with the cells of the organism. It is only the whole Earth which, as a body economic, can truly be compared with a living organism. This ought surely to be taken into account. It is quite palpable, ever since we have had a world-economy, that the single States or Countries are at most to be compared with cells.

The whole Earth, considered as an economic organism, is the social organism.



Yet this is nowhere being taken into account. It is precisely owing to this error that the whole science of Political Economy has grown so remote from reality. People will seek to establish principles that are only to apply to certain individual cells. Hence, if you study French political economy, you will find it differently constituted from English or German or other political economies. But as economists, what we really need is an understanding of the social organism *in its totality*.

So much for today by way of introduction.

### LECTURE II

Dornach, 25<sup>th</sup> July, 1922.

### LADIES AND GENTLEMEN,

It is precisely in this sphere of Political Economy that the first conceptions and ideas which we have to develop cannot but be a little complicated — and for a perfectly genuine reason. For you must imagine the economic process, considered even as a world-economy, as a thing of perpetual movement. As the blood flows through the human being, so do goods, as merchandise or commodities, flow by every conceivable channel through the whole economic body. And we must conceive, as the most important thing within this economic process, all that takes place in buying and selling. That, at least, is true of the economic life of today. Whatever else there may be — and we shall of course have to consider the most varied impulses contained in the economic life — whatever else there may be, the subject of Economics comes home to a man directly he has anything to buy or sell. In the last resort the instinctive thinking of every naive man on economic matters culminates in the process taking place between buyer and seller. Fundamentally, this is what it all comes to.

Consider now: What is it that counts when buying and selling are considered in the economic process? The thing that a man cares about will always be the price of a commodity, the price of the piece of goods concerned. In the last resort all the most important economic considerations really merge in this question of Price. All the impulses and forces that are at work in economics culminate at length in Price. We shall, therefore, first have to consider the problem of Price, but it is by no means a simple problem. You need only consider the most simple case: At a given place, A, we have a certain commodity: at place A it has a certain price. But suppose it is not bought there but is first transported to another place, B. Our endeavour will then be to add to the price whatever transport charges had to be paid from A to B. Thus the Price changes in the process of circulation. There we have the simplest — if I may put it so, the flattest — instance: but of course there are far more complex cases.

Assume, for instance, that at a given date a house in a large town costs so much. Fifteen years later the same house may perhaps cost six times as much: nor need we imagine that the main cause of the rise in price lies in the devaluation of money. On the contrary, let us assume that this is not the case. The rise in price may simply lie in this: that in the meantime many other houses have been built around it: the other buildings, now situated in its neighbourhood, greatly increase the value of the house. Nay, there may be ten or fifteen other circumstances accounting for the rise in price. Truth to tell, we are never in a position to apply some general statement to the single case — to say, for instance: The price of houses, or railways, or cereals, can he uniquely determined, at a given place, from certain specified conditions. To begin with, we can say little more than this: that we must observe how the price fluctuates with place and time. Then, perhaps, we can trace some of the conditions whereby at a given place a given price actually emerges. But there can be no such thing as a general definition stating how the price of a thing is composed: that is an impossibility. Again and again one is astonished to find Price discussed in the ordinary works on Economics, as though it were possible to define it. We simply cannot define it, for a price is always concrete and specific. Altogether, in economic matters, it is impossible to get anywhere near the realities by definitions.

I once witnessed the following case: In a certain district land is comparatively cheap. There is a Society with a more or less famous man in its midst. The Society buys up all the cheap plots of land, and prevails upon the famous man to build himself a house there. Then the plots of land are offered for sale. They can be offered at a considerably higher price than they were bought for, for the simple reason that the famous man has been persuaded to build himself a house there.

Such instances will show you how indeterminate are the conditions on which the price of a thing depends in the economic process. Of course, you may say, such developments must be counteracted. Land reformers and people with similar aims try to resist these things. Through various artificial measures they desire to establish a kind of just price for all things. Of course one can do so: but, economically considered, the price is not changed thereby. In the above instance, for example, when the plots of land are sold at a higher price, we can take the money away again, in the form of a high property-tax. Then the State will pocket the difference: but the reality remains as before. In reality the increase in price has taken place just the same. You can take preventive measures, they will but obscure the issue. The price will still be what it would have been without them. You only bring about a redistribution: and it is no true economic thinking to say that the land has not increased in price during the last ten years, simply because you have obscured the matter by artificial measures. Economic Science must stand firmly on its feet, on a basis of reality. In Economics we can only speak of the conditions obtaining at a given time and at the actual place to which we are referring. Needless to say, anyone who desires the progress of mankind will still come to the conclusion that such and such things are to be changed. But, to begin with, things must be observed in their immediate reality at the particular moment. From all this you will see how impossible it is to approach such a concept as this — the most important in Economics (I mean the concept of Price) — by seeking to grasp it with sharply defined notions. In the science of Economics we can make no progress by this means: guite other ways must be adopted. We must observe the economic process itself.

Yet the problem of Price is of cardinal importance: all our efforts must be directed to this. We must observe the economic process, and try, as it were, to

catch the point where (at any given place and time) the actual price of a given thing results from all the underlying economic causes.

Now if you take the ordinary economic doctrines, you will generally find three factors mentioned — three factors, through the interplay of which the whole economic process is supposed to take its course. They are: Nature, human Labour and Capital. It is true that we can say to begin with: Tracing the economic process we find these three: that which comes from Nature, that which is achieved by human Labour and that which is derived from, or directed by means of, Capital, But if we take Nature, Labour and Capital simply side by side in this way, we shall not grasp the economic process in a living way. On the contrary, we shall be led to many one-sided points of view — a fact to which the history of economic theory bears eloquent witness. Some say that all Value is inherent in Nature and that no especial value is added to the substance of natural objects by human Labour. Others believe that all true economic Value is really impressed on a piece of goods, on a commodity, by the Labour which, as they some-times say, is crystallised in the commodity. Or again, the moment you place Capital and Labour merely side by side, you will find persons saying on the one hand: In reality it is Capital which alone makes Labour possible and the wages of Labour are paid out of the accumulated Capital. On the other side it is said: No, the only thing that produces real Value is Labour, and all that Capital obtains for itself is the surplus value abstracted from the yield of Labour.

Ladies and gentlemen, the fact is this: Consider the things from the one point of view, and the one is right: consider them from the other point of view, and the other is right. Over against the reality, such ways of thinking remind one of many a method in book-keeping — put the item here and this will be the result: put it there, and that will. One can speak with strong apparent reasons of surplus value, saying that this is abstracted from the wages of Labour and appropriated by the capitalist to himself. But one can say with equally good reasons, that, in the whole connection of economic life, everything is due in the first place to the capitalist, who can only pay his workers from what he has available for the wages of Labour. For both these points of view there are very good and very bad reasons. In fact, none of these ways of thinking comes near the reality of economics. Excellent as a basis for agitations, they are of no importance in a serious economic science. Quite other foundations must be found if we would hope for progress in economic life.

Up to a certain point, of course, all these systems have their justification. Adam Smith, for instance, sees the real, original value-forming factor in the work or labour that is expended on things. Here again excellent reasons can be brought forward in support of this view. Such a man as Adam Smith certainly did not think in a stupid or nonsensical way. Nevertheless, here again there is the underlying idea of taking hold of something static and giving it a definition, whereas in the real economic process things are in perpetual movement. It is comparatively simple to form concepts of the phenomena of Nature — even the most complicated — as compared with the ideas which we require for a science of Economics. Infinitely more complicated, variable and unstable are the phenomena in Economics than in Nature — more fluctuating, less capable of being grasped with any defined or hard and fast concepts. In effect, an altogether different method must be adopted. You will only find this method difficult in the first lessons: but as a result of it — you will presently see — we shall discover the only real and possible foundation for a science of Economics.

To begin with, we may say that to this economic process, which we must now consider, three things contribute: Nature, human Labour and (thinking, to begin with, of the purely external economic aspect) Capital. *To begin with,* ladies and gentlemen!

But lest us consider at once the middle one of these three, namely, human Labour. Let us try to form a conception of it by going down, as I indicated yesterday, into the sphere of animal life. Let us observe, instead of the economy of peoples, the economy of sparrows, the economy of swallows.

Here, you see at once, Nature is the basis of economy. True, even the sparrow has to do a *kind* of work: at the very least, he must hop about to find his food. Sometimes he has to hop about a very great deal in the course of a day to find what he requires. The swallow building her nest also has to do a kind of work, and she again has much to do to build it. Nevertheless, in the true economic sense, we cannot call this "work," we cannot call it "Labour." We shall make no progress in economic ideas if we call this labour. For if we observe more closely, we shall have to admit: The sparrow and the swallow are organised precisely in such a way as to do the very things — fulfil the very functions which they fulfil in finding their food, etc. They simply could not be healthy if they had no opportunity to move about in this way. It is part and parcel of their organisation: it belongs to them, no less than their legs and wings. In seeking to build up economic concepts, we can therefore leave out of account what we might here call a mere "apparent Labour." a "semblance of Labour." In such cases Nature is taken just as she is, and the single creature, merely to satisfy its own needs or those of its nearest kin, carries out the corresponding "semblance of Labour." If, however, we wish to determine what is "Value" or "a Value" in the true economic sense, we must disregard this apparent Labour. And this must be our first object — to approach a true concept of "economic value."

Consider the animal economy once more. There we may say: Nature alone is the value-forming factor. If we now ascend to man, that is, to political economy, it is true we still have — from the side of Nature — the same starting point of "Nature Value." But the moment human beings no longer provide merely for themselves or for their nearest kindred, but for one another, "human Labour," properly so called, comes into account. Indeed, the moment a man no longer uses the Nature-products for himself, but stands in some relation to other human beings — if only to the extent of bartering his goods with theirs — what he then does becomes, in relation to Nature, "human Labour." Here we arrive at the one aspect of Value in Political Economy. It arises thus: Human Labour is expended on the products of Nature, and we have before us in economic circulation Nature-products transformed by human Labour. It is only here that a true economic value first arises. So long as the Nature-product is untouched, at the place where it is found in Nature, it has no other value than it has, for instance, for the animals. But the moment you take the very first steps to put the Nature-product into the process of economic circulation, the Natureproduct so transformed begins to have economic value. We may therefore characterise this economic value as follows: "An economic value, seen from

this one aspect, is a Nature-product transformed by human Labour." Whether the human Labour consists in digging or chopping, or merely moving a product of Nature from one place to another, is irrelevant. If we are seeking the determination of Value in general, then we must simply say: "One valueforming factor is human Labour, transforming a Nature-product so as to pass it into the economic process of circulation."

If you consider this, you will see at once how very fluctuating is the value of a piece of goods circulating in the economic life. For Labour is something always present, perpetually being expended on the goods. You cannot really say what Value is — you can only say: Value appears in a given place and at a given time, inasmuch as human Labour is transforming some product of Nature. That is where Value emerges. To begin with, we cannot and will not try to define Value: We simply point out the place where it appears. I will put this down diagrammatically. (see Diagram 2) Here on the left side of the drawing we have Nature as it were in the background. Human Labour approaches Nature: what then becomes visible — appearing, as it were, through the interplay of Nature and human Labour — that is the one aspect of economic value? It is by no means a faulty image if we say, for instance: Look at a black surface or at anything black through a luminous medium and you will see it blue. According as the luminous medium is thick or thin, you will see various shades of blue: according as you shift it, its density will vary: it is for ever fluctuating. So it is



with Value in the economic life, it is really none other than the appearance of Nature through human Labour. And that, too, is always fluctuating.

To begin with, we are gaining a few abstract indications and little more: but these will give us our bearings during the next few days and help us to reach more concrete things. After all, you are accustomed to this: for in all sciences one takes what is most simple to begin with.

You see, labour as such has no purpose at all in Economics. A man may chop wood, or he may get up on to a wheel like this. (There are such wheels for the

benefit of fat people who go on climbing from step to step; the wheel goes round under them, and so they hope to get thinner.) The man who treads this wheel may be doing just as much work as the one who chops wood. To consider Labour as Marx did, when he said that we should look for its equivalent in the amount that is consumed in the human organism by the Labour, is a colossal piece of nonsense. For the same amount is consumed whether a man chops wood or dances about on this wheel. How much is done in the human being is not the point in Economics. We have already seen how the subject of Economics borders on uneconomic matters. Purely economically speaking, it is quite unjustifiable to point to the fact that Labour uses up the human being's forces. I mean it is unjustifiable in this connection, where, to begin with, we wish to establish a concept of Labour in the sense of Economics. Indirectly it is of great significance, for on the other side the needs of men have to be cared for. But Marx's way of thinking at this point is a colossal piece of nonsense.

What do we need in order to take hold of "Labour" in the economic process? It is necessary, to begin with — quite apart from the human being — to observe how the Labour enters into the economic process. This labour (of the man on the wheel) does not enter it at all: it simply adheres to the man himself. The chopping of wood, on the other hand, does enter the economic process. The one thing that matters is: How does the Labour enter the economic process? The answer is this: Nature is everywhere transformed by human Labour and only in so far as Nature is transformed by human Labour do we create real economic values on this one side. If, for instance, we find it necessary for our bodily health, having worked upon Nature in some way, to dance a little or to do Eurhythmy in the intervals, all this may of course be judged from another standpoint: but what we do in the intervals cannot be described as work or Labour in the economic sense, nor can it be regarded as in any way a factor creating economic values. Seen from another side, it may well be creating values, but we must first get our concepts pure and clear concerning economic values as such.

Now there is a second, altogether different, possibility for economic values to arise. It is this: We turn our attention to labour as such: we take labour as the given thing. To begin with, as you have seen just now, labour, economically speaking, is some-thing neutral and irrelevant. But it becomes an economic value-creating factor the moment we let it be directed by the intelligence of man. I must now speak in a somewhat different sense from before. Even in the most far-fetched cases, you can imagine some-thing that would otherwise not be Labour at all being transformed into real Labour by human intelligence. If it occurs to a man, in order to get thinner, to set up that apparatus which we spoke of in his bedroom and practise on it, there will be no economic value in it. But, if somebody winds a rope round the wheel and uses it to drive some machine, the moment this is done, that which would not otherwise be Labour at all, in the economic sense, is turned to good account by the Spirit. Incidentally the fellow who treads the wheel will get thinner just the same, but the essential point is this: Through the Spirit — by intelligence, reflection, perhaps even speculation — Labour is given a certain direction: the various units of Labour are brought into certain mutual relations, and so on.

Thus, we may say: Here we have the second aspect of the value-forming factors in Economics. Here Labour stands in the background, and before it is the Spirit which directs the Labour. Labour shines *through the Spirit*, and this creates once more an economic value. As you will soon see, these two aspects are present everywhere. Having shown in this diagram (left) how an economic value emerges when we have Nature appearing through Labour — if we now wish to represent diagrammatically what we have just explained, we shall have to put Labour in the background and in the front of it the spiritual, which gives it a certain modification (right).

These are the two essential poles of the economic process. There are indeed no other ways in which economic values are created. Either Nature is modified by Labour, or Labour is modified by Spirit (human intelligence). The outer expression of the Spirit, in this connection, is in the manifold formations of Capital. Economically, the Spirit must be looked for in the configurations of Capital: these at any rate are its outward expression. We shall realise the facts more clearly when we come to consider Capital as such, and then Capital as a monetary medium.

So you see there can be no question of arriving at a definition of economic value. Once more you need only consider on how many circumstances — on the cleverness or stupidity of how many different people — the modification of Labour by the Spirit in any given instance will depend. There is every kind of fluctuating condition. Nevertheless, this fact will always be in evidence: The value-creating factors in the economic process will always be found at these two opposite poles.

Suppose now we find ourselves at any given point within the economic process. The economic process takes its course in the activities of buying and selling. Buying and selling are essentially an exchange of values: there is, in fact, no other exchange than that of values. Properly speaking, it is wrong to speak of an exchange of goods. The "goods" that play a part in the economic process — whether they appear as modified products of Nature or modified Labour — are always *values*. It is always the values that are exchanged. Whenever a process of buying and selling takes place, values are exchanged. Now what is it that emerges in the economic process when value and value, as it were, impinge on one another in the process of exchange? It is Price. Wherever Price emerges, it is always through the impact of value on value in the economic process. For this reason you cannot think truly about Price if you have in mind the exchange of mere goods. If you buy an apple for a penny, you may say that you are exchanging one piece of goods for another — the apple for the penny. But you will make no progress in economic thinking along these lines. For the apple has been picked somewhere and then transported, and it may well be that various other things have been done around it. All this is Labour which has modified it. What you are dealing with is not an apple but a Nature-product transformed by human Labour, representing an economic value. In Economics we must always take our start from values. Similarly, the penny represents not a piece of goods but a value, for after all (or so at any rate we must suppose) the penny is but the sign for the fact that there is present, in the man who has to buy the apple, another value which he exchanges for it.

Today I am anxious for you to get a clear insight into this fact: In Economics we must not speak of "goods " but of "values" as the elementary thing. It is wrong to try to consider Price in any other way than by envisaging the interplay of values. Value set against value gives you Price. And if, as we saw, value itself is a fluctuating thing, incapable of definition, may we not say that when you exchange value for value, Price which arises in the process of exchange is a fluctuating thing raised to the second power?

From all these things you may see how futile it is to try to take hold of values and prices with the idea of finding a firm and fixed ground in Economics: and it is still more futile, if your object is to influence the economic process in practice. Something altogether different is needful — something that lies behind all these things. You may see this from a very simple consideration.

Consider this for a moment: Nature appears to us through human Labour. Suppose we obtain iron at a given place under extraordinarily difficult conditions. The value that is thus produced through human Labour is a modified object of Nature. If at a different place iron is to be produced under far easier conditions, it may happen that an altogether different value will result. You see, therefore, that we cannot grasp the reality in the value itself: we must go behind the value. We must go back to that which creates the value: here alone can we gradually find our way to the more constant conditions on which we can exercise a direct influence. The moment you have brought the value into economic circulation, you must let it fluctuate with the economic organism as a whole. Consider the finer constitution of a blood corpuscle: it is different in the head and in the heart and in the liver. You cannot say: We will now seek the true definition of blood. The most you can do is to consider what are the more favourable foodstuffs in the one case and in the other. Likewise there is no point in talking round and round about Value and Price. The important thing is to go back to the primary factors, back to that which, if rightly formed, will actually bring forth the proper price. The proper price will then emerge of its own accord.

In the study of Economics it is quite impossible to stop short at definitions of Value and Price. We must always go back to the real origins whence the economic process is nourished, on the one hand, and by which, on the other hand, it is regulated — Nature on the one hand, Spirit on the other.

In all economic theories of modern time, this has been the difficulty: *they have always tried to hold fast at the outset that which is really fluctuating.* As a result, one who can see through these things finds himself confronted not with *wrong* definitions — scarcely any of them are wrong: they are generally quite right! (Though, it is true, one must make an exceedingly bad shot to say: The amount of Labour corresponds to that which has been expended and has to be restored in the human body: it corresponds, therefore, to the expenditure of substance. Such a statement is really a howler, and he who makes it has failed to see the simplest things). No, the point is that even men of considerable insight, in developing their theory of Economics, have stumbled again and again over this obstacle: They have tried to observe at rest things that are always in a state of flux. For the things of Nature one can and must often do so: there, however, it suffices to observe the state of rest in a quite different way: and if we have to observe a state of movement, all we have come to do in the modern science of Nature is to regard it as though it were composed of a multitude of tiny states of rest and jump from one to the other. For when we *integrate,* we regard even movement as if it were composed of states of rest.

On the model of such a science we cannot study the economic process. This, therefore, must be said: The first thing needful in grappling with the science of Economics is to consider how, on the one hand, Value appears inasmuch as Nature is transformed by human Labour — Nature is seen through human Labour — while, on the other hand, Value appears inasmuch as Labour is seen through the Spirit. These two origins of Value are the real polar opposites: they differ as, in the spectrum, the one — the luminous or yellow pole — differs from the other — the blue or violet. You may well hold fast this picture: As in the spectrum the warm colours appear on the one side, so on the one side there appears the Nature-value which will show itself more in the formation of rents. On this side we perceive Nature transformed by Labour. On the other side there appear to us instead those values which are translated into Capital: here we see Labour transformed by the Spirit. Then, indeed, Price can arise, inasmuch as values of the one pole impinge on values of the other. Or again, the several values within the one pole come into mutual interaction. The point is that every time, wherever it is a question of price-formation, there will be a mutual interaction of value and value. We must therefore disregard everything to do with the substances and materials themselves; we must look away from all this and begin by seeing how values are formed, on the one side and on the other. Then we shall be able to press forward to the problem of Price.

# **World Economy**

### LECTURE III

Dornach, 26<sup>th</sup> July, 1922.

### LADIES AND GENTLEMEN,

In Economic Science, as I explained yesterday, it is essential to take hold of something that is for ever fluctuating — namely: the circulation of values and the mutual interplay of fluctuating values in the forming of Price. Bearing this in mind, you say to yourselves: Our first need is to discover what is really the proper *form* of the science of Economics. For a thing that fluctuates cannot be taken hold of directly. There is no real sense in trying to take hold by direct observation of something that is for ever fluctuating. The only sensible procedure is to consider it in connection with what really lies beneath it.

Let us take an example. For certain purposes in life we use a thermometer. We use it to read the degrees of temperature, which we have grown accustomed in a certain sense to compare with one another. For instance, we estimate 20° of warmth in relation to 5° and so on. We may also construct temperature curves. We plot the temperatures for instance during the winter, followed by the rising temperatures in summer. Our curve will then represent the fluctuating level of the thermometer. But we do not come to the underlying reality till we consider the various conditions which determine the lower temperature in the winter, the higher temperature in the summer months, the temperature in one district, the different temperature in another, and so forth. We only have something real in hand, so to speak, when we refer the varying levels of the mercury to that which underlies them. To record the readings of the thermometer is in itself a mere statistical procedure. And in Economics it is not much more than this when we merely study prices and values and so forth. It only begins to have a real meaning when we regard prices and values much as we regard the positions of the mercury — as indications, pointing to something else. Only then do we arrive at the realities of economic life. Now this consideration will lead us to the true and proper form of Economic Science.

By ancient usage, as you are probably aware, the sciences are classified as theoretical and practical. Ethics, for instance, is called a practical science, Natural Science a theoretical one. Natural Science deals with that which *is;* Ethics with that which *ought* to be. This distinction has been made since ancient time: the Sciences of that which *is,* the Sciences of that which *should be.* We mention this here only to help define the concept of Economic Science. For we may well ask ourselves this question: Is Economics a science of what *is,* as Lujo Brentano, for instance, would assert? Or is it a practical science — a science of what *ought* to be? That is the question.

Now, if we wish to arrive at any knowledge in Economics it is undoubtedly necessary to make observations. We have to make observations, just as we must observe the readings of the barometer and thermometer to ascertain the state of air and warmth. So far, Economics is a theoretical science. But at this point, nothing has yet been *done.* We only achieve something when we are really able to *act* under the influence of this theoretical knowledge.

Take a special case. Let us assume that by certain observations (which, like all observations, until they lead to action, will be of a theoretical nature) we ascertain that in a given place, in a given sphere, the price of a certain commodity falls considerably, so much so as to give rise to acute distress. In the first place, then, we observe — "theoretically," as I have said — this actual fall in price. Here, so to speak, we are still only at the stage of reading the thermometer. But now the question will arise: What are we to *do* if the price of a commodity or product falls to an undesirable extent? We shall have to go into these matters more closely later on: for the moment I will but indicate what should be done and by whom, if the price of some commodity shows a considerable decrease. There may be many such measures, but one of them will be to do something to accelerate the circulation, the commerce or trade in the commodity in question. This will be one possible measure, though naturally it will not be enough by itself. For the moment, however, we shall not discuss whether it is a sufficient, or even the right measure to take. The point

is: If prices fall in such a way, we must do *something* of a kind that can increase the turnover [Umsatz].

It is in fact similar to what happens when we observe the thermometer. If we feel cold in a room, we do not go to the thermometer and try by some mysterious device to lengthen out the column of mercury. We leave the thermometer alone and stoke the fire. We get at the thing from quite a different angle; and so it must be in Economics too. When it comes to action, we must start from quite a different angle. Then only does it become practical. We must answer, therefore: The science of Economics is both theoretical and practical. The point will be how to bring the practical and the theoretical together.

Here we have one aspect of the *form* of Economic Science. The other aspect is one to which I drew attention many years ago, though it was not understood. It was in an essay I wrote at the beginning of the century, which at that time was entitled: "Theosophy and the Social Question."\* It would only have had real significance if it had been taken up by men of affairs and if they had acted accordingly. But it was left altogether unnoticed; consequently I did not complete it or publish any more of it. We can only hope that these things will be more and more understood, and I trust these lectures will contribute to a deeper understanding. To understand the present point, we must now insert a brief historical reflection.

\* now published as "Anthroposophy and the Social Question."

Go back a little way in the history of mankind. As I pointed out in the first lecture, in former epochs — nay, even as late as the 15<sup>th</sup> or 16<sup>th</sup> century economic guestions such as we have today did not exist at all. In oriental antiquity economic life took its course instinctively, to a very large extent. Certain social conditions obtained among men - caste-forming and classforming conditions — and the relations between man and man which arose out of these conditions had the power to shape instincts for the way in which the individual must play his particular part in economic life. These things were very largely founded on the impulses of the religious life, which in those ancient times were still of such a kind as to aim simultaneously at the ordering of economic affairs. Study oriental history: you will see there is nowhere a hard and fast dividing line between what is ordained for the religious life and what is ordained for the economic. The religious commandments very largely extend into the economic life. In those early times, the question of labour, or of the social circulation of labour-values did not arise. Labour was performed in a certain sense instinctively. Whether one man was to do more or less never became a pressing question, not at any rate a pressing public question, in pre-Roman times. Such exceptions as there may be are of no importance, compared to the general course of human evolution. Even in Plato we find a conception of the social life wherein the performance of labour is accepted as a complete matter of course. Only those aspects are considered which Plato beholds as Wisdom-filled ethical and social impulses, excluding the performance of labour, which is taken for granted.

But in the course of time this became more and more different. As the immediately religious and ethical impulses became less effective in creating economic instincts, as they became more restricted to the moral life, mere precepts as to how men should feel for one another or relate themselves to extra-human powers, there arose more and more the feeling in mankind which,

pictorially stated, might be thus expressed: "*Ex cathedra,* or from the pulpit, nothing whatever can be said about the way a man should work!" Only now did Labour — the incorporation of Labour in the social life — become a question.

Now this incorporation of Labour in the social life is historically impossible without the rise of all that is comprised in the term "law" or "right." We see emerge at the same historical moment the assignment of value to Labour in relation to the individual human being and what we now call law. Go back into very ancient times of human history and you cannot properly speak of law or rights as we conceive them today. You can only do so from the moment when the Law becomes distinct from the "Commandment." In very ancient times there is only one kind of command or commandment, which includes at the same time all that concerns the life of Rights. Subsequently, the "Commandment" is restricted more to the life of the soul, while Law makes itself felt with respect to the outer life. This again takes place within a certain historic epoch, during which time definite social relationships evolve. It would take us too far afield to describe all this in detail, but it is an interesting study - especially for the first centuries of the Middle Ages - to see how the relationships of Law and Rights on the one hand, and on the other those of Labour, became distinct from the religious organisations in which they had hitherto been more or less closely merged. I mean, of course, religious organisations in the wider sense of the term.

Now this change involves an important consequence. You see, so long as religious impulses dominate the entire social life of man-kind, human Egoism does no harm. This is a most important point, notably for an understanding of the social and economic life. Man may be never so selfish; if there is a religious organisation (and these, be it noted, were very strict in certain districts in oriental antiquity) such that in spite of his egoism the individual is fruitfully placed in the social whole, it will do no harm. But Egoism begins to play a part in the life of nations the moment human Rights and Labour emancipate themselves from other social impulses or social currents. Hence, during the historical period when Labour and the life of legally determined Rights are becoming emancipated, the spirit of humanity strives as it were unconsciously to come to grips with Egoism, which now begins to make itself felt and must in some way be allowed for in the social life. And in the last resort, this striving culminates in nothing else than modern Democracy — the sense for the equality of man — the feeling that each must have his influence in determining legal Rights and in determining the Labour which he contributes.

Moreover, simultaneously with this culmination of the emancipated life of Rights and human labour, another element arises which — though it undoubtedly existed in former epochs of human evolution — had quite a different significance in those times owing to the operation of religious impulses. In European civilisation, during the Middle Ages, it existed only to a very limited degree, but it reached its zenith at the very time when the life of Rights and Labour was emancipated most of all. I refer to the Division of Labour.

You see, in former epochs the division of labour had no peculiar significance. It too was embraced in the religious impulses. Everyone, so to speak, had his proper place assigned to him. But it was very different when the democratic tendency united with the tendency to division of labour — a process which

only began in the last few centuries and reached its climax in the nineteenth century. Then the division of labour gained very great significance.

For the division of labour entails a certain economic consequence. We shall yet, of course, have to consider its causes and the course of its development. To begin with, however, if we think it abstractly to its conclusion, we must say that in the last resort it leads to this: No one uses for himself what he produces. Economically speaking, what will this signify? Let us consider an example.

Suppose there is a tailor, making clothes. Given the division of labour, he must, of course, be making them for other people. But he may say to himself: I will make clothes for others and I will also make my own clothes for myself. He will then devote a certain portion of his labour to making his own clothes, and the remainder — by far the greater portion — to making clothes for other people. Well, superficially considered, one may say: It is the most natural thing in the world, even under the system of division of labour, for a tailor to make his own clothes and then go on working as a tailor for his fellows. But, economically, how does the matter stand? Through the very fact that there is division of labour, and every man does not make all his own things for himself - through the very fact that there is division of labour and one man always works for another, the various products will have certain values and consequently prices. Now the division of labour extends, of course, into the actual circulation of the products. Assuming, therefore, that by virtue of the division of labour, extending as it does into the circulation of the products, the tailor's products have a certain value; will those he makes for himself have the same economic value? Or will they possibly be cheaper or more expensive? That is the most important question. If he makes his own clothes for himself one thing will certainly be eliminated. They will not enter into the general circulation of products. Thus what he makes for himself will not share in the cheapening, due to the division of labour. It will, therefore, be dearer. Though he pays nothing for it, it will be more expensive. For on those products of his labour which he uses for himself, it is impossible for him to expend as little labour — compared to their value — as he expends on those that pass into general circulation.

Well, I admit, this may require a little closer consideration, nevertheless it is so. What one produces for oneself does not enter into the general circulation which is founded on the division of labour. Consequently it is more expensive. Thinking the division of labour to its logical conclusion, we must say: A tailor, who is obliged to work for other people only, will tend to obtain for his products the prices which ought to be obtained. For himself, he will have to buy his clothes from another tailor, or rather, he will get them through the ordinary channels: he will buy them at the places where clothes are sold.

These things considered, you will realise that the division of labour tends towards this conclusion: No one any longer works for himself at all. All that he produces by his labour is passed on to other men, and what he himself requires must come to him in turn from the community. Of course, you may object: If the tailor buys his suit from another tailor, it will cost him just as much as if he made it for himself: the other tailor will not produce it any more cheaply nor more expensively. But if this objection were true, we should not have division of labour — or at least the division of labour would not be complete. For it would mean that the maximum concentration of work, due to the division of labour, could not be applied to this particular product of tailoring. In effect, once we have the division of labour, it must inevitably extend into the process of circulation. It is in fact impossible for the tailor to buy from another tailor; in reality he must buy from a tradesman and this will result in quite a different value. If he makes his own coat for himself, he will "buy" it from himself. If he actually buys it, he buys it from a tradesman. That is the difference. If division of labour in conjunction with the process of circulation has a cheapening effect, his coat will, for that reason, cost him less at the tradesman's. He cannot make it as cheaply for himself.

To begin with, let us regard this as a line of thought that will lead us to the true form of Economic Science. The facts themselves will, of course, all of them, have to be considered again later.

Meanwhile it is absolutely true — and indeed self-evident — that the more the division of labour advances, the more it will come about that one man always works for the rest — for the community in general — and never for himself. In other words, with the rise of the modern division of labour, the economic life as such depends on Egoism being extirpated, root and branch. I beg you to take this remark not in an ethical but in a purely economic sense. Economically speaking, egoism is impossible. I can no longer do anything for myself; the more the division of labour advances, the more must I do everything for others.

The summons to altruism has, in fact, come far more quickly through purely outward circumstances in the economic sphere than it has been answered on the ethical and religious side. This is illustrated by an easily accessible historical fact.

The word "Egoism," you will find, is a pretty old one, though not perhaps in the severe meaning we attach to it today. But its opposite — the word "Altruism," "to think for another " — is scarcely a hundred years old. As a word, it was coined very late. We need not dwell overmuch on this external feature, though a closer historical study would confirm the indication. But we may truly say: Human thought on Ethics was far from having arrived at a full appreciation of altruism at a time when the division of labour had already brought about its appreciation in the economic life. Taking it, therefore, in its purely economic aspect, we see at once the further consequences of this demand for altruism. We must find our way into the true process of modern economic life, wherein no man has to provide for himself, but only for his fellow-men. We must realise how by this means each individual will, in fact, be provided for in the best possible way.

Ladies and gentlemen, this might easily be taken for a piece of idealism, but I beg you to observe once more: In this lecture I am speaking neither idealistically nor ethically, but from an *economic* point of view. What I have just said is intended in a purely economic sense. It is neither a God, nor a moral law, nor an instinct that calls for altruism in modern economic life — altruism in work, altruism in the production of goods. It is the modern division of labour — a purely economic category — that requires it.

This is approximately what I desired to set forth in the essay I published long ago.\* In recent times our economic life has begun to require more of us than we are ethically, religiously, capable of achieving. This is the underlying fact of

many a conflict. Study the sociology of the present day and you will find: The social conflicts are largely due to the fact that, as economic systems expanded into a World-Economy, it became more and more needful to be altruistic, to organise the various social institutions altruistically; while, in their way of thinking, men had not yet been able to get beyond Egoism and therefore kept on interfering with the course of things in a clumsy, selfish way.

### \* see "Anthroposophy and the Social Question."

But we shall only arrive at the full significance of this if we observe not merely the plain and obvious fact, but the same fact in its more masked and hidden forms. Owing to this discrepancy in the mentality of present-day mankind owing to the discrepancy between the demands of the economic life and the inadequate ethical and religious response — the following state of affairs is largely predominant in practice. To a large extent, in present-day economic life, men are providing for *themselves*. That is to say, our economic life is actually in contradiction to what — by virtue of the division of labour — is its own fundamental demand. The few who provide for themselves on the model of our tailor do not so much matter. A tailor who manufactures his own clothes is obviously one who *mixes up* with the division of labour something that does not properly belong to it. But this is open and unmasked. The same thing is present in a hidden form in modern economic life where — though he by no means makes his products for himself — a man has little or nothing to do with the value or price of the products of his labour. Quite apart from the whole economic process in which these products are contained, he simply has to contribute, as a value to the economic life, the labour of his hands. It amounts to this: To this day, every wage-earner in the ordinary sense is a man who provides for himself. He gives only so much as he wants to earn. In fact, he simply cannot be giving as much to the social organism as he might give, for he will only give so much as he wants to earn. In effect, to provide for oneself is to work for one's earnings, to work "for a living." To work for others is to work out of a sense of social needs.

To the extent that the demand which the division of labour involves has been fulfilled in our time, altruism is actually present — namely: work for others. But to the extent that the demand is unfulfilled, the old egoism persists. It has its roots in this — that men are still obliged to provide for themselves. That is economic Egoism. In the case of the ordinary wage-earner we generally fail to notice the fact. For we do not ask ourselves: What is it that values are really being exchanged for in this case? The thing which the ordinary wage-earner manufactures has after all no-thing to do with the payment for his work — absolutely nothing to do with it. The payment — the value that is assigned to his work — proceeds from altogether different factors. He, therefore, works for his earnings, works "for a living." He works to provide for himself. It is hidden, it is masked, but it is so.

Thus one of the first and most essential economic questions comes before us. How are we to eliminate from the economic process this principle of work for a living? Those who to this day are still mere wage-earners — earners of a living for themselves — how are they to be placed in the whole economic process, no longer as such earners but as men who work because of social needs? Must this really be done? Assuredly it must. For if this is not done, we shall never obtain true prices but always false ones. We must seek to obtain prices and values that depend not on the human beings but on the economic process itself — prices that arise in the process of fluctuation of values. The cardinal question is the question of Price.

We must observe prices as we observe the degrees of the thermometer, and then look for the underlying conditions.

Now to observe a thermometer we need some kind of zero point, from which we go upward and downward. And for prices a kind of zero-level does in fact arise in a perfectly natural way.

It arises in this way. Here we have Nature on the one side. (Diagram 2) It is transformed by human Labour. Thus we get the transformed products of Nature, and this is one point at which values are created. On the other side we have Labour itself. It, in its turn, is modified by the Spirit, and there arises the other kind of value. Value 1, Value 2. And, as I said on a previous occasion, price originates by the interaction of Value 1 and Value 2.

Now these Values on either hand — Value 1 and Value 2 — are in fact related to one another as pole to pole. And we may put it as follows: If a man is working in *this* sphere, for example (Diagram 2 right-hand side), or mainly so — in an absolute sense it is of course impossible, but I mean mainly in this sphere — if in the main his work is of the type that is organised by the Spirit, then it will be to his interest that the products of Nature should decrease in value. If on the other hand a man is working directly upon Nature, it will be to his interest that the other kind of products should decrease in value. Now when this "interest" becomes an effective process (and so, in fact, it is, for if it were not so, the farmers would have very different prices, and vice versa; the actual prices on both sides are, of course, very "occult") we may be able to observe a kind of Mean Price midway between the two poles where we have two persons (there must always be two, for any economic dealings) with little interest either in Nature or Spirituality or Capital. When is it so in practice? We have the case in practice if we observe a pure trader, a pure middleman, 'buying from and selling to a pure middleman. Here, prices will tend towards a mean. If under normal conditions (we shall yet have to explain this word "normal") a middleman trading in boots and shoes buys from a middleman trading in clothes and vice versa, the prices that emerge will tend to assume the mean position. To find, the mean price-level, we must not go to the interests of those producers who are on the side of Nature, nor of those who are on the Spiritual side. We must go to where middleman trades with middleman, buying and selling. Here it is that the mean price will tend to arise. Whether there be one middleman more or less is immaterial.

This does not contradict what we have said before. After all, look at the typical modern capitalist. Are they not all of them traders? The industrialist is after all a trader. Incidentally he is a producer of his particular goods; but economically he is a trader. Commerce has developed very largely on the side of production. In all essentials, the industrial capitalist is a trader. This is important. In actual fact, modern conditions amount to this: All that arises here in the middle (Diagram 2) rays out to the one side and to the other. On the one side you will soon recognise it if you study the typical business undertaking; and we shall see how it appears on the other side in the course of the next few days.

# **World Economy**

#### **LECTURE IV**

Dornach, 27<sup>th</sup> July, 1922.

#### LADIES AND GENTLEMEN,

Yesterday I chose from the economic life a somewhat crude example as an illustration. It appears that this drastic illustration has caused some of you a good deal of "brain-racking." I refer to the example of the tailor, who, I said, works less cheaply if he makes his own suit of clothes for himself than he would be doing if, while making clothes for other people, he bought his own from a tradesman in the ordinary way, like the rest of us. Now it is only too easy to miss the point of such a crude example. For it is quite natural to work it out in this way: "The tradesman, since he must make some profit, will buy the suit of clothes from the tailor more cheaply than he will sell it. Hence it goes without saying that if the tailor buys his suit of clothes, he will pay more for it than he would if he made it for himself. He will, in fact, have to pay the tradesman's profit in addition." This objection is so obvious that it is bound to occur'; nevertheless I purposely chose the above rather crude example because I wished to illustrate how necessary it is, for present-day economic life, to think not in terms of domestic economy, but in terms of community or national economy'. We must, in fact, reckon with all that arises from the division of labour.

You see, the important thing is *not* to consider how the tailor will stand directly after he has finished making the suit of clothes. It is true enough that if he proceeds to sell the suit to a tradesman, and then buys another suit back again for himself, he will have made a loss. But that is not the point; the point is, how will he stand when he makes up his accounts after a certain lapse of time? Will he be in a better position if he made his own suit for himself, or will he be in a better position if he refrained from doing so?

In effect when the division of labour works, it makes products cheaper *in the right way;* they become cheaper, through the division of labour, precisely in the whole system of economic relationships. Whereas, if we work *against* the division of labour, we force down *the price* of one particular class of products; but this forcing down of prices will itself go *against* the main stream of the economic process. In other words, though the tailor may save something on that particular suit, he will — by a very small figure to begin with — force down the price of clothes; if many tailors do the same, the effect will be multiplied; clothes will become cheaper and the result will be that the tailor will have to supply *other* suits also at a lower price. It will only be a question of time. After a certain time, he will observe in his balance-sheet how much less income he has derived from the other suits than he would have derived if he had not thus forced the prices down.

We must not confuse the issue by thinking in the narrow spirit of domestic economy. I did not mean that the tailor has not a perfect right to make his own

clothes for himself, or that he might not quite properly have a taste for doing so. Only he must not imagine that it will save him anything in the long run; on the contrary, it will be more expensive. Taking his total balance after a certain lapse of time, he will find that it is more expensive. I admit that in this crude example the effect will be comparatively slight, for the amount by which the price is forced down will only become evident after a considerable lapse of time. The tailor will have to make a large number of other suits before the very small fraction by which they are cheapened becomes effective. Nevertheless, sooner or later it will appear in his total balance. (\* See Appendix.)

The economic process does indeed consist in an infinite number of interdependent factors. The single phenomenon is the outcome of an untold number of factors, all of which work into one another. To understand it, it simply will not do to think — if I may put it so — so very near at hand. All your thinking on Economics will lead to disaster if you let your thoughts be guided only by what lies in the immediate neighbourhood of the single persons who are engaged in it. You will never get to grips with the economic process in this way. You must learn to envisage the social organism in its totality. If you do so, you will also feel impelled to illustrate the facts by' such extreme examples, where the effect, though it does not become apparent in a day, may make itself felt very strongly, say, in the course of a decade.

We must indeed take our start from such — if I may say so — half-absurd examples, so as to detach our thinking from the familiar habits and lead it into a mode that comprehends wide issues and, losing its hard and fast outlines in the process, gains power to grasp what is for ever fluctuating. What lies close to us we can grasp in sharp outline, but our task is to achieve *a real insight*, an insight that gives us always mobile ideas, which never correspond to those we can gather in our immediate neighbour-hood.

I want to mention this especially today, for, while we take our start from comparatively simple matters, we shall have to realise nevertheless how the economic process is built up little by little of the most manifold factors. We must come nearer and nearer to the possibility of grasping the problem of Price. With this end in view, we shall today once more consider the economic process *as such* from a particular aspect.

Let us begin today with Nature. In the first place, human Labour must set to work on Nature, transforming Nature's products. The product of Nature thus receives the stamp of human Labour; as transformed by human Labour, it receives an economic value. In Economics we are *not* dealing with the substance; the substance, as such, has no economic value. The coal, the substantial coal, lying in mines under the earth, has no economic value; nor would it gain an economic value if it walked of its own accord from the mine into the house of the man who uses it to stoke his fires. What is it that turns the substance into a value? It is the Labour that has been impressed upon it, that is to say, all that had to be done to bring it to the light of day, to prepare the mines themselves, to transport the coal and so forth. It is only the human Labour impressed upon the substance of the coal which gives it economic value; and this is all we have to do with in Economic Science.

You cannot grasp any phenomenon of economic life if you do not start from such ideas as these. But now, in the application of human Labour to Nature, we

come with the further evolution of the economic life to the division of Labour. The division of Labour arises whenever men work together in any task that has significance for economic life.

Let us take a perfectly simple example. In a certain district, a number of men have been doing a certain piece of work. From the various places where they live, they have walked to the common scene of their Labour — to a place where some particular Nature-product is exploited. Suppose we are still in a very primitive period. The workers have no other means of arriving at the place where they' do this work upon Nature; they' must walk there. But now someone conceives the idea of making a cart and using horses to draw it. Henceforth what formerly had to be done by each one alone will be done by each individual in conjunction with the man who provides the cart. A certain piece of work is now divided; that which is done, which is Labour in the economic sense, is now divided. It will, of course, happen in this way, that everyone who makes use of the cart will have to pay a certain quota to the enterprising individual who provided it.

The inventor of the cart, however, thereby' enters the category of the capitalist. For him, the cart is now genuine Capital. Whereever you look, you will always see that this is so: The point of origin of Capital always lies in the division, the qualitative division of Labour. But now, how was the cart invented? It was invented by Mind or *Spirit*. And indeed, every such process consists in the application of Spirit to Labour. In one respect or another human Labour is permeated by the Spirit. It is *Labour permeated by the Spirit* which arises in the process of the division of Labour. Where we see Capital arise in the course of division of Labour, we have, in the first place, nothing else than this: it is Labour penetrated by the Spirit. The first phase of Capital always consists in this: Where human Labour hitherto was determined only by Nature, it is now organised, divided and so forth by the Spirit.

It is indeed necessary to see Capital and its formation very clearly from this point of view. Only from this point of view can we understand the function of Capital in the economic process. The forming of Capital is always a concomitant of the division — that is to say, the qualitative, organic division — of Labour.

But in this process something of the direct, immediate intercourse, which man has with Nature when he works upon her, is always loosened. You see, so long as the economic life merely consists in the elaboration of Nature, all that we have to do with is the Nature-products which, being transformed by human Labour, acquire an economic value. But the moment the human Spirit organises Labour — organises, that is to say, Labour *as such* (for, after all, to the man who creates Capital in the shape of his cart, it will matter nothing to what end or for what purpose he transports the workers from one place to another) — an emancipation from Nature begins to take place.

Here, (\* The lecturer referred to diagram 2, left-hand side.) if I may put it so, we still see Nature shining through human Labour at all points. Although the value is constituted not by' the coal as a substance but by that human Labour which is stamped upon it, nevertheless the Nature-product still shines through the human Labour. This is one side from which economic values originate.

The other side is this. Whatever in human Labour is organised by the *Spirit* emancipates itself from Nature, is lifted away from Nature, until at length we have the capitalist, to whom the relation of the Labour which he organises to Nature may be a matter of complete indifference. This, after all, may happen in a very simple way. Suppose the man has hitherto been driving people from many places, say, to some piece of agricultural work in the fields. He may suddenly prefer to take his cart away and drive people to quite a different place and quite another kind of work. Wherever the Spirit is applied, you will inevitably find the organised division of human Labour becoming emancipated from the Nature-foundation. Here, then, you have *the emancipation of Capital from the Nature-foundation* of economic life.

From various points of view the idea has been expressed in Economics that Capital is stored-up Labour-power. But this is no more than a definition, which will only fit the facts at a certain stage, because things are always fluctuating. So long as the organisation due to the Spirit is narrowly bound to a certain kind of Labour, Nature will still shine through. But the moment we emancipate ourselves, thinking only of how to make fruitful what we gain by application of the Spirit — the moment we do this, the more we shall observe the Labour becoming indistinct within the total mass of Capital. In its peculiar and specific character, it vanishes.

Suppose you have been amassing Capital for a considerable time and this Capital continues to work in the economic process. The man who, to begin with, had only a single cart can extend his economic activity' by acquiring a second cart, and so on. His Capital is working in the economic process; but there is really nothing left in it of the nature of the Labour. Look at a miner, for example; in him you still see very much of the nature of the Labour. But in Capital you see less and less of it. And we may go still farther. Suppose the man hands the whole business over to another man. The transfer will very likely mean that the new-comer will *only* be concerned in fructifying what has thus been brought about by the Spirit. The nature of the Labour which is thus organised will be a matter of indifference to him. He is only concerned in organising, no matter what kind of Labour.

In other words, we have here a *real* process of abstraction. Precisely the same thing that we do inwardly in our logical thinking, in the process of abstraction, is here accomplished outwardly. The specific quality disappears. The specific qualities, both of the substance of Nature and of the different kinds of Labour, gradually disappear in the masses of Capital. And as you will presently see, if we follow the economic process still farther, nothing whatever is left of the human Labour which was originally organised. The further development of the economic process will be somewhat as follows: The man who built the cart did at least stamp his own Spirit upon the whole invention; but now he earns more values than he can cope with by himself. Are these values to remain unused in the whole economic life? Of course not. Another man must come along, able to cope with them by means of a different kind of Spirit. He will then turn the values to good account — he will make them valuable — in quite a different way.

After a time, for instance, the values created by the inventor of the cart — the fructification which has thus resulted — may pass over to a skilled smith. The smith has the Spirit, the intelligence, to erect a workshop; but with his Spirit

alone he can do nothing. The other man has already created certain economic values; these he must now transfer to his fellow-man, the smith. Here you have indeed, in the outer world of reality, the completest imaginable process of abstraction. Moreover, it is essential if the thing is to go on at all (for how else could the cartwright transmit his values to the smith?) — it is essential for something to be there which is related as an *abstract* element to all the *specific* elements that are contained in the economic process. What is this something? It is, of course, in the first place, Money. Money is nothing but the externally expressed value which is gained in the economic process through the division of Labour and transmitted from one man to another.

Thus we see arise, in the process of division of Labour, *Capitalism*, and in the process of Capitalism (at a pretty early stage) *Finance* [die Geldwirtschaft]. In relation to all the particular economic processes, Money is the thing completely abstract. If you have five francs in your pocket, you can buy a midday meal and a supper for it just as well as an article of clothing. To the Money itself it is irrelevant what you acquire for it, or what it is exchanged for in the economic process. Money is the thing absolutely indifferent to the single factors in the economic life, in so far as they are still influenced by Nature. For this very reason Money becomes the means of expression, the instrument, the medium for the Spirit to enter into the economic organism in the division of Labour. Without Money being created, it is absolutely impossible for the Spirit to enter in and play its part in the economic organism which depends on the division of Labour. We may say then: "What in a primitive economic condition is originally all together — what every single human being in his egoism does for himself — is now divided up among the whole community." Such is the division of Labour, and in Capital the single parts are gathered up again into a total process. The forming of Capital is essentially a synthesis. And now the man who first emerges as a creator of Capital, being able to change it into Money Capital (since Money must necessarily appear at this stage) becomes a lender to another man, who possesses nothing but his Spirit. The latter now receives the Money, which is the true and proper representative of economic values created by the Spirit.

We must really consider this from the point of view of pure Economics. However evil money may be from a religious or ethical point of view, in the economic sense Money is the Spirit at work in the economic organism. It is so indeed. Once more then: Money must be created in the economic process, if the Spirit is to progress at all from the initial point where it applies itself merely to Nature. Spirit would remain in an altogether primitive condition if it could do no more than this. To pour back again into the economic process what has been gained by spiritual application, it *must* be realised as Money. Money is the Spirit realised. But the concrete quality comes back into it again. In the first place, Money is an abstract thing, for, as we said before, to the Money it is a matter of indifference whether, for the 5 francs in my pocket, I buy an article of clothing or get my hair cut (several times, if you like). But the moment Money returns to the individual human being, i.e., to the individual human Spirit, it becomes economically active once more as a concrete and specific fact. For the Spirit is economically active in the Money.

Now at this point a very special relationship arises. He who acquired the Money to begin with becomes the lender, the creditor. The other, who receives the

Money — the man, we will suppose, who only has the Spirit, becomes the debtor. You have here a relationship between two human beings. The same relationship will also come about if the lenders are a whole number of people who hand over their superfluous Capital to the individual, so that a higher synthesis is brought about by his intelligence, his Spirit. He is then the debtor, and works on a foundation entirely emancipated from the Nature basis. For what he actually receives from the original capitalists themselves is in his hands a nonentity. He will have to give it back again after a time — it does not really belong to him. In effect, it is only from one side that he works economically as a debtor. From the other side he is economically responsible as a spiritual creator. Truth to tell, this is perhaps one of the healthiest relationships (this point is especially important in relation to the social question) for a spiritual worker to work for the community, being enabled to do so by the community giving him the necessary money. (So far as he is concerned, it is the community.) How property, possession and the like enter into the matter is a question we shall have to consider another time; our present object is only to trace the economic process as such. Here it is a matter of indifference whether or not you conceive the lender as the real owner and whether or not you conceive the debtor as jurisprudence does. For the moment we are only concerned with this question: How does the economic process take its course?

Here then we have a part of the economic process where the work is founded purely on what has already been spiritually achieved and acquired. That is to say, the very foundation of the work is already emancipated from the Naturebasis. True, it originated in the organisation of Labour; but we are now at a second stage, and if at this second stage — where a spiritual worker works as a debtor — you were still to describe the borrowed Capital which he receives as "crystallised Labour" or the like, you would be talking - economically sheer nonsense. It is immaterial to the economic process how the Capital which he owes originated. The important thing now is: What is the Spirit, what is the intelligence, of the man who receives the Money? Will he be able to lead it over into fruitful economic processes? The original Labour through which the Capital arose no longer has an economic value. The Spirit which the man applies in turning the Money to good account (giving it value) — this alone will have economic value at this stage. For, however much Labour you conceive as being stored up in the Capital, if a fool gets hold of it and "scatters it all to the winds," it is an altogether different thing than if a clever man gets hold of it and starts a fruitful economic process with it. At this second stage, therefore, where we have to do with lender and debtor, we are dealing with Capital from which the Labour has already disappeared. What then is the economic significance of this "Capital from which the Labour has disappeared "? It is twofold: In the first place it has been possible to raise and collect the Capital for lending purposes, and in the second place the Capital thus raised can be given value by spiritual means. Therein lies its true economic significance.

The reality which emerges from the process is the relation between the debtor and his creditors. In the economic process to which he now gives rise, the debtor stands in the middle. On the one hand we have him as a debtor; on the other hand we have that which proceeds from him as a spiritually productive man. What on the one hand is "lent" or "invested" Capital — through the very
fact that it becomes "owed" or "borrowed" Capital — passes over into the second stage of the economic process.

This is simply the circulation of Capital — nothing else. But this circulation is part and parcel of a social organic activity, just as you have the blood in a human or animal organic activity, when it flows through the head and is used for what the head produces. I may put it in this way: What is it that is brought about through this relationship of lenders and debtors? It is, ladies and gentlemen, very similar to the "difference of level" we meet with in Physics. If you have water up here it will flow down there, simply through the difference of level. In like manner there is a, social difference of level between the first position of the Capital and the second — the position of the lender who does not know what to do with it, and the position of the debtor who can make good use of it. This difference works as a difference of level.

But you must pause a moment to consider: What is the active driving force in this difference of level? The active principle is not simply the Spirit which is at work in the whole process. It is the diversity of human talents and dispositions. That is the determining factor in the difference of level. If a dullard possesses Capital, then, in a healthy economic organisation, he will be up here, while the clever man will be down there. The result is a "drop," or difference of level and the Capital flows downward to the clever man. It is through the difference of level between the talents of individuals that Capital is brought into flow. It is not even the positive activity of men; it is simply the human *qualities* of those who are united together in the social organism which produce this "difference of level" and, in doing so, carry forward the economic process.

Look at this economic process quite concretely, and you will say: We start from Nature, which has as yet no value. Clearly it has no value, for the sparrow, satisfying its needs from Nature, pays nothing for it. This is evident from the contrast of sparrow economy and human, or political, economy. Economic value begins where human Labour unites itself with Nature. Next, the economic process is continued through the division, the differentiation of Labour. Let us take it to begin with in an absolutely general way: We have human Labour applied to Nature. I will put it down as follows (though the full economic meaning of this will only emerge in the further course of these lectures). Let us designate what arises at this stage by NI — "Nature taken hold of by human Labour." What is it, economically speaking? It is, as we have already seen, a value. I will call it: "Nature taken hold of by human Labour, and thus made into a value" — NI<sup>v</sup>. That is one side.

Now comes the division of Labour. What does it signify? It signifies a dividing up of those processes which were performed in the first place as single completed Labour-processes applied to Nature and which now live a separate life. If I make a whole stove, I shall be performing many, varied Labourprocesses; if I now introduce division of Labour, I peel and part the Labourprocesses one from another. I divide. If NI<sup>v</sup> is "Nature-product transformed by Labour and made into a value," then what arises by the division of Labour (of course, we might denote it in many different ways) will be NI<sup>v1</sup>, NI<sup>v2</sup>, and so on.

Now if all this is a real process, how shall we express what happens when the division of Labour makes its appearance? Clearly, by a division, by a fraction. When the value which I have here written down passes over into the division of

Labour, the thing that is there in the reality must in some way be divided. The only question is: By what is it divided? What is the dividing principle? What is it that divides up the process? Well, we must now look to the other side. In pure Mathematics we only have to take what is given as number; but when we are to seek such arithmetical processes in the world of Reality itself, we must look for the real divisor, the real dividing principle. Now, as you will remember, we found, on the other side of the picture, "Labour taken hold of by the Spirit." Over against this (NI<sup>V</sup>) we may, therefore, place Labour taken hold of by the Spirit. This becomes a value on the other side:  $Ls^{V}$ . But we have today reached a certain conclusion concerning this "Labour taken hold of by the Spirit." We have seen what must arise if it is to work on beyond a certain point in the economic process, and if this (NI<sup>V</sup>) is divided and is to work on in the economic process — we have seen what enters the process for this  $Ls^{V}$  (Labour organised by the Spirit and made into a value): It is Money.

But the Money appears at this point not in its fully abstract nature; it is abstract, to begin with, if I may put it so — abstract as the substance to which the Spirit first applies itself — but it grows highly individualised, highly specific, when the Spirit takes hold of it and uses it for this or that purpose. In doing so, it is the Spirit as such which determines the value of the Money. Here, you see, Money begins to gain a concrete and specific value. For whether the man is a fool and throws the Money away on a thing that turns out unfruitful, or whether he applies it in a useful way, this now emerges as a very real value in the economic process. For your denominator, therefore, you will here get something that has to do with Money; while your numerator, I need hardly say, will have to do with the fact that you have before you that into which the substance of Nature has been transformed. What is a substance of Nature, transformed by Labour and present in the economic process? It is a Commodity. This, then, is the numerator; and for the denominator, corresponding to "Labour organised by the Spirit," you will have Money thus:

NI<sup>v</sup> Commodity

Ls<sup>v</sup> Money

New values come to light: — the "Commodity-value" and the "Money-value." In the economic process founded on the division of Labour, we must recognise this truth: The quotient of the total commodities present in the economic organism and the Money present in the economic organism (taking as "Money" not what is reckoned up in the cash-books, but what is actually taken hold of by the Spirit of the human beings) will represent a real inter-action. The Money is the divisor. This inter-action, which cannot be represented by a subtraction but only by a division, represents the real health of the economic process. To understand wherein this health consists, we must learn to understand what is at work in the numerator here and in the denominator. We must understand more and more wherein the essential nature of a Commodity on the one hand, and of the medium of circulation, the Money, on the other hand, consists. The most essential economic question cannot be solved at all unless we proceed in this exact way. But we must not forget that whatever appears in the economic life will always be fluctuating. Thus the moment the Commodity is taken from one place to another, the numerator here will change. Indeed, I can do no other

than point out at every turn, how fluctuating all things are in the economic process.

There is a great difference between the purse I have in my pocket which contains 5 francs, and the purse another man has, also containing 5 francs. It is not a matter of indifference whether the 5 francs are in the one pocket or the other. This too must be taken as a thing that belongs to the real economic process. Otherwise you will only get a few rigid, abstract, arbitrary concepts of Price, Value, Commodity, Production, Consumption and so on; you will get nothing to lead you to a true understanding of the economic process.

This is the infinitely sad thing in the present day. For many centuries mankind has grown accustomed to sharply outlined concepts, such as are inapplicable to a living process. Today we are called upon by the facts of life to get movement into our concepts, so as to penetrate the economic processes with conscious understanding; and we cannot do so. This is what we *must* attain: mobility of thinking, so as to be able to think a process through to its end guite inwardly. True, in ordinary science we also contemplate processes, we "think them through," if you will; but we always see them from outside and that is of no avail in Economics. To contemplate the economic process as the chemist contemplates his processes, from outside, you would have to go far up above the Earth in a balloon. The economic processes are distinguished by the fact that we ourselves are in them; therefore we must see them from within. We must feel ourselves *within* the economic processes, just as a being would do who was inside the chemist's retort where, with a great generation of heat, something is being concocted. The being in the retort, whom I am now comparing with ourselves, cannot of course be the chemist. It would have to he a creature taking part in the heat, boiling with it, as it were. The chemist cannot do this: to him the whole thing is external. In Natural Science, we stand outside the process. The chemist could not take part in it, with the temperature in the retort far above boiling-point. But the economic process is different; we ourselves partake in it inwardly at every point. Hence too we must inwardly understand it. A mathematician may well object: You have written something like a formula, but we are not used to building up our mathematical formulas in this way. True enough; for as a rule we only build up a mathematical formula as a result of contemplating natural processes from without. We must evolve a faculty of insight to get a numerator and denominator in this way, or to understand that it must be something like a division — that it cannot be a subtraction in this case. We must try to think our way into the economic process. For this very reason I chose that crude example vesterday. I did not introduce to you a tailor and a tradesman from outside, as a scientist would. The essential could not have been found in that way. But with our thinking accustomed to see things only as the natural scientist does from outside, we feel it uncanny to get inside a thing. Nevertheless, we must conceive inwardly the countless processes that intervene between the tailor and the effects which follow in the economic process.

I should not be true to the task you have set me if I described these things in any different manner. I am well aware that it makes it somewhat difficult at the outset.

# **World Economy**

#### LECTURE V

Dornach, 28<sup>th</sup> July, 1922.

#### LADIES AND GENTLEMEN,

We are now going to pursue a little further the sequence of events within the economic process which we considered yesterday. The economic process, as we have seen, is set in motion by human Labour working upon Nature, so that from the mere raw Nature-product — which has as yet no value in the economic process — we get the Nature-product transformed by human Labour. At the next stage, Labour is, as it were, caught up by Capital, which divides and organises it, till it eventually disappears in the Capital. For the further advance of the economic process, therefore, Capital itself must labour. But this labour of Capital is not labour in the old sense; rather the Capital is taken up by a purely spiritual activity. The economic process now goes forward by the Spirit "making good" the Capital, giving it additional value, as I described in the last lecture.

We must try to understand more and more the formula which was indicated yesterday. To this end, let me now describe diagrammatically — symbolically, as it were — what I explained yesterday. We may say: Nature goes under in human Labour (see Diagram 3. We have therefore this stream from Nature into Labour. Nature goes under in Labour. Labour continues to evolve. Then the values evolved stream onward, as it were, till Labour vanishes in Capital. We have traced the process up to this point (see Diagram 3). You can easily continue it for yourselves. The cycle must necessarily be completed in some way. The Capital cannot merely be blocked at this point, for otherwise we should be dealing not with an organic process but with one that would come to an end in Capital. The Capital must disappear once more into Nature. But you must first call to your aid another idea if you wish to understand this rightly.

Consider for a moment the economic process as we have traced it up to the present. First the elaboration of Nature by human Labour, then the organising of Labour by the Spirit and with it the rise of Capital, for Capital is a concomitant of the organising of Labour by the Spirit. Then the existence of Capital as such. Capital passes over from the Spirit which organised the Labour. The Capital becomes independent. The Labour disappears in its turn, and now the Spirit works in the Capital as inventive Spirit in connection with the whole social life. The technical aspect of invention need not concern us here; this will only come into question at a later stage.



If you now review all that I have described to you, you will see that I have presented everything from one side only. This was inevitable; for, apart from a few occasional hints, I have been speaking only of. production. I have indeed included, now and then, ideas that had to do with consumption, especially when we were trying to approach the question of price. But apart from that you will have found practically nothing about consumption in our discussions hitherto. I have been speaking of production. And yet, the economic process does not merely consist of production — it consists also of consumption.

A simple reflection will show you that consumption is exactly the opposite pole to production. We have been endeavouring to find the values that arise in the economic process within the sphere of production. Consumption on the other hand consists in a perpetual elimination of these values. In consumption they are constantly being used up. That is to say, it consists in a constant devaluation of the values. It is this that plays the other important part in the economic process — this constant devaluation of values. Indeed it is just through this that we have a certain right to call the economic an organic process, an organic process in which the Spirit presently intervenes. For it is of the essence of a living organism that something is continually being formed and again unformed. In any organism there must be a continual production and consumption, and this must be so in the economic organism too. There must be a constant producing and a using-up of what is produced.

At this point we begin to see in a different light, and from a different point of view, the value-creating forces which we have been considering. Hitherto we have only shown how values arise as the process of production takes its course. But now, every time a value approaches its moment of devaluation, the whole movement which we have been witnessing hitherto will change. So far, we have been observing a progressive, forward movement. Thus, values arise through the application of Labour to Nature; values arise through the application of the Spirit to Labour; values arise through the application of the Spirit to Labour; values arise through the application of the Spirit to Labour.

In fact, we have been observing the value-creating movement in the economic process. But as the devaluing factor of consumption enters into the process at every point, there will be something else as well. There will be that development of values which arises as between production and consumption themselves. When a value enters the process of consumption it no longer moves forward. It does not attain a higher degree of value, it no longer moves; for something now stands over against it. This is consumption — the development of a need. Here the value enters into a very' different sphere from that which we have hitherto been studying. We have been considering the value in its progressive, forward movement. (see Diagram 3) Now we must imagine it moving up to a certain point and being there arrested. Every time a value is arrested, there arises, not a further value-creating movement, but a *value-creating tension*.

This is the second element in the economic process. In the economic process we have not only value-creating movements but value-creating tensions. We can observe such value-creating tensions most conspicuously and simply where a consumer stands face to face with a producer or trader and in the very next moment the creation of value comes to an end, passing over into devaluation. Here there arises a tension — a tension which is maintained in equilibrium by the human need on the other side. Here the value-creating process is arrested. Human need or consumption confronts it and there arises the tension between production and consumption. This tension is also most decidedly a value-creating factor — albeit one that is comparable to a force that is arrested, held in equilibrium, rather than to a force that is working itself out. There is here a true analogy with the contrast in Physics between kinetic and potential energies — between kinetic energies and those energies of position where an equilibrium is brought about. If you do not take into account these energies of tension, these potential energies, in the economic process, you will be driven to the strangest misconceptions. Evolving the ideas as indicated here, we gain an intelligent conception of every economic relationship. Otherwise we are led into the greatest confusion. If, for example, you limit vourself to considering the *movements* of economic energies, you will never understand why the diamond in the King of England's crown has such an immense value. For here you are at once obliged to have recourse to the idea of economic tension-value. Many economists take into account the rarity of particular products of Nature; but we can never understand rarity as a valuecreating factor if we regard the movement in the economic process as the only creator of values. We must also learn to understand how there arises here and there — most of all through consumption, but through other relationships as well — what I would call the creation of value by tensions, situations, equilibria.

Thus you see that *devaluation* can also take place in the economic process which, as I said, you can therefore regard as an organic process — an organic process in which Spirit constantly intervenes. There must be — or rather, there is constant devaluation. As the values proceed on their way (see Diagram 3) from Nature through Labour to Capital, they will be accompanied by a continual process of devaluation. What would happen if this corresponding devaluation could not take place? You can see this from the diagram.

To make it clear, let us consider the question of credit. To place Capital into the service of the Spirit in the sense which I explained yesterday, the man who

produces by means of Spirit becomes a debtor. It is only through his having credit that he becomes or *can* become a debtor. At this point in our diagram credit steps in — the thing which may be properly called "personal credit." A man has credit. The credit can be expressed in figures. The Capital which many others advance to him is, so to speak, his personal credit. Now, as you know, this personal credit has a certain consequence, at any rate if we consider it within our present economic conditions. Its economic effect is connected with the rate of interest.

Assume that the rate of interest is low. If as a spiritual creator in the economic process I become a debtor, that is to say, if I demand credit, I shall only have to pay a small sum for it. Having *less interest* to pay, I can produce my goods more cheaply. Thus I shall have a cheapening effect on the economic process. We may say, therefore: Personal credit cheapens production when the rate of interest falls. So long as the Capital continues to be turned to good account or made valuable by the Spirit in the economic process, it is always so. When the rate of interest goes down, he who requires credit has more freedom of movement. He can play his part far more intensively in the economic process — more intensively, that is to say, for his fellow-men. For if he cheapens his commodities he is playing a fruitful part in the process — at any rate from the point of view of the consumer.

But now let us take the other side. Assume that credit is given on land — "real credit." When credit is given on land, the situation is essentially different. Assume that the rate of interest is 5%. A person borrowing Capital on the security of land must pay 5%. Capitalising this, you will get the Capital corresponding to the particular piece of land — that is to say, you will get the amount which would have to be paid to buy the piece of land outright. Assume now that the rate of interest falls to 4%. More Capital can then be "credited into" the land — this at any rate is what actually happens. Thus we see everywhere, as a result of a falling rate of interest, land becoming not cheaper but more expensive. When the standard rate of interest goes down, land does not become cheaper but more expensive. "Real credit" makes things more expensive while "personal credit" makes things cheaper. That is to say, real credit makes land more expensive while personal credit makes commodities cheaper. Now this means very much in the economic process. It means that, when Capital returns to Nature and simply unites with Nature in the form of real credit (in other words, when there is a union of Capital with land, that is to say, with Nature), then the economic process will tend more and more in the direction of dearness.

Thus the only sensible thing will be for the Capital at this point (see Diagram 3) not to preserve itself in Nature but rather to vanish into Nature. How then can Capital vanish into Nature? So long as it is at all possible to unite Capital with Nature — that is to say, so long as you can make Nature in its original unelaborated condition more and more expensive through the accumulation of Capital — so long as this is possible, Capital cannot vanish into Nature; on the contrary, it penetrates into Nature and maintains itself there. Thus in all countries where the law of mortgage makes it possible for Capital to unite with Nature, we shall find a congestion of Capital in Nature, i.e., in the land. Instead of the Capital being expended at this point (see Diagram 3) — instead of its disappearing at this point, instead of a value-creating tension arising — there

is a further value-creating movement, which is harmful to the economic process. There is only one way of preventing this. In a healthy economic process we must not and cannot give "real credit " - credit based on the security of land — even to a person working on the land. He too should only receive personal credit — that is to say, credit which will enable him to turn the Capital to good account through the land. If we simply unite the land with the Capital, the Capital will become congested the moment it arrives again at Nature (see the diagram). If on the other hand we unite it with the spiritual capacities of those who have to administer the land and further the economic process by working upon it, then, you see, the Capital vanishes. As it reaches Nature at this point, it will not become congested; it will not be preserved, but will go right on through Nature, back again into Labour, and will begin the cycle once more. It is one of the worst possible congestions in the economic process when Capital is simply united with Nature, that is to say, when (to trace the economic process hypothetically from its initial stages) after Labour and Capital have evolved from the starting-point of Nature, the Capital is enabled to take hold of Nature instead of losing itself in Nature.

At this point you may, of course, make a serious objection. In the course of this movement, you may say, the Capital has come into being. Suppose it now arrives again at Nature and there is too much of it. (It would be different if we were able to lead it over into Labour — if we were able, let us say, to invent new methods so as to further the exploitation of raw products. For in such a case we should be uniting not Nature but Labour with the Capital. If we arrive at this point with our Capital and exploit the raw products in a more economical way, or open out new sources or the like, then we are leading the Capital directly over into Labour). But suppose there is too much Capital. The several owners of Capital will become painfully aware of the fact; they will not be able to start anything with their Capital. This is indeed the case if you look into the matter historically. In actual fact, too much Capital did arise, and the only way out which it could find was to conserve itself in Nature. Thus we witnessed in the economic process the so-called rise in the value of land.

But, ladies and gentlemen, consider the matter in our present, larger context. The Land Reformers always describe these things in an inadequate way, so that the thing cannot be understood. Consider it in a larger context and you will say: If I unite Capital with Nature, the value of Nature will of course be enhanced. The more a thing is mortgaged, the more will eventually have to be paid for it. The value is constantly increased. But is this increase in the value of land a *reality*? No, it is no reality at all. By nature, land can never receive a greater value. It can at most receive a greater value by being worked upon in a more rational and scientific way, and in that case it is the Labour that increases the value. But to imagine the land itself, the land as such, increased in value is absurd. It is absolute nonsense. If you do improve the quality of the land, you only do so by working upon it. In so far as it is mere Nature, the land can have no value at all. All you can do is to give it a fictitious value by uniting Capital with it. So that we may say: What is called the value of land in the sense of present-day Economics is in real truth none other than the Capital fixed in the land. And the Capital fixed in the land is not a real value but an apparent value — a semblance of a value. That is the point. In the economic process it is high time that we learnt to under-stand the difference between real values and apparent values.

You see, if you have an error in your system of thought you do not observe its full effect to begin with. For however many disturbing processes in the organism are in fact connected with the error in thought, the connection is only recognisable by Spiritual Science. It escapes the crude Natural Science of today. People are unaware, for instance, how digestive and similar troubles in our peripheral organs arise as a result of such errors. But in the economic process it is just the errors and semblances which are obviously effective. which grow real and have real consequences. And, economically speaking, it makes no essential difference whether, for example, I issue money which has no foundation in reality but represents a mere increase in the amount of paper money, or whether I assign capital value to the land. In both cases I am creating fictitious values. By inflating the currency I increase the prices of things numerically, but in the reality of the economic process I effect absolutely nothing except a redistribution which may do immense harm to individuals. In like manner the above-described capitalising of land does harm to those who are involved in the economic process.

It would make a very interesting study to compare, for example, the mortgage laws existing before the War in the Mid-European countries with the English mortgage laws. In the Mid-European countries it was possible to screw the socalled value of land up and up and up without limit. The law itself made this possible. While in England on the other hand it is true to say, in a certain sense, that this is not so. Compare the effect on the economic process in the one case and in the other. The thing would make an interesting subject for a dissertation. It would make a very good subject, to compare statistically the working of the English mortgage laws with those of Germany.

I have thus illustrated the essential point in our present context. At this point (see Diagram 3) Nature simply must not be allowed to tend towards a conservation of Capital. Capital must be allowed to work on, unhindered, into Labour. But what is to happen if it is actually there — more of it than we are able to make use of? The only thing to prevent its being there in excess is to see that it is used up along this path (see diagram), so that in the last resort only so much of it is left at this point as can enter once more into the work to be done upon the land. That is to say only so much of it is left, as is required for this work. The essential and obvious thing is that the Capital should be used up, consumed along this path (see diagram). Indeed — assuming for a moment for the sake of hypothesis that it could be so — it would be a most appalling thing if nothing were consumed along this whole path. We should have to take the products with us. The process only becomes organic through the fact that things are used up. Just as the Nature-products, transformed by human Labour, get used up, just as the Labour which has been organised by Capital gets used up, so in its further path the Capital itself simply must be used up, properly used up. This using up of Capital is a thing which positively must be brought about.

It can only be brought about if the whole economic process from beginning to end — i.e., right up to its return to Nature — is ordered rightly. There must be something there like the "self-regulator" in the human organism. The human organism, at any rate when it is functioning normally, manages to prevent promiscuous deposits of unused foodstuffs. And if unused foodstuffs are deposited here or there, we are ill. Suppose, for instance, that in the process of digestion in the head, substances are deposited, that is to say, an irregular digestive process arises in the head. The substances that are deposited are no longer carried away — that is to say, their consumption is not properly regulated. Then we get migraine conditions. In like manner you will see the same principle at work in all parts of the human organism. The cause of morbid symptoms lies in the inadequate absorption and removal of what has to be digested. It is just the same in the social organism, when that which ought really to be used up at a certain point becomes accumulated. It is a matter of sheer necessity for the Capital to be used up along here, (see Diagram 3) in order that it may not unite with Nature and so become unliving — a petrified deposit, as it were, in the economic process. For capitalised land is in fact an impossible deposit in the economic process.

Let me expressly state that there can be no question here of any sort of political agitation. I simply unfold these matters as they take shape out of the natural process itself. We are only considering the scientific aspect. But a science that deals with human actions cannot possibly be pursued without indicating the kinds of morbid symptoms that can arise; just as we cannot study the human body without indicating the various possible morbid symptoms. There must, therefore, be a proportionate using up, consumption of Capital — certainly not a total consumption, for it is necessary that a certain amount should pass on, so that Nature may be elaborated once more.

This again I can make clear to you by a picture. Consider a farmer in *his* economic life. He must certainly try to get rid of the yield of his acres; but he must also keep sufficient seed for the next year. Seed must be preserved. This is a very apt comparison, and we may well apply it to the process we are now considering. Capital must be used up, until that alone remains which we may conceive as a kind of seed to kindle the economic process anew — once more from the starting-point of Nature. That alone must remain which may be necessary for a more scientific exploitation of natural resources — of raw products, or for an improvement of the land, let us say, by the creation of better manures and the like. Now in every such case Labour must be applied. Thus it is that amount of Capital, which can work on as Labour, which must be withdrawn from consumption. But before this point in the diagram is reached, the surplus Capital which would otherwise unite with Nature in an inorganic way must be used up.

Here you may say: "Well, tell us how it is to be done? How is it to be brought about that only just enough Capital arrives at this point for use as a seed for the future? Tell us how it is to be done."

Well, ladies and gentlemen, in the science of Economics we stand on the ground, not of logic, but of reality. We cannot give the kind of answers which are sometimes given, for example, in the theory of ethics. In the theory of ethics we can admonish a criminal very soundly and we shall have done all that is required. But the economic process *must go on,* and we must speak of realities. When we spoke of Production, showing how it created economic values, we were indeed speaking of realities. And, that Consumption is a reality, everyone is well aware. In Economic Science one must always be speaking of realities. Ideas by' themselves have no effect in the real world. That which will rightly regulate the economic process, at this point in the diagram,

finds expression in what I called the "Economic Associations " in my book *The Threefold Commonwealth.* 

If you make the economic life independent; if you bring together, in Associations suitably composed, the human beings who are actually taking part in the economic life — whether as producers, as traders or as consumers — then, through the economic process itself, these human beings will find it possible to arrest the formation of Capital if it is too intense and to stimulate it if it is too feeble.

This of course implies a right observation of the economic process. For instance, if at any place a certain kind of commodity becomes too cheap or too dear, those concerned must be able truly to observe the fact. The mere fact in itself is not the point. But when, through experiences which can only grow out of the concerted counsels of the Associations, they are able to say, as a result of such experiences: "Five units of money for so and so much salt are too little or too much, the price is too low or too high" — then and then only will they be in a position to take the necessary steps.

If the price of a commodity becomes too cheap, so that those who produce it can no longer receive sufficient remuneration for their excessively cheap services and their excessively cheap products, it will be necessary to assign fewer workers to this particular commodity. Workers will therefore have to be diverted to another piece of work. If, on the other hand, a commodity becomes too dear, workers will have to be led over into this branch of production. Thus the Associations will always be concerned with a proper employment of men in the several branches of the economic life. We must be clear on this. A real rise in the price of a given economic article indicates the necessity for an increase in the number of those who are working on this article, while an undue fall of price calls for measures to divert workers from this field of Labour to another. In reality we can only speak of prices in relation to *the distribution of men* among the several branches of Labour in a given social organism.

The kind of view that sometimes holds sway today, where people always have the tendency to work with notions rather than realities, is illustrated by some advocates of "free money" ["*Freigeldleute*"]. To them it appears quite simple. If prices anywhere are too high, so that too much money has to be spent in purchasing a certain article, they say: Let us see to it that the amount of money becomes less; then the commodities will be cheaper, and vice versa. But, if you think it out more deeply, you will find that this signifies nothing else for the economic process in reality, than as if by some mischievous device you were to cause the column of mercury to rise when the thermometer indicates that the room is too cold. You are only trying to cure the symptoms. By giving the money a different value you create nothing real.

You create something real if you regulate the Labour — that is to say, the number of people engaged on a certain kind of work. For the price depends on the number of workers engaged in a given field of work. To try to regulate these things bureaucratically, through the State, would be the worst form of tyranny; but to regulate it by free "Associations," which arise within the social spheres, where everyone can see what is going on — either as a member, or because his representative sits on the Association, or he is told what is going

on, or he sees for himself and realises what is required — that is what we must aim at.

Of course this also involves quite another social need. We must see to it that the worker is not restricted to one solitary manipulation throughout his life, but is able to turn his hand to other things. Moreover, as I beg you to consider, this will be necessary, if only for the reason that otherwise too much Capital would arrive at this point in the diagram. You can use up the surplus Capital, which would be excessive at this point, to instruct and educate the workers in one thing or another, so as to be able to transplant them into other callings. You see, therefore, the moment you think in a rational way, the economic process will correct itself. That is the essential thing. It will never correct itself if you say: "By this or that measure, by inflation or by the issue of such or such official instructions, the thing will be improved." By such means it will never be improved. It will only be improved by enabling the economic process to be clearly and transparently observed at every place, assuming always that those who make the observations are in a position to follow them out to their logical conclusions.

I wanted to reach this point in our argument today, in order that you might see that there was no question of starting any "agitations" with the "Threefold Commonwealth" as we intended it. We wanted to tell the world what follows from a real and true study of the economic process itself.

[ Make Corrections | Help ]

# **World Economy**

### LECTURE VI

Dornach, 29<sup>th</sup> July, 1922.

#### LADIES AND GENTLEMEN,

You know, perhaps, that in my *Threefold Commonwealth* I endeavoured to express in a formula how we may arrive at a conception of "true price" (as we will call it to begin with) in the whole economic process. Needless to say — to begin with, such a formula is only an abstraction. And it is the object of these lectures (which, I believe, in spite of the shortness of the time, will really form a whole) — it is our very object in these lectures to work the whole science of Economics, at any rate in outline, into this abstraction.

The formula which I gave in my *Threefold Commonwealth* was as follows: "A 'true price' is forthcoming when a man receives, as counter-value for the product he has made, sufficient to enable him to satisfy the *whole* of his needs, including of course the needs of his dependents, until he will again have completed a like product." Abstract as it is, this formula is none the less

exhaustive. In setting up a formula it is always necessary that it should contain *all* the concrete details. I do believe, for the domain of economics, this formula is no less exhaustive than, say, the Theorem of Pythagoras is for all right-angled triangles. But the point is — just as we have to introduce into the Theorem of Pythagoras the varying proportions of the sides, so shall we have to introduce many, very many more variables into this formula. Economic Science is precisely an understanding of how the whole economic process can be included in this formula.

Today I intend to start from one essential feature of the formula. It is this. The formula does not point to what is past but to what is going to happen in the future, for I say in it, of set purpose, "the counter-value must satisfy the man's needs in the future — namely, until he will have made a like product again." This is an absolutely essential feature of the formula. If we were to demand a counter-value, literally, for the product which the man has already finished — if we expected *this* to be true to the real economic facts — it might well happen that he would receive a value which would only satisfy his needs, say, for fivesixths of the time which he will take in finishing the new product. For the economic facts alter from the past into the future. He who imagines that he can draw up any kind of table from the past, will invariably go wrong in economics. Economic or business life essentially consists in setting future processes in motion with the help of what went before. But where past processes are thus used to set future ones in motion, it inevitably happens in some cases that the values are considerably shifted. Indeed they are constantly shifting. Hence in this formula it is essential to say: "If someone makes a pair of boots, the time he took to make them is not the determining factor in the economic sense. The determining factor is the time he will take to make the *next* pair of boots." That is the point, and we must now try to understand its fuller implications within the whole economic process.

Yesterday we brought before our minds this cycle (see Diagram 3): Nature, Labour, Capital — that is, Capital endued with value by the Spirit, At this point I might just as well write (instead of "Capital") "Spirit." To begin with we followed out the economic process in this direction, counter-clockwise, and we found that at this point congestion must not be allowed to occur. On the contrary only so much must be allowed to go through as will act as a kind of seed to carry on the process. A state of economic congestion must not be allowed to arise through a fixation of Capital in ground rents. Now, as I said, fundamentally speaking, the return for land when it is sold — i.e., when land is given a value in the economic process — works in direct opposition to the interests of a person engaged in the manufacture of valuable goods. For if a man wishes to manufacture valuable goods with the help of Capital, it is to his interest that the rate of interest should be low. Having less interest to pay, he will be less hampered in his use of the Capital he has borrowed. The landowner, on the other hand (I may go fully into these things, as they are of economic significance), the landowner, or anyone who has an interest in the land becoming dearer, will be able to make it dearer simply by a reduction in the rate of interest. If he has a low rate of interest to pay, the value of his land will grow, it will become dearer and dearer. Whereas a man engaged in the manufacture of valuable commodities will be able to make them cheaper because of a low rate of interest. Commodities, therefore, which depend mainly on manufacture, become cheaper when the rate of interest is low. Land, on the

other hand, which gives a yield without first having to be manufactured, becomes dearer when the rate of interest is low. You can easily work it out. It is an economic fact.

It would appear then to be necessary to arrange for two different rates of interest: We ought to have a rate of interest as low as possible for the installation of works for the production of valuable commodities; and a rate of interest as high as possible for everything that falls under the heading of "land." This follows directly from what we said before. We want a rate of interest as high as possible for all that comes under the heading of "land." But that is a thing which cannot easily be carried out in practice. A *slightly* higher rate of interest for Capital advanced on land might be practicable, but this would be of little help. A considerably higher rate of interest — say, for instance, the rate of interest which would keep the land at an ever constant value, namely, 100% — would be extremely difficult to realise in practice without taking additional steps. 100% interest for money borrowed on land would mend matters at once, but it cannot be carried out in practice. In all such cases, the first point is to see with full clarity into the economic process. When we do so, we soon realise that the life of Associations is the only thing that can make it healthy. Rightly to see the economic process will lead to our being able rightly to *direct* it.

In the economic process we must speak, as I indicated yesterday, of Production and Consumption. We must observe the producing and the consuming process. This contrast has played a great part recently in various much-canvassed economic theories which in due course have been used for purposes of agitation. There has especially been much dispute upon the question, whether *spiritual or intellectual work*, as such, is in any way valuecreating in the economic sphere.

The spiritual worker is certainly a consumer. Whether he is also a producer in the economic sense is a question which has been much discussed. The extreme Marxists, for example, have again and again cited that luckless fellow, the Indian book-keeper, who has to keep the accounts for his village community. He does not till the fields or do any other productive work; he merely registers the productive work done by others. The Marxists deny him the faculty of producing anything. They declare that he is simply and solely maintained out of the surplus value which the productive workers create. This worthy book-keeper is worked as hard in Economics as Caius is in the formal Logic which we did at college. Caius's job is proving the mortality of man. You remember: "All men are mortal, Caius is a man, therefore Caius is mortal." His everlasting function of proving the mortality of man has made him immortal in the world of Logic. The same thing has happened in Marxian literature to the Indian bookkeeper who is maintained simply by the surplus value of the productive workers. He has become a classic.

This question is, if I may say so, extraordinarily full of "snags," in which we very easily get caught when we try to work it out economically. I mean the question: How far (if at all) spiritual work is economically productive? Now here it is especially important to distinguish between the past and the future. For if you consider, if you reflect statistically on, the past only, with respect to the past and to all that is only the *unbroken* continuation of the past, you will be able to prove that spiritual work is unproductive. From the past into the

future within the material sphere, only purely material work and its effects can be held to be productive in the economic process. It is quite a different matter when you turn your eye to the future. And, as we said, to be engaged in economics is to be working from the past into the future.

You need only think of this simple instance. Assume that in some village a craftsman, who manufactures this or that, falls ill. Under certain given circumstances — let us say, if he falls into the hands of an unskilful doctor he will have to lie in bed for three weeks, during which time he will be able to do nothing. He will disturb the economic process to no small extent. If he is a cobbler, for three weeks long the boots and shoes will not be brought to market — taking the word "market" in the widest sense. But now suppose he gets a very skilful doctor who makes him well in a week. He can go back to work again in a week. In all seriousness you can now decide the question: Who made the boots for the remaining 14 days, the cobbler or the doctor? In reality it was the doctor. And now the thing is altogether clear. As soon as you take into account the future from any given moment onward — towards the future you can no longer call the Spiritual unproductive. In relation to the past, the Spiritual — or rather, those human beings who work in the spiritual sphere are consumers only. In relation to the future they are decidedly productive, indeed they are the producers, for they transform the whole process of production and make it pronouncedly different for the economic life. You can see this from the example of the tunnel. What happens when tunnels are built nowadays? They could



not be built unless the differential calculus had been discovered. To this day, therefore, Leibnitz is helping to build all tunnels. The way prices work out in this case has really been determined by that exertion of his spiritual forces. You can never answer these questions in Economics if you consider the past in the same way as the future. But, ladies and gentlemen, life does not move towards the past, nor does it even prolong the past; it goes on into the future.

Hence no economic thought is real which does not reckon with what is done by spiritual work, if we may call it so, that is to say, fundamentally by thinking. But spiritual work is not an easy thing to grasp. It has its own peculiar properties which are not at all easy to grasp in economic terms. Spiritual work begins the moment work itself — that is to say, Labour — is organised. The organising work of thinking begins the very moment Labour itself is organised and divided. Thenceforward, it grows more and more independent. Consider the spiritual work of one who directs some undertaking within the material sphere. You will see that he applies an immense amount of spiritual work. Nevertheless he is still working with the resources with which the economic process provides him as from the past. But even on guite practical grounds you cannot get around the fact that the sphere of spiritual activity (if I may now call it "activity" instead of work or labour) also includes the entirely free kind of activity. When a man invents the differential calculus, and even more so when he paints a picture, there we have a case of entirely free spiritual activity. At any rate, relatively speaking, we can call it free. For whatever materials are derived from the past — the paints and the like — they no longer have the same significance in relation to the eventual products as do the raw products, for example, purchased for material manufacture.

Passing into this region, therefore (see Diagram 4), we come into the sphere of the completely free spiritual life. In this sphere we find, above all things, teaching and education. Those who have to teach and educate stand undoubtedly within the sphere of the completely free spiritual life. For the purely material economic process, it is especially the free spiritual workers who are, in relation to the past, absolutely and exclusively consumers. Of course, you may say, they produce something, and, if they are painters, for example, they are even paid something for what they have produced. In appearance, therefore, the economic process is the same as when I manufacture a table and sell it. And yet the process is essentially different as soon as we cease to consider the buying and selling of the individual and turn our attention to the economic organism as a whole — and this is what we must do in the present advanced stage of division of Labour.

Now there are also pure consumers of another kind within a social organism, namely, the young and the very old. Up to a certain age, the young are pure consumers; and those who have been pensioned off are again pure consumers. A very little reflection will suffice to convince you that if there were no pure consumers in the economic process — *mere* consumers who are not producers at all — the thing could not go forward at all. For if everyone were producing, all that is produced could not be consumed if the economic process were to go forward at all. It is so at any rate as human life is, and human life is not purely economics; it must be taken as a whole. The real advancement of the economic process is only possible if it includes pure consumers.

But I must now illumine from a different angle this fact: that we have pure consumers within the economic process.

You see, this circle (in the diagram) can be made very instructive. We can endow it with all manner of properties, and the question will always be, how to bring the several economic processes and facts into this circle, which represents for us the cycle of the economic process. Something very important

happens when, in buying and selling in the market, I pay on the spot for what I get. The point is not that I pay for it with *money*; I might equally well barter it for a corresponding commodity which the other person was willing to accept. The point is that I pay at once. Indeed it is this that constitutes "paying" in the proper sense of the word. Now here once more we must pass from the ordinary, everyday conception to the true economic conception. For in the economic life the several concepts constantly play into one another. The total phenomenon, the total fact, results from the interplay of the most diverse factors. You may say: "It is conceivable that some regulation should be made, so that no one need ever pay cash down; then there would be no such thing as 'paying at once'; one would only pay after a month or after some other interval of time." But the point is this: We are forming our concepts altogether wrongly when we say: "Some-one hands me a suit of clothes and I pay for it after a month." The fact is that after a month I no longer pay for this suit of clothes alone. In that moment I am paying for something guite different. I am paying for something which circumstances, by raising or lowering prices, may have made quite different. I am paying for an ideal element in addition. In fact, we cannot do without the concept of "immediate payment." This is the concept which holds good in cases of simple purchase. Nay more, a thing becomes a commodity on the market through the very fact that it is paid for at once. This is generally the case with those commodities which are "Nature transformed by Labour," For such commodities I pay, Here payment plays the essential part. There must be such payment. I pay at the very moment when I open my purse and give away my money; and the value is determined in the very moment at which I give away the money, or exchange my commodity for another. That is payment. That is one thing there must be in the economic process.

The second thing, which plays a similar part to payment, is the thing to which I drew attention yesterday. It is *Lending.* This, as I said, does not interfere with the concept of payment as such. Lending, once more, is an altogether different fact, a fact which simply exists. If I have money lent me, I can apply my Spirit to this loaned Capital. I become a debtor; but I also become a producer. In this way, lending plays a real economic part. If I have intellectual or spiritual capacities in some direction, it must be possible for me to obtain loaned Capital. No matter where I get it from, I must have it. Thus in addition to payment there must be loan (see Diagram 4). Here then we have two very important factors in the economic process: *Payment* and *Loan*.

And now by a simple deduction — we must verify it here (see diagram) — by a very simple deduction you can find the third. You will not doubt for a moment what the third thing is. We have had Payment and Loan. The third thing is *Gift. Payment, Loan* and *Gift* — this is a real trinity of concepts, essential to a healthy economy. There is a prevailing disinclination to include "free gift" in the economic process as such, but, ladies and gentlemen, if there is not a giving somewhere, the economic process cannot go on at all. Imagine for a moment what we should make of our children if we gave them nothing. We are constantly making free gifts to the children. If we consider the economic process as a whole — as a process that goes on and on continuously — Gift is part of it. There is no escaping the fact. It is wrong to regard the transfer of values from hand to hand, representing a process of free gift, as something inadmissible in the economic process as such. Precisely this one of the three

is found — with horror by some people — worked out in my book, *The Threefold Commonwealth*, where it is shown how values are to be transferred, how means of production, for instance, are to be transferred, by a process really identical with giving, to one who has the faculties necessary for managing them further. Provision must, of course, be made that the giving is not done in a haphazard way. But in the economic sense they are none the less free gifts, and such gifts are absolutely necessary.

You will find it more and more to be an economic necessity. The trinity of *payment, loan* and *gift* is there in the economic process. Consider the matter thoroughly and you will say: In every economic process this must be contained. Otherwise it would be no economic process; it would lead to absurdities at every point.

People may rebel against these things for a time; but we must remember that economic wisdom is today not very great. Those especially who want to teach it should be under no illusions on this point. Modern economic knowledge is by no means great. People are little inclined to go into the real economic relationships. This is an obvious fact, so obvious that if you look in today's Basler Nachrichten you will find curiously enough a reflection on this very fact. Neither Governments nor private people nowadays, it says, are inclined to evolve real economic thinking. I think we may take it that anything expounded in the Basler Nachrichten is likely to be obvious. It is indeed a palpable fact and it is interesting to find it discussed in this way. The article is interesting, inasmuch as it endeavours to set in a glaring light the absolute impotence which prevails in the economic sphere; interesting, too, because it says that these things must be changed — it is time Governments and individuals began to think differently. But there the matter ends. *How* they are to think differently — on this you will, of course, find nothing in the Basler Nachrichten — which is also interesting!

Now it is possible to interfere in the economic process in a disturbing way, if one does not rightly relate the one thing with the other in this trinity. Many people today are enthusiastically demanding the taxation of legacies (which, of course, are also gifts), Such proposals have no deep economic significance. For we do not lessen the value of the inheritance if, say, it has a value V and we divide the value V into two parts,  $V_1$  and  $V_2$  giving  $V_2$  to some other party and leaving the legatee with  $V_1$  alone. All it means is that the two together will now do business with the original value V, and the question will be whether he who receives  $V_2$  will husband it as advantageously for the economic life as would the original legatee who would otherwise have received  $V_1$  and  $V_2$  together. Everyone of course may settle this question for himself according to his taste, whether a single clever man, receiving the whole legacy, will husband it better, or whether it will be better for one to receive only part while the State receives the other part, so that the individual is obliged to do business in conjunction with the State.

This sort of thing definitely leads us away from pure economic thinking. It is a thinking based on resentment, on feeling. People envy the rich heir. There may be reason for it, but we cannot look at it only from this point of view if we claim to be thinking in an economic sense. The point is, how must the thing be conceived in the economic sense, for whatever else has to be done must take its start from this. You can, of course, conceive a social organism becoming

diseased through the fact that payment is not working together in an organic way with loan and gift, since one or the other is being obstructed and one or the other fostered. But they will still go on working together in some way. If you abolish giving on one side, you merely effect a redistribution, and the question to be decided is not whether this ought to be done, but whether it is necessarily advantageous. Whether the individual heir alone should receive the inheritance, or whether he must share it with the State, is a question which must first be settled on economic grounds. Which is more advantageous? That is the point.

The important thing is this: Free spiritual life arises almost of necessity out of the entry of the Spirit into the economic life. As a result of this free spiritual life, as I said just now, there will be pure consumers so far as the past is concerned. But what of the free spiritual life in relation to the future? Here it is productive — *indirectly* it is true — but none the less extraordinarily productive. Imagine the free spiritual life in the social organism really freed, so that the individual faculties were always able to evolve to the full. Then the free spiritual life will be able to exert an extremely fertilising influence on the half-free spiritual life — i.e., on that spiritual life which enters into the processes of material production. Considered in this light, the thing takes on a decidedly economic complexion.

Anyone who can observe life with an unbiased mind will say to himself that it is by no means a matter of indifference whether in a given region all who are active in the free spiritual life are exterminated (for instance, if they got nothing to consume, the right to live being admitted only for those who work directly into the material process) or whether really free spirits are allowed to exist within the social organism. For the free spirits have the peculiar property of loosening and liberating the spirituality, the "gumption" of the others. They make their thinking more mobile, and these others are thus able to work into the material process more effectively. But it is important to remember that the free spirits are living men. You must not try to refute me by pointing to Italy and saying: There is a great deal of free spiritual life there, yet the economic processes which proceed from spirit have not been stimulated to any unusual degree. Granted, it is a free spiritual life. But it is a free spiritual life handed down from the past. There are statues, museums and the like; but they do not have this effect. Only what is living is effectual — that is to say, what proceeds from the free spirit and passes on to other spiritual producers. This is what works as a productive factor into the future, even in the economic sense. It is certainly possible to exert a healing influence on the economic process by giving a free field of action to free spiritual workers.

Suppose now that we have a healthy Associative life in a community. The task of the Associations will be to arrange production in such a way that when too many people are working in any sphere they can be transferred to some other work. It is this vital dealing with men, this allowing the whole social order to originate from the insight of the Associations that matters. And when one day the Associations begin to understand something of the influence of free spiritual life on the economic process, we can give them a very good means of regulating the economic circuit. I mentioned this in my *Threefold Commonwealth.* The Associations will find that when free spiritual life declines, too little is being *given freely;* they will grasp the connection. They will see the connection between too little giving and too little free spiritual work. When there is not enough free spiritual work, they will realise that too little is being given. When too little is being given, they will notice a decline in free spiritual work.

There is then a very definite possibility of driving the rate of interest on Natureproperty right up to 100% by transmitting as much Nature-property as possible in the shape of free gifts to those who are spiritually productive. In this way you can bring the Land question into direct connection with what works particularly into the future. In other words, the Capital which presses to be invested, the Capital which tends to march into mortgages and stay there, must be given an outlet into free spiritual institutions. That is the practical aspect. Let the Associations see to it that the money which tends to get tied up in mortgages finds its way into free spiritual institutions. There you have the connection of the Associative life with the general social life. Only when you try to penetrate the realities of economic life does it begin to dawn on you what must be done in the one case or in the other. I do not by any means wish to agitate that this or that *must* be done. I only wish to point out what *is*. And this is undoubtedly true: What we can never attain by legislative measures namely, to keep the excess Capital away from Nature — we can attain by the life and system of Associations, diverting the Capital into free spiritual institutions. I only say: If the one thing happens, the other will happen too. Science, after all, has only to indicate the conditions under which things are connected.

# **World Economy**

### **LECTURE VII**

Dornach, 30<sup>th</sup> July, 1922.

### LADIES AND GENTLEMEN,

We have now seen how the economic system as a whole takes its course; we have seen how purchase or sale, loan and gift act as impelling factors, motive factors, within this system. Let us realise at once that there can be no economic system without this interplay of loan, gift and purchase. The influences, which create the economic values (of which we have already spoken from one aspect) and lead to the forming of price, will therefore proceed from these three factors: purchase, loan and gift. The important thing is to understand *how* the three factors work in the forming of price. Only by perceiving this, shall we succeed in any degree in formulating the price problem.

It is very necessary that we should have a distinct view of the real nature of separate economic problems. In this respect our present Economic Science is full of unclear ideas — ideas which, as I have often explained, become confused mainly because they try to grasp *at rest* what is in constant movement.

Granting then that gift, purchase and loan are inherent in economic movement, let us consider what in our present-day economy are — if I may so call them the principal *factors of rest*. Let us turn for a moment to what is perhaps one of the commonest topics nowadays and a principal source of the errors that find their way into Political Economy. People talk of "Wages," and they talk of them in such a way as to make them look like the price of Labour. If the so-called wage-earner has to be paid more, they say: "The price of Labour has gone up." If he has to be paid less, they say: "Labour is cheaper." Thus they actually speak as though a kind of sale and purchase took place between the wageearner who sells his Labour and the man who buys it from him. But this sale and purchase is fictitious. It does not in reality take place. That is the trouble in our present economic conditions. On all hands we have hidden or masked relationships — relationships which develop in a way not in accordance with what in a deeper sense they really are. I have spoken of this before.

Value in the economic system, as we have already seen, can only arise in the exchange of products — in the exchange of commodities or — more generally - of economic products. It cannot arise in any other way. But what follows? If value can only arise in this way, and if moreover the price of the value is to be arrived at along the lines laid down yesterday (that is, by seeing that the producer of a given product receives, as its counter-value, what he will require to satisfy his needs during the production of another like product) — if this is to be possible, the various products must, as it were, reciprocally determine one another's value. And, after all, it is not difficult to see that this is what actually happens in the economic process. Only it is masked by the fact that money steps in between the objects exchanged. But the money is not the important thing. We should not take the slightest interest in money if it did not foster the exchange of products, making the process not only more convenient but less expensive. We should have no need of money if it were not for the fact that when a man brings a product to the market — under the influence of the division of Labour — he cannot be bothered to fetch what he needs from wherever it may happen to be; instead, he takes money for it, so that he may supply his needs later on at his own convenience. In fine we may say: It is the mutual tension, arising between the various products in the economic process, which must be concerned in the forming of prices.

Let us consider from this point of view the so-called wage-nexus, that is, the Labour-nexus. We cannot really exchange Labour for anything; since, as between Labour and anything else, there is no possibility of reciprocal determination of value. We may fancy that we are paying for Labour, we may even actualise this fancy by letting in the wage-nexus. But we do not really do anything of the sort. In reality, even in the Labour or wage-nexus, it is *values* which are exchanged. The worker produces something directly; he delivers a product, and it is this product which the enterpriser [*Unternehmer*] really buys from him. In actual fact, down to the last farthing, the enterpriser pays for the *products* which the workers deliver to him. It is time we began to see these things in their right light. The enterpriser buys products from the worker; and after he has bought them it is his business to impart to them a higher value, by making use of the conditions present in the social organism and by his own enterprising or "undertaking" spirit. It is really this which gives him his profit. He gains on the transaction because, having bought the commodities from his workers, he is able by his "knowledge of the market" (we must not shirk unpleasant expressions) to enhance their value.

Thus, in the Labour-nexus we are dealing with a true purchase. And, ladies and gentlemen, we cannot speak of a surplus value arising through the Labournexus as such. All we can say is that in such and such circumstances the price which the enterpriser pays is not according to the true price, of which we spoke yesterday; and this is a thing we shall often find in the economic process — that, although the products reciprocally determine one another's values, although they have their real values, these values are not actually paid for in the course of commercial dealing. It is easy enough to see that all values are not really paid for. Take the case of a manufacturer on a small scale, who suddenly inherits a large legacy. Tired of the whole factory business, he decides to sell his stock-in-trade, and does so at an absurdly low price. That does not mean that the commodities decrease in value; it only means that the true price is not paid. Thus in actual economic intercourse prices are constantly being falsified. We must not forget this. In the course of commercial dealing prices may often be falsified. But there is, nevertheless, a true price. The commodities sold by the man in the above example are worth just as much as the same commodities produced by someone else.

Now that we have tried to make it clear that the wage-nexus does really involve a purchase, let us consider what is involved by rent — by the price of land. You see, the conditions under which the price of land originates are not those of a mature economy. To take an extreme instance, we may consider how a piece of land may have come under the control of particular persons by conquest, that is, by the exercise of force. Even here, no doubt, the element of exchange will enter in to some extent; the invader will have granted certain portions of the conquered territory to those who helped him to victory. Here, then, at the starting-point of an economic process we have something that is not properly economic. The process is not really economic; it is a process to which we can only apply the word "power" or "right." By means of power, rights are gained — rights, in this case, over land. Thus we have the economic domain bordering on the one hand on these relationships of right and power.

But what is it that takes place under the influence of such relationships of right and power? This is what happens continually: The man who has the free right of disposal over land looks after himself better than those others whom he attaches to himself as labourers — who deliver the products to him by their Labour. I am speaking now not of the Labour, but of the products of the Labour; it is the products of Labour with which we are concerned. The others have to deliver more to him than he delivers to them. This, indeed, is only the prolongation of his relationship to them of conquest or right. Now, what *is* this excess of what they give him over what he gives them? What is it, in other words, that falsifies the price relationship in this case ? It is none other than compulsory gift! Here, then, the relation of giving comes in, with the sole difference that the man who is to make the gift does so not of his own free will, but by compulsion; it is in fact a compulsory gift. That is what happens in relation to the land. Through the compulsory gift, the price which farm-products really ought to have in terms of other products is actually raised.

Thus the price of all things capable of subjection to such relationships of "right" has an inherent tendency to rise above its true level. So, for instance, if foresters or huntsmen are living with farmers, the foresters and huntsmen will come off better than the farmers. Farmers, among forest people, have to pay higher prices to the foresters for what they give them — higher prices, that is to say, than the true exchange prices as between their respective products. for the simple reason that in forestry, more than anywhere else, it is as a pure matter of right that the owner has the thing at his disposal and determines prices. Farming requires some real Labour; but in forestry, hunting and the like, we come very near to the pure "Labour-less" valuation — a valuation proceeding solely from relationships of right and power. Again, if handicraftsmen are living among farmers, the prices once again will tend to rise above their true level on the farmer's side; while on the other hand they will sink beneath the true level as against handicraft. Life is dearer for handicraftsmen among farmers; life is comparatively cheaper for farmers among handicraftsmen (assuming there are enough of them to make any appreciable difference). Handicraftsmen among farmers will find life comparatively dearer. Thus, the sequence governing this tendency for prices to rise above or to sink below their true level is as follows: First, forestry, then farming, then handicraft and, lastly, the entirely free spiritual work. These are the lines along which we should approach the problem of price-formation in the economic process.

There is a tendency, an inherent tendency, in the economic process to create rent. The economic process tends, as it were, of its own accord, to submit itself to this necessity of paying more dearly for farm products than for other things. This tendency obtains where there is division of Labour — and all our remarks have reference to a social organism in which there is division of Labour. This tendency is called forth through the fact that what I had to repeat twice over a few days ago, to the bewilderment of a large number of the audience (namely that the man who provides for himself lives more expensively and for that reason must take more for his products, must estimate them at a higher value than one who gets his products in free commercial dealing from others), that this simply does not come in in the case of farming.

In relation to the various branches of industry, ladies and gentlemen, this has a very real meaning, albeit you may have to think a very long time to find your way to that meaning. But in respect to agriculture and forestry it has no meaning. We must never forget that, when we are dealing with realities, the various concepts only hold good for certain regions; they change for other regions. This is equally true in other walks of life. What is a means of healing for the head, is pernicious — is a means to disease — for the stomach; and vice versa. And so it is in the economic organism. For example, if it were at all possible for the farmer *not* to provide for himself, the rules we apply for the general circulation of commodities would be right in his case, too. But the fact is, he can do no other than provide for himself; for within the economic process the entire agriculture of a social organism forms of its own nature a single entity, however many individual landowners there may be. Accordingly,

the farmer *must* in every case keep back, from the totality of his products, what he has to provide for himself. Even if he gets it from another farmer, in reality he is still keeping it back. The farmer is essentially a man who provides for himself. Hence he is obliged to value his goods more expensively. The consequence is that prices must rise on his side.

It follows that there is an inherent tendency to create rents in the economic process. The only question will now be: How to make these rents harmless in the economic life? But in the first, place we must know that this tendency to create rent exists. If you abolish rents, in one form or another they will be created again, for the simple reason which I have just explained.

You see, for the same reason which underlies the tendency in the economic process to create rent, there arises, on the other hand, the tendency of the industrialists to devalue Capital, to make Capital cheaper and cheaper. We shall best understand this tendency if we get it clear to begin with that Capital cannot really be bought, True, there are dealings in Capital; people "buy" Capital. But every such purchase of Capital is once again merely a masked relationship; in reality we do not buy Capital, we only borrow it. Yet, in the end, even if the relationship is apparently other, you will always be able to unmask it and expose the *loan* character of industrial Capital. I say expressly, of industrial Capital, for if you extend the principle to rents it is no longer the case. But it is certainly the case with industrial Capital, for the simple reason that there is a constant tendency to undervalue, as compared with other things, that which depends on the human Will — that is to say, handicraft or manufacture and entirely free activity (at this point in the diagram)). Industrial Capital is altogether implicated in the free activity of the Spirit; hence it is constantly being devalued; and we may say, on *this* side (Diagram 4), there is inherent in the economic process a tendency, while we create rents, to lower industrial Capital, to make it lower and lower in value. Just as things become more and more expensive on the one side, on the side of ground-rent, so do they become cheaper and cheaper on the other side, on the side of Capital. Capital has a permanent tendency to go *down* in its economic value, or rather in its economic price. Rents have a permanent tendency to rise in price.

There is also another reason from which you will see that industrial Capital must inevitably go down. We said just now that in farming one cannot help providing for oneself. It is just by this self-provision that the rise in the value of farm-products is brought about. At the same time you will see that in the case of industrial Capital, where the loan principle predominates, one cannot provide for oneself; one cannot provide for oneself with Capital. What one does provide for oneself must be included in the balance sheet nowadays in precisely the same way as what one borrows — if the balance sheet is to be correct. Since, therefore, at this point (Diagram 4) one cannot provide for oneself, it follows that the opposite tendency obtains — the tendency towards lower prices.

Everything depends on our seeing clearly through these relationships in the economic process. For then we shall see that it is by no means easy to establish true prices. The true price is constantly being upset by the fact that, on the one hand, there are things appearing on the market which tend to be too high in price, while, on the other hand, there are things appearing which tend to be too low in price. And since the price is settled by exchange, being in the

middle, between the two, it is continually exposed to these influences. You can observe this very clearly in the economic process. In the same measure in which the products of forestry and agriculture grow more expensive, those produced by free human activity grow cheaper. Thus there arise those relationships of tension which give rise to social unrest and discontents. This, therefore, is the most important question in relation to the formation of price: How can we deal with the natural tension which exists in the creation of prices, as between the values accruing to goods arising out of the free will of man, and the values accruing to those goods in the production of which Nature participates? How can we get at this tension? How can we equate the one, the downward, tendency with the other, upward tendency?

Through division of Labour, more and more highly differentiated products arise. You need only remember how simple are the products arising, let us say, among a hunting or forest community. Here the price difficulty scarcely comes into question; but as soon as agriculture is added to forestry, the difficulty begins. In effect, the difficulty lies in the differentiation; the further the division of Labour extends, and new needs arise in the process, the more does the differentiation of products increase, and the difficulties connected with priceformation accumulate. The more varied are the products, the more difficult does it become to bring about their reciprocal valuation — and the valuation can only be reciprocal. This may be seen from the following comparison: There is a reciprocal valuation even in the case of products only slightly differentiated one from another — say, for instance, wheat and rye and other agricultural products. But follow the thing out over a long period of time and you will find the relationship of reciprocal valuation as between wheat, rye and other cereals remains fairly stable. If wheat goes up, the other cereals go up; if wheat goes down, the other cereals go down with it. This is due to the fact that there is comparatively *little* differentiation between these products; as soon as the differentiation becomes greater, this constancy no longer obtains. For it may well happen, through various events in the social organism, that some product which someone has been accustomed to exchange for another suddenly shoots up in price, while the other may go down at the same time. Think what revolutions are thus brought about in economic relationships. Altogether the things that happen in the economic world depend far more on the relative risings and fallings in price than on any other circumstance. It is by the relative rise and fall in prices that the difficulties of life itself are introduced into the economic sphere. As to whether the products as a whole rise or fall if they all rose or fell uniformly, it would concern us very little. What interests people is that the different products rise or fall to a different extent. This fact is emerging in a very tragic way just now, under the present economic conditions. Products rise and fall in varying measure. Money-values especially are rising and falling, but in the money-values we simply have stored up what were once upon a time real values. By this rising and falling, an entire mingling and confusion is now being brought about in society.

From this we can see that there is another way, too, in which we must look at the factors operative in the economic organism. We took our start from the several factors which are enumerated by orthodox Economics, but we saw that the mere enumeration of Nature, Capital and Labour leads us no farther. Precisely when you add what we have said today to what has been said before, you will see that the pricing or valuing of Nature-products does not come about through purely economic relationships, but also through relationships of right or title; while, on the other hand, the valuing of industrial Capital is influenced by the free human Will with all that it unfolds when it is active in public life. Consider all that is necessary in order to collect a sum of Capital for a given purpose. Here the free human will comes in. Where lending is concerned, free human will has a very great part to play — indirectly perhaps, for the man who wants to keep savings is naturally going to invest those savings; but whether he ever saves at all, or not, is an expression of his Will. Here, then, the free human Will plays a real part. Now, if we take this into account, we shall find yet another classification of the economic factors beside the one which we have been considering hitherto.

Up to now I have given you a diagrammatic classification. I showed: There is Nature, but value only arises through Nature elaborated, that is to say, it only arises when Nature moves in the direction of human Labour; and again, value will only arise through human Labour when it moves on towards Capital, i.e., towards the Spirit. In this way the tendency arises to return again to Nature. This, as we saw, can be prevented by leading over the excess Capital, not into the land, where it would become fixed, but into free spiritual undertakings where it vanishes, save for the remnant which must continue as a kind of seed, by which the economic process may be fertilised and maintained.

Now, in addition to this movement which begins from left to right (see (Diagram 5) there is another movement. The former movement, as we have seen, gives rise to elaborated Nature, organised or articulated Labour, and emancipated Capital — Capital, that is to say, which figures only within undertakings dependent on mind or Spirit — *active* Capital. The other movement does not lead to the creation of values in this way, the preceding element always being taken on by the next, but goes in the opposite direction; the first movement runs counter-clockwise, the second clockwise. Here, in the first movement, something arises through the former member always working on into the next; in the other movement something arises through the fact that that which flows in one direction receives, as it were, what is flowing in the other direction and embraces it. You will see what I mean directly. Remember that Capital is, properly speaking, Spirit realised in the economic process; so that I can write at this point "Spirit" — which gives us Nature, Labour and Spirit. Now when the Spirit absorbs and receives the elaborated Nature (Nature transformed by Labour) — when it does not merely lead it on into the economic process in the continued counter-clockwise movement, but absorbs it — Means of Production arise. What we call means of production is something different — it is in guite an opposite process of movement — from a Nature-product which has been elaborated for consumption. It is a Nature-product taken in charge by the Spirit - a Nature-product which the Spirit needs. From the pen which I possess as my means of production to the most complicated machinery in a factory, means of production



are, as it were, Nature grasped by the Spirit. Nature can be elaborated and sent on in this direction, in which case it becomes Capital; or it can be sent in the other direction, in which case it becomes means of production.

And now, what arises at this point with the help of means of production can move on and be taken in charge in turn by human Labour. Just as Nature is here received by the Spirit, so can the means of production (in the widest sense of the term) be received in turn by Labour. What have we then, when Labour receives the means of production — when means of production and Labour are united? It is *Industrial Capital*, for in effect industrial Capital consists in this very union. Thus if you follow the process out, you get a movement whereby means of production and industrial Capital coalesce.

And if this movement be now continued, so that Nature (albeit another portion of Nature) from time to time receives what has been produced with the help of means of production a and industrial Capital, then and then only does there arise in the economic process what we may call *Commodity* in the proper sense. For the commodity is at once taken over by the process of Nature. Either it is eaten, in which case it is taken up very decidedly by Nature; or it is used or otherwise destroyed. In short, a thing becomes a commodity by the very fact that it returns to Nature.

So that you may say: We have now traced out the movement, which is inherent in the whole economic process and which contains the three factors: Means of Production, Industrial Capital and Commodity. Here, at this third point in the diagram, the distinction becomes unusually difficult; for when the thing we are seeking is shifting to and fro in the process of exchange proper — that is, in purchase and sale — it is extraordinarily difficult to distinguish whether it is moving in this direction or in that — whether it is a commodity or something that cannot be called a "commodity" in the true sense of the word. How does a piece of goods become a "commodity"? In describing this counter-clockwise movement, to make the nomenclature quite exact, I ought really to write "goods" instead of "commodities" and in the opposite movement I ought to write "commodity"; for a "commodity" may be defined as a piece of goods in the hands of the tradesman, the merchant who offers it for sale and does not use it himself.

Today my main purpose was that we should acquire such concepts as point to the true relationships in the economic process. These true relationships are again and again being diverted, by falsified processes, into a mode of operation which introduces constant disturbances into the economic process. Continually to smooth out and compensate for the disturbances is one of the essential tasks of Economics. People keep on saying that we ought to get rid of the evils of economic life; and they are inclined to have at the back of their minds the notion: "Then everything will be all right and the earthly paradise will begin." But that is just as though you were to say: "I should like, once and for all, to eat so much that I need never eat any more." I cannot do that; for I am a living organism wherein ascending and descending processes must constantly be taking place. Such ascending and descending processes must equally be present in the economic life; there must be the tendency on the one hand to falsify prices by the forming of rent, and on the other hand the tendency to lower prices on the side of industrial Capital. These tendencies are present all the time, and we must understand them in order to obtain, as far as possible, those prices which represent a minimum of falsification.

To this end it is necessary, by direct human experience, to take hold of the economic process as it were in the nascent state — to be *within* it all the time. The individual can never do this; nor can a society above a certain size. (A society, for example, such as the State). It can only be done by Associations growing out of the economic life itself, and able therefore to work out of the immediate reality of the economic life. The greater the technical accuracy with which we study the economic process, the more are we led to recognise that the required institutions must grow out of the economic life itself. Then, they will be able to observe the kind of tendencies that are at work and how these can be counteracted.

# **World Economy**

### LECTURE VIII

Dornach, 31<sup>st</sup> July, 1922.

#### LADIES AND GENTLEMEN,

Today we shall have to correct certain current misconceptions which merely hinder anyone who wishes to think objectively, in accordance with realities, on matters of Political Economy, or to enter with such thinking into the actual course of economic life. For an economic science which cannot fertilise our practical life is of no real value. The concepts derived from this merely contemplative economic science must always prove rather inadequate.

We have already seen that the most important question in Economics is that of Price. The point will now be to observe prices in the sense which I have indicated. The rise or fall, or stability of prices — the fact that the prices of certain products are too high or too low (for one *can* have a feeling of these things) — indicates whether or not the economic organism is in good order. It must fall to the Associations to discover, from the barometer of prices, what is to be done in the economic life as a whole.

Now you are familiar with the point of view, still widely prevalent, according to which nothing can be done in practice with the price problem except to allow the so-called law of supply and demand to take its course. It is true that under the pressure, not so much of economic facts as of the increasingly urgent demands of the social movement, this theory has been shaken — the theory (maintained by many others besides Adam Smith) that prices regulate themselves of their own accord through the working of supply and demand. The theory simply says: If the supply is too great, this will of itself lead to its reduction — the supply will not be maintained at that level. In this way a regulation of prices will automatically ensue. Similarly, if the demand is too great (or too small) it will inevitably follow that the producers will regulate matters so as not to produce too little (or too much). Under the influence of supply and demand it is thus imagined that prices on the market will, automatically, as it were, approach a certain stable level.

It is important to know whether with such an idea as this we are merely moving in a theoretical world — in a notional system — or whether we are truly entering into realities. And we are certainly not entering into realities. For as soon as you really tackle these concepts of "supply" and "demand" you will see that it is quite impossible, economically speaking, even to establish them. As contemplative students of Economics you can do so, no doubt — you can send people into the market to observe how supply and demand are working. But the guestion is: With such observations, are you entering deeply enough into the working of the economic processes? Can you make any use of these concepts? In reality you cannot, because you are leaving out in every case what lies behind the processes which you are trying to grasp. You look at the market; you see the working of "supply" and what is called "demand." But that does not include what lies behind the phenomenon of "supply"; nor will it comprise all that *precedes* the appearance of "demand." Yet it is there that you will find the real economic processes, processes which are only summarised, so to speak, in the market itself. The best evidence of this is the extraordinary fragility of these concepts.

If we wish to form proper, useful concepts, our concepts can and must be mobile in relation to life. We must be able, as it were, to carry such a concept about from one domain of reality to another, and as we do so the concept itself must change. It must not simply go up in smoke. But that is just what happens with the concepts of "supply" and "demand." Take "supply": It is "supply" when a man brings commodities on to the market and offers them for a price. That is "supply," you say; but I say: No, it is "demand." For if a man brings commodities on to the market and wants to sell them, in his case it is unquestionably a demand for money. In effect, if we do not enter further into the economic process, it makes no difference at all whether I have a supply of commodities and a demand for money, or whether I come forward with a "demand" in the cruder sense. If I wish to develop a demand, I must have a supply of money.

Supply of commodities is demand for money and supply of money is demand for commodities. And these are economic realities, for the economic process (in so far as it consists in trade or barter) cannot take place at all, unless there are both supply *and* demand in the case of both buyer *and* seller. For what the buyer has for supply — namely, money — must also first have been evolved in the economic process somewhere behind his back, or behind the back of the demand, just as the commodity which appears as a supply must also first have been evolved.

Our concepts are quite unreal if we imagine that price arises from the interaction of what is ordinarily called "supply and demand." In actual fact, price does not evolve at all as it is defined by this line of thought. For the development of price is undoubtedly influenced by the question, whether the demander can become a supplier of money, or whether perhaps, at a given time in the whole working of the economic process, he cannot become a supplier of money with respect to a given product. The point is, not only that there must be a certain number of commodities available as supply, but also that there must be a certain number of people able to develop a supply of money for these particular commodities. This will show you at once that we cannot simply speak of an inter-action of supply and demand.

On the other hand, if we look now not to the concepts (which may always be wrongly formed) but to the real facts — the facts of the market or even of the pure, "marketless" exchange of commodities and money — it is unquestionable that prices evolve as between supply and demand. Only the supply and demand are always there on both sides. This is undoubtedly the case, as a pure matter of fact.

The important thing is this: Supply, Demand and Price are three factors, every one of which is primary. We cannot merely write: "Price is a function of supply and demand," or — to speak mathematically — treat S and D as variables and P, the price, as a third magnitude resulting from the two, i.e., P = f(S, D). No; we must regard all of them, S and D (supply and demand) and P (price), as mutually independent variables and by that means arrive at another magnitude, X. You see, we are coming to a formula. We must not merely suppose that S and D are the independent variables and that the price is a function of the two. No; we have three mutually independent variables which come into mutual interplay and give rise to something new: X = f(S, D, P). The price *is* there between the supply and demand, but it is there in a peculiar way.

The fact is, we must approach this whole line of thought from another angle. If we do see supply and demand, at any given point on the market, in the relationship in which Adam Smith saw them — if it really *is* so in any particular domain — then it is approximately so for the circulation of commodities as seen from the standpoint of the Trader. Even here, it is not entirely the case. And it is absolutely *not* the case from the standpoint of the Consumer, nor from that of the Producer. For the consumer something quite different is true. The standpoint of the consumer is conditioned by what he *has*. Between what the consumer *has* and what he *gives*, a relationship arises, similar to that which arises for the trader as between supply and demand. The consumer has to consider the mutual inter-action between *price* and *demand*. He demands less when for his pocket the price is too high; he demands more when for his pocket the price is sufficiently low. Altogether, as a consumer he confines his gaze to price and demand.

We may say, therefore, that in the consumer's case we must observe rather the inter-action of price and demand; in the trader's case we must observe rather the inter-action of supply and demand. Lastly, in the producer's case we shall have to observe the inter-action between supply and price. For he will in the first place arrange his supply of commodities according to the prices that are possible in the whole economic process. Thus we may call our first equation — P = f(S, D) — the Trader's Equation. Adam Smith applied it to the economic system as a whole. Thus applied, it is incorrect. For we can also form the following equation: We can regard supply, S, as a function of price and demand. And thirdly, we can indicate demand as a function of supply and price. In this last equation we shall have D = f(S, P) — that is to say, demand is a function of supply and price. This is the Producer's Equation. And in the equation, where supply is a function of price and demand -S = f(P, D) - wehave the Consumer's Equation. But as I beg you to observe, we shall still have made these equations qualitatively different, inasmuch as here (in the consumer's case) the supply is a supply of money, in the producer's case it is a supply of commodities.\* In the case of the trader we have to do with something that lies midway between "money" and "commodity." †

P = f(S, D) ...... Trader's Equation.

S = f(P, D) ...... Consumer's Equation.

D = f(S, P) ..... Producer's Equation.

\* In the producer's case the demand appears to be a demand for money; in the consumer's case it is a demand for commodities. — Ed.

At any rate, you see how far more complicated our thoughts on the economic life must be. It is just because we try to get at the ideas so easily and guickly, that we have no proper science of Economics today. If we wish to enter into the realities, we must ask ourselves: What is there in this economic life? What really lives in it? We may say: What I get for my own needs comes in the first place into my realm. (I will speak of "property" and "ownership" at a later stage; at present I will express myself as indefinitely as possible — even so, it will suffice to cover the facts). It passes — under the conditions that obtain today — into my realm. I give money or something that I have produced instead of money. That is how things happen as a rule. But think: In saying this, have we really exhausted the full reality of economic life? After all, I may acquire things otherwise than by giving a commodity for money or money for a commodity. I may acquire money and commodities in a different way. Suppose I steal them. Then, too, I shall have acquired something. And if I should carry on the stealing on a large enough scale, as the old robber chieftains sometimes did for decades at a time — why, to apply to such conditions, a very

<sup>†</sup> Price. — Ed.

different science of Economics would have to be evolved from that which has, generally speaking, to be evolved for our own code of ethics! Well, it may seem to you a grotesque example when I say: "Suppose I steal the things!" But what is stealing in reality? To steal is to take something away from someone else without his being in a position to defend himself; or again, without the stealer finding it convenient to exchange the thing for an adequate return. Compare, for example, this now disreputable concept of "stealing" with the concept which we (in the German language) signify with a foreign word, when we speak of "requisitioning" or "commandeering." Under certain circumstances one commandeers things — that is to say, one takes something away from people and gives them nothing in return. In other cases, too, it happens in the economic process that something is taken away from people and they receive nothing in return. These are things which we need only mention, for if we dwelt on them any longer, people would imagine that we were anxious to agitate; and I only wish to develop a science here, I do not wish to "agitate." Now assume for a moment that somewhere or other — within a comparatively small region - I establish a social order wherein money is abolished. Instead, I organise a system of raids with the necessary armed forces. Those who possess anything are knocked down or killed and the things taken away from them. Well, what is there against that happening? There is this: that the others may perhaps defend themselves. In that case they must have the means to do so. Or again, it might not be worth while. If my territory were not large enough, it would not be worth while.

All this shows that something else has to play over into the economic process at this point. I cannot without more ado take something away from someone else. Why not? Because first, it must somehow be recognised by my fellowmen that I shall be allowed to keep it. And it will by no means be recognised that I am allowed to keep what I have acquired by killing my fellow-men in the surrounding country. What is it then that plays into the economic life at this point? It is the life of Rights; it is Law and Order. You cannot really consider the economic process without observing how law plays into it at every point. You cannot think out the economic life, nor can you bring to pass whatever it may be that you intend, without considering this interplay of legal Rights and Economics. Why, the moment you pass from mere barter to trade assisted by money, you see directly how the principle of Law plays into Economics. For how otherwise, ladies and gentlemen, could it be possible, in return for a pair of boots, to get not a top hat, say, but a pound or whatever it may be, I have saved myself the trouble of giving the tradesman a top hat; I have given him a pound instead. I have my boots; he has the pound. How otherwise should this be possible? If the pound (even if it were a golden sovereign) were recognised by no one as a real value — a value for which something could be received again in return — if it were not rightly installed in the whole economic process, the cobbler might have collected ever so many pounds; it would be of no use to him. Thus the moment Money makes its appearance in economic intercourse we see guite palpably the appearance of the element of law. It is extremely important to bear this in mind. We can only look at the social organism as a whole, if we pass from purely economic events to events which take place under the influence of the life of rights.

Let us now assume that I have got my pair of boots from the cobbler and have given him the pound. Now it might happen that the cobbler, just after having

sold me the pair of boots, suddenly remembered that cobblers have at times in the world's history been something else besides cobblers (witness Hans Sachs and Jacob Boehme) and having got the pound he might think of doing something quite different with it instead of making another pair of boots. He might do anything with it, into which he put his ingenuity, his genius. So that the pound would suddenly have quite a different value for him than the value of a pair of boots. Thus, the moment we have transformed the commodity into money, that is to say into a lawful right, the right can either be kept (I use the pound to buy me something of equal value with the pair of boots) or through my ingenuity I can do something with the money to produce an altogether new value in the economic process. It is here that the human faculties come in. The individual faculties, which grow guite freely among men, enter in and incorporate themselves in the rights which men acquire with money, just as money, which may be regarded — in this sense — as rights realised, incorporates itself outwardly in the commodity. Thus we have now placed into the organic process which we described provisionally when we spoke of Nature, Elaborated Nature, and Labour divided and organised by the Spirit we have now placed into this whole process the principle of Law or Rights and the Individual Faculties of men. We have found, within the economic process itself, a division which is in truth a threefold order — a Dreigliederung (threefold memberment, threefold articulation). Only it is necessary that we think of this *Dreigliederung* in the right way.

If we observe the economic process, we perceive that just because the things I have now been describing are real facts, just because of this, certain *impossibilities* are actually realised in the economic life. For, you see, one can also acquire a right by conquest or the like; by having the power to take it. One does not always acquire a right by mere exchange; one can also acquire it by having the opportunity or the power to take it for oneself. Here we have an element in right, which, in so far as it is present, is guite incapable of comparison with commodities. There is no point of contact between commodities and rights. Nevertheless, in the actual economic process, commodities (or the money-values representing them) are perpetually being exchanged for rights. Precisely when we pay for land, even when we merely help with our rent to pay for the value of the land, we are paying for a Right with a Commodity or with the money which we have received for a Commodity. At any rate, we pay for a Rights-value with a Commodity-value. Again, when we appoint a school teacher and give him a certain salary, we are (sometimes, at any rate) paying for spiritual faculties with the value of a commodity or a corresponding money-value. Thus there perpetually occur in the economic process exchanges between Rights and Commodities, between Faculties and Commodities and also between Faculties and Rights.

Mutually incommensurable things are exchanged for each other in the economic process. Consider what happens when someone gets paid for an invention, which he has patented. To begin with he accepts payment for a purely spiritual value that is being paid for in commodity-values. There is absolutely nothing that could figure as a standard of comparison in such a case. Here we are touching on an element where Life enters into the economic process with a vengeance! And the thing becomes still more complicated when we introduce the concept of Labour. I have already said that the wage-labourer does not in reality receive what is generally understood by the idea of "wages," but that he really sells the product of his Labour for shillings and pence to the enterpriser and thus receives payment. It is only through his expert knowledge of the market that the enterpriser gives the proper value — or at any rate a higher value — to that which he buys from the labourer. Economically considered, the profit is not extracted from the Labour as a surplus value. By economic thinking we cannot possibly arrive at such a judgment. We can at most arrive at it by a moral judgment. The profit is due to the fact that the labourer is in a less favourable social situation. The products which he sells have less value at the point where he sells them than at the point where the enterpriser sells them. For the enterpriser is in a different position — he knows the circumstances far better, he can sell at a greater advantage. The worker's relation to the enterpriser resembles the case of a man who goes on to the market and buys a commodity for a given price. He *must* buy it there, for the simple reason that his circumstances will not allow him, let us say, to buy it anywhere else. Another person may perhaps be able to buy it more cheaply at another place. The two cases are exactly the same. Economically speaking, that which obtains as between the enterpriser and the wage-labourer is simply a kind of market.

But it undoubtedly does make a certain difference, ladies and gentlemen, whether I am fully conscious that this is the case or whether I imagine that I am paying the labourer for his Labour. You may think the difference merely theoretical, but let such a view of things — or two such views, the one and the other — become real. Let them be realised, and you will see how the economic relationships change under the influence of one view or the other. For what happens between human beings is, among other things, the result of their mental outlook, of the ideas they entertain. As our mental outlook changes, it changes the course of events. Today the whole proletariat bases its agitation on the idea that Labour must be properly paid for, But in fact Labour is nowhere paid for; only the products of Labour are paid for; and this — if it were truly understood — would also come to expression in the actuality of price. We cannot say that it makes no difference whether we call something a wage or the price of a commodity. For the moment we speak of wages, we imagine that we are paying for Labour, and then we go on to all the secondary concepts which confuse Labour as such with other economic processes which are value-creating. Then the social conflicts arise in a false way. The social contracts arise in a true way, in so far as they arise out of sentiments and feelings. Sentiments and feelings are always in some way right; but we can never correct what ought to be corrected if we have not the right concepts. This, ladies and gentlemen, is the fatal thing in social life. Often the grievances arise in a way which is right, but the corrections are made under the influence of false concepts. In every detail people evolve these false ideas and carry them over into their whole conception of the economic process, so as to work havoc.

Take a very simple example. A gentleman (this is a true story) once said to me, "I am very fond of sending picture postcards to my friends. I send lots of them." I said, "I am not at all fond of sending picture postcards — and that," I said, "for economic reasons." At that time I had not quite as much to do as I have now. "Why?" he asked. I said, "Every time I send a picture postcard, I cannot help thinking: Perhaps a postman will have to run right up to the fourth floor with it. In short, I cause a change, a redistribution, in the economic process. It is not the Labour of the postman that matters, but in the postman you cannot easily distinguish the 'service,' the thing done, from the Labour. It is the service that we must estimate. If I keep sending picture postcards to my friends, I increase in an uneconomic way the services to be rendered by postmen." "That is an economic fallacy," said the other man; "for on the assumption that one postman need only do a limited amount, an increase in the number of picture postcards will mean that new postmen will have to be employed and these postmen will get paid. So you see," he said, "I am really a benefactor to the people who get these jobs." I could only answer: "Yes, and do you also produce all that they eat? You do not increase the available means of consumption in the very least. You merely bring about a redistribution. To employ more postmen is not to increase the available means of consumption."

Yet this very idea, ladies and gentlemen, often brings about the very crudest errors in individual cases. For suppose that there is a Borough Council consisting of people like my friend — as may well happen; indeed, such men may even become Cabinet Ministers and then it will be a Cabinet. Then they will say: "There are so and so many unemployed. Let us put up new buildings or the like, then the people will be provided for." Yes, for the next five steps ahead you have rid yourselves of the problem, but you have still produced nothing new. The workers as a whole have no more to eat than they had before. If I let one side of the scale sink, the other side must rise. Thus if you give such instructions, not as part of a whole coherent economic process but as a mere isolated measure, an economic calamity must necessarily have arisen on the other side. If we knew how to observe these things, we should be able to reckon it up: By making social reforms in this way, merely giving means of subsistence to the destitute or unemployed, by having new buildings erected, we shall have increased the price of this or that article for a number of other people. In the economic sphere, above all, we must not think short-sightedly. We must think all things in connection. We must think things in connection with one another, as a whole.

But, you see, that is not at all easy to do, for the simple reason that the economic process is very different from a scientific system. A scientific system in its totality can be contained in a single human being — perhaps only in outline, but still, it can be contained within a single human being. But the economic process can never take place in its totality within a single human being. The economic process can only find its reflection where judgments, proceeding from men who stand in the most varied spheres, are working together.

The only possibility of arriving at a real judgment on these things — not a theoretical but a *real* judgment — is by way of association. In other words, take the three equations once again: A man who is familiar only with the ways and customs of a tradesman will always have the first equation in his head. He himself will trade under the influence of this equation; he will thus be in a position to know the influence which this equation exerts. Likewise the consumer who intelligently follows and observes the process of consumption will understand the influence of the second equation; and the producer will know all that is subject to the influence of the third. At this point you may say: But surely, men are not so unintelligent as not to be able to think beyond their

own narrow horizon. Surely a man who is merely a consumer or merely a tradesman can think beyond his own horizon? Yes, that is perfectly right, where one general world outlook is concerned. But in practical economic life there is no other effective way of knowing what is going on in trade, for example, except to be engaged in trade oneself. You must be in the midst of it, you must be trading. There is no other way. There are no theories about it. Theories may be interesting, but theories are Natural Science. The point is not that you should know how trade goes on in general, but that you should know how trade neighbourhood. And if you know that, you do not thereby know how they circulate in the Lugano district. The point is not that we should know about things in general, but that we should know something in a particular region. Likewise if you can form an effective judgment as to the higher or lower prices at which scythes or other agricultural implements can be manufactured, you do not thereby know the prices at which screws can be manufactured or the like.

The judgments that have to be formed in the economic life must be formed out of immediate, concrete situations. And that is only possible in this way: For definite domains or regions (whose magnitude, as we have seen, will be determined by the economic process itself) Associations must be formed, in which all three types of representatives will be present alike. From the most varied branches of the economic life, there must be the representatives of the three things that occur in it — Production, Consumption and Circulation.

It is really tragic that no understanding should be found in our time for what is after all so simple and so sensible. For, the moment there is a real understanding, the thing can be done, not even by the day after tomorrow, but by tomorrow. It is not a question of radical changes, but of seeking for the proper associative union and co-operation in each case. You need only summon the will and the intelligence to do it. This is the thing that touches one so painfully, for at this point, after all, economic thinking does to some extent coincide with moral and religious thinking. To me, for instance, it is quite unintelligible how this way of tackling the economic problem could have been entirely neglected by those who are officially in charge of the religious needs of the world. For there can be no doubt about it, during recent times it has clearly emerged that the economic facts are no longer being mastered. The facts have gone beyond the mastery of human beings. Today we stand before this question: How can the thing be mastered, how shall we grapple with it? It *must* be mastered by human beings, by human beings in association.

I do not wish to make a pun at the end of a very solemn line of thought, but I would say: Our science of Economics has not kept pace, in its conceptions, with the transition which has actually taken place from the economics of barter to the economics of money and the economics of human faculties. In its essential concepts, our Economic Science still fumbles about within the economics of barter. It continues to regard money as though it were just a symbol for barter. I know that this will not be readily admitted. But it is implicit, none the less, in the prevailing theories. And so we have this situation: In the older economic systems (though these may no longer appeal to us today) people bartered or exchanged (German *tauschen* = *to* barter). Then money came in. (As I said, I do not wish to make a pun, but the genius of language itself is working here.) *"Tauschen"* (barter) became *"täuschen"* (illusion or
deceit) and everything became unclear. Today we deceive ourselves in almost all our economic processes. The "*tauschen*" has become a "*täuschen*" — the exchange (or barter) an illusion. I do not mean that there is deliberate deceit, but that the whole process becomes confused and deceptive. We must first get to the root of things once more and see how our economic processes inwardly take place.

## **World Economy**

## LECTURE IX

Dornach, 1<sup>st</sup> August, 1922.

LADIES AND GENTLEMEN,

The formulas I tried to give yesterday are not, of course, mere mathematical formulas, but, like the ones of which I spoke before, they must be verified in life itself. Not only so; they must be conceived in such a way that they actually live within the economic process.

Today I must say a few things that may gradually lead us to understand the way in which these things do really live in the economic process. In the first place, everything that circulates within the total economic process must have a certain value. On the other hand we must also realise that many things can occur in the economic organism, the value of which is not immediately expressed in the economic processes themselves.

Let me give you an example that will serve as an introduction to some further economic ideas. Unruh has described very well, in his book on Economics, such things as the following, revealing as it were the more hidden connections. I give only one example which I myself have followed up and the truth of which I can vouch for purely as a matter of observation; although Unruh is a man completely wrapped up in State economics and, inasmuch as he thinks politically rather than economically, is unable in the last resort to bring these things into their right relationship.

I am referring to the price of rye in certain districts of Central Europe. It is a striking example of the complicated way in which things take their course in the economic process. If one hears big farmers or estate owners speaking of their work, one often hears them say: "We make nothing on the price of rye; on the contrary, we lose on it." What does this really mean? To begin with, it means that these people cannot sell their rye as other things are sold — in the main, at any rate, today — where the price is composed of the costs of raw materials, the costs of production and a certain margin of profit. Taking the actual prices of rye in this way, we should find that they do not correspond to

the costs of production plus a certain profit. On the contrary, they fall far short. And if, in balancing his accounts, a farmer were merely to include the actual market prices of rye, the values he would thus insert would undoubtedly influence the balance in a negative direction. As I said, we can follow the matter up and it is absolutely correct; the rye is sold, as we might say, "below cost price." And yet it cannot be so in reality; it is impossible for this to go on in reality. Yet apparently it *does* go on. What happens is this: Rye yields not only grain but also straw; and farmers who sell the grain below cost price scarcely sell any of the straw at all. They use it on their own farms; they use it for their cattle and strike a balance in that way. What they lose on the rye is made up for by the manure they get from the animals. For this is the very best manure; there is no better. It is extremely rich in bacteria; it is the best manure a farmer can have. Thus from the standpoint of his accounts he gets the manure thrown in as a free gift and in this way, in the long run, a proper balance is struck.

We are thus obliged to posit an economic concept which, though it is most important, is comparatively little considered in the ordinary literature of Economics. The concept I would here establish is that of "internal economies" within the general economic life. You have an "internal economy" whenever an economic organism, a business, does business within itself — exchanges products within itself. That is to say, it does not sell such products outwardly or buy them from outside, but lets them circulate within the business itself. This I would call an internal economy as against the general social economy. Wherever such an internal economy is in force, it is quite possible for products to be delivered below the price which would otherwise be economically necessary. Needless to say, this implies that the forming of price within any economic domain is an extremely complicated chain of events.

Such connections, as I said, have been observed as matters of pure fact by our economists. There is another chain of events which I have touched upon from a certain point of view and which must now be regarded also from a different aspect. I mentioned a few days ago that we do not take in at a glance all the links in the economic chain. Imagine, for instance, that a cobbler falls ill and has an unskilful doctor to attend him. He remains ill and for three weeks cannot manufacture any boots; and so his products — the boots which he would have manufactured in the three weeks — are withdrawn from economic circulation. And now, I said, suppose he gets a skilful doctor who makes him well within a week, so that he gets an extra fortnight in which to go on making boots as before. Economically speaking, we can now ask: Who manufactured the boots? Economically speaking, undoubtedly — at this moment of the economic process — the doctor did; there can be no doubt about it.

Yet here again we come to another point. For you may ask: Did the doctor also get paid for them? No, in reality he did not; for you can make the following calculation. Reckon it up, according to the market: What did the boots the doctor manufactured amount to? And now if you draw up a rather full statement of account (it would have to be a very full one) you can set this off against what had to be spent on his training. And you will find, in all probability, that what was spent on his training was not so very different from the value of all the boots he manufactured and all the stags he shot; for it is not regarded as universally characteristic of doctors that they withdraw from economic life, for one week only, patients who would otherwise be withdrawn for three. Be that as it may — however the final balance emerged, we should not make a true calculation in the wider economic sense if we did not strike the balance in this way, setting off against the cost of his training the boots he manufactures, the stags he shoots (assuming that he cures the huntsman quicker than would otherwise have been the case), the corn he garners in, and so forth. Only, of course, the economic process is very complicated, and so the payment also proves extremely complicated.

From all this you can see: It can by no means be said with certainty, at any given place, what is the true source of payment for a given thing within the economic process. We must sometimes go far afield to discover what is the real source of such payment. People who look for mere simplicity in the economic process will never arrive at economic concepts coinciding with reality. They will not get far enough. They will not get at that, of which I said that it is really there behind the formulas of Price, Supply, Demand, etc. And these are the very things we must get at. What makes it so difficult to estimate the economic process rightly? It is because outlay and return are often so widely separated. That is why it is difficult to see clearly within the economic process as a whole what it is that is paid for, what it is that is bought, what is lent and borrowed, and what is freely given. For example, assume for a moment that what I advocated a few days ago is realised. Assume that the masses of Capital, arising in one way or another, are withdrawn from the tendency to get congested on the land and are given to the spiritual or cultural life — it may be in the form of Foundations, Scholarships or the like. These are free gifts. And now you will begin to see what happens on the one side of your gigantic ledger, for it must be a ledger that comprises the real economic life in its totality. The boots the doctor manufactures during the extra fortnight may actually contain an item which you must look for on the other side under the heading of "free gifts." For it may well be that he had a scholarship to help him in his training, or that he benefited by some Foundation. In short, from this point of view you can raise the weighty question: What are the most productive transformations of Capital in the economic process? What are the most productive of all? Follow out such connections as I have just described: follow especially those portions of available Capital which go into Foundations, Scholarships and other spiritual or cultural "goods," which in the course of time react to fertilise the whole process of spiritual production and enterprise of every kind. You will perceive that free gifts are the most fruitful thing of all in the whole economic process. We cannot arrive at a healthy economic process unless, in the first place, it is made possible for people to have something to give and, in the second place, unless they have the goodwill and intelligence to give what they have. Here, then, we have something which enters into the economic process in a very peculiar way.

It is remarkable, ladies and gentlemen, that this is something which we cannot extract from theoretical notions; it can only transpire from a wide range of experience; and a wide range of experience will give it you — the more so, the more you follow the matter up. Indeed, I would recommend you to keep this question in mind when you are choosing subjects for dissertations: What becomes of the free gifts in the whole economic process? You will find that the free gifts are the most productive of all. Capital freely given, gift Capital, is the most productive; loaned and borrowed Capital is less productive, in the economic process; and the least productive is that which stands directly under purchase and sale. That which is paid for immediately on a transaction of purchase and sale is the least fruitful in the economic process; that which depends on lending and comes into the economic process through the functions of invested Capital is of medium productivity; while that which enters into the economic process through free gifts is of the very greatest productivity — if only for the reason that the work which would otherwise have to be done to earn what is here given freely, or rather the product of that work, is actually saved. We freely give the available proceeds of the economic process, which would only do harm if they were left to congest upon the land.

We see, therefore, that at a given moment of its evolution the economic process gives no real information of itself. The "before and after" must always be taken into account, but the "before and after" cannot be taken into account unless it is based on the judgment of men who join together in *association* and who gain a corresponding insight into the past and the future. We have to build the economic process on the insight of those whose feet are planted within the economic process. Once more, we come to the same conclusion: It is, generally speaking, a difficult and lengthy business to estimate how the several factors in the economic process play their part in the whole of human life — I mean the material life.

From a certain point of view we can speak of Trade Capital, Loaned Capital and Industrial Capital within the economic process. Circulating Capital is more or less covered by these three categories: Trade Capital, Loaned Capital and Industrial Capital. Moreover, these three are contained in the economic process in the most varied ways. You must remember that such "internal economies" as we exemplified at the beginning of today's lecture are scattered everywhere throughout the economic process. And where you have an economic process taking place within a larger whole, it is really extremely difficult to say what are the respective contributions, quantitatively speaking, of Loaned Capital, Industrial Capital and Trade Capital to the general economic welfare. Yet it *is* possible to arrive at reliable concepts, if we extend our survey to a wide enough horizon.

Let us, to begin with, turn our attention to the economic life of entire nations, or State-economies as we must call them, according to the economic life of recent times. Take France, for instance; I take it only as one example. The world-economic connections of France, especially as they were before the War, and as they revealed themselves in their effects during the War, are a good example of how Loaned Capital works in the economic process on a larger scale. France always had a certain inclination to invest Capital in loans — that is, in effect, to treat "Loaned Capital" (investment Capital) literally as Loaned Capital, You are probably aware how these things penetrated into the political sphere, clearly illustrating the harmful effects of the coupling together of the economic life and the life of rights (that is, the political life), how it came out in the extensive loans made by France to Russia and Turkey. France exported a very large amount of Loaned Capital to Russia and to Turkey. Even in Germany, though Germany was not exactly in her good books, French Capital found a home — for instance, when the construction of the Baghdad Railway was begun. England withdrew, but France did not withhold her Capital from those who stood at the head of the undertaking — Siemens & Gwinner, for

example. France, therefore, was in the main a lending country. In France one could see how Loaned Capital becomes involved in the whole economic process.

Further — and I am not defending or attacking anything, but simply describing things objectively — there is one historical phenomenon in which you can truly recognise what are the interests of Loaned Capital. When we turn our attention, say, to private "economies" or businesses, we shall always find, as any Bank will tell you, that the private business man is a peace-loving man. For he knows very well that his interests and dividends will be upset if, just as his Capital is nicely invested, a war begins to sweep through the economic connections of the world. Political economists always reckon with the fact that lenders are peace-loving people. That is the reason why it is always possible to say that France was innocent of the. War. For, the moment we want to prove that the War was not desired in France, we need only point to the interests of the numerous small investors and not to the interests of those who urged on the War. In France you always have in the background those who decidedly did not want the War. This fact of history may show us on a large scale what is equally true on a small scale. The man who lends — the man who is the happy possessor of Capital available for investment — is essentially the man who would like to see the economic life protected, if possible, from disturbance either by events outside it or by catastrophic upheavals within it. And the investor is all the fonder of tranquility because it saves him the trouble of having to form an independent judgment. He likes to be able to rely on the assurance of someone else that such and such is "a good thing." In our age, though public opinion has a very good conceit of itself, there is really very little public opinion in the sense of judgment. We may say that in our time the possession of Capital available for investment is generally connected with a very strong faith in authority, both in the economic life and also in other respects. This, again, clouds the economic judgment to no small extent. Those, for example, who are in any way officially labelled very easily get money lent them. Personal credit is readily given to anyone with a title or some other official label. This is often the decisive factor. And according as this principle of authority is more or less cultivated, we see the consequences. For, in the one case, those who really have the stronger personal faculties will be enabled to enter productively into the economic process, while in the other case it will be simply men with a handle to their names — members of Chambers of Commerce and so forth — and often men who have got the name, not by reason of genuine ability but for some guite extraneous reason. It is one thing if such people are given the opportunity to work into the economic life, and quite another if a man has to depend on his genuine faculties being recognised by an untainted public judgment. Here, once again, something elusive enters into the economic life. (In a certain community it has recently become far too common a practice to use a certain word whenever one fails to keep pace with things with one's clear thinking. In many places recently, I have far too often heard this word, the imponderables. I wish to emphasise that I desire to avoid this word. All that I wish to point out is how these things, which we would like to take straightforwardly, become complicated, so that we may presently have to follow them up by somewhat curved and winding paths. It is unnecessary, as soon as this begins to happen, to have recourse to the convenient term "the

imponderables," which we have heard *ad nauseam* in certain quarters.) So much, at the moment, for Loaned Capital.

We will now go on to Industrial Capital. If we wish to study the essence and function of Industrial Capital we shall be able to do so especially well by observing the quick rise of industry in Germany in the decades before the War — though its history here is hardly an edifying one. We can study it here especially well, because, under the influence of the "enterpriser" spirit, Industrial Capital arose by direct transformation out of Loaned Capital to a greater extent in Germany in the last decades before the War than in any other part of the world. What I said in the first lecture is most decidedly true; In England, for example, Trade Capital was transformed gradually into Industrial Capital. For in England industrialism evolved out of trade, and it evolved far more slowly than in Germany, where it shot up with immense rapidity. Industrialism exists in its pure form where it transforms not Trade Capital but Loaned Capital into Industrial Capital. It can therefore be best studied in its pure form in the life of Germany.

Now the point is that Industrial Capital, if I may put it so, is really placed between two buffers. The one buffer is the raw product; the other is markets. Industrial Capital is obliged, on the one hand, to look around as far as possible for the sources of raw products and, on the other, to arrange for markets. This is not quite so easy to study in the example of German industry. In German industrialism you can rather study economically how Industrial Capital functions in itself. Still, the emergence of industrialism is evident in all countries during the nineteenth century and on into the twentieth, and so you can observe this standing "between two buffers" everywhere. Only you must search out the true facts. As I have said, it is a good thing to control the necessary direction — orientation — of our ideas, by taking things that can be surveyed as a whole; but you will find, if you are considering smaller economic territories, that extraordinarily difficult paths must sometimes be traced out. It is better to get your orientation and to derive your calculations from wide comprehensive regions. The paths grow easier if you observe economic organisms on a very large scale. Then, for example, you will perceive how as a rule the concepts of Force or Might (which often appear masked under the guise of Right or Justice) are realised most strongly where it is a question of opening up new sources of raw products. We can study this on a large scale, for instance, in the Boer War, where it was mainly a question of opening up the sources of precious metals. The Boer War was a real war for raw products. Of course it always showed itself in a kind of mask; nevertheless it was a war for raw products. Again, you have an example of how the economic life unfolds in a political way, playing over into the domain of political power — you have an example of this, for instance, in the military enterprises of Belgium which had the ivory and rubber of the Congo as their object. Thus you can see how the opening-up of sources of raw products takes place in the economic life. Or again, take the case of North America, which annexed the Spanish possessions in the West Indies, because it was looking for sources of raw products — sugar in this instance. In every case we can see how the search for raw products very easily drives the purely economic life into the political, towards the development of might or force. This is the one side — the one buffer, if I may say so.

With the search for markets it is different. For, it is easy to demonstrate from history that the search for markets does not lead into the political life in the same way. In this case the plain fact is that human nature does not tend so much to the use of force. We should have to go to the nineteenth century for a rather glaring example — I mean the so-called "Opium War," whereby England conquered for herself the Chinese opium market. Even there it did not go quite so easily by purely military means; even there — if I may put it so — peaceful persuasion, peaceful politics, had not a little to say. For when things began to grow uncomfortably hot, a hundred and forty-one doctors were found to pronounce an expert judgment to the effect that opium is no more harmful than tobacco or tea. Here, then, politics — peaceful politics — played a certain part. Politics in any case are always difficult to keep out. You know the saving of Clausewitz: "War is the continuation of politics by other means." Such definitions are all very well, but by the same method we could establish the proposition: "Divorce is the continuation of marriage by other means." The relationships of life can always be represented in a particular light by using this kind of logic, and people admire it! Curiously enough, everyone sees through it at once if I say: "Divorce is the continuation of marriage by other means," but when it is everywhere proclaimed that "War is the continuation of politics by other means," they do not notice the absurdity, but on the contrary they admire it. In point of method, I should like to say: If we employ this sort of logic in Political Economy, we shall not advance a step. Speaking of this second buffer, of the hunt for markets, we must undoubtedly admit that a far greater part is played by human cleverness, which fluctuates between the extremes of slyness, astuteness, and wise economic guidance. In the arranging of markets a great deal could be seen at work of all three particularly in the way they were arranged in those large economic domains which the States themselves had become as Politics and Economics coalesced. The States themselves did very much in this direction, by way of wise guidance, and also by way of deceit, cleverness, slyness and the like. Thus, the concepts which we require to form in respect of smaller economic domains, concerning the relation, say, between the single industrial undertaking and its sources of raw products and its markets, can only be made clear and palpable by considering these matters on a large scale.

If it is the functions of Trade Capital which we desire to study, we should take England, especially in the period when England made her great economic progress. This she did by means of trade; and consequently her Trade Capital continued to increase in such a way that England entered guite gently and imperceptibly into the new industrialism. At the time when industrialism was transforming the world, England already had her Trade Capital. In this early period, therefore, we can study Trade Capital most readily in England. In more recent times England has been chosen by Marx as a means of studying the economic functions of industrialism; but in the earlier period — the period immediately preceding the creation of modern industrialism — going back, that is to say, to the last decades of the eighteenth century, it is the functions of Trade Capital which we can best study in the light of England's economic destiny. Now it cannot be denied that here, either in the open or behind the scenes, the essential thing is always *competition*. Whether on the large scale, in the economic life of the nation as a whole, where it is mainly based on trade, or within trade or commerce itself, competition is the essential thing. Of course by the introduction of various ideas of what is decent and proper conduct, it may become very fair, but it is competition none the less. Productivity in trade — such productivity as to enable Trade Capital to be treated in the economic process so that it eventually takes effect as Industrial Capital — such productivity depends in the last resort on the tendency of Trade Capital to accumulate. And that is impossible without competition. Thus we shall study the functions of Trade Capital best of all by considering the function of *competition* in the economic life.

At the same time these things are connected with historical changes. This is indeed the case. Right up to the first third of the nineteenth century, if we are considering the world-economy which was gradually coming into being as a single whole (such as it was in a high degree before the War) — up to the first third of the nineteenth century, the economic processes of *trade* and *industry* still played the most important part in the economic life. The blossomtime the classical age, if I may put it so — of Loaned Capital only began in the nineteenth century — indeed only towards the second third of the nineteenth century. And it is at this point that we notice the rise of those institutions which more especially serve the process of lending — I mean the banking system. The classical age of Loaned Capital, and with it the evolution of the banking system, falls into the last two-thirds of the nineteenth century and the first decades of the twentieth. With the evolution of the banking system, borrowing and lending develops on an ever larger scale — enters more and more as a prime factor into the economic process. But, at the same time, precisely in connection with lending, a remarkable phenomenon appears. Through the instrumentality of lending on a large scale, and accompanying the expansion of the banking system, the control of the circulation of money is withdrawn from man himself. The circulation of money has gradually become a process taking place — I can find no other word to express it — impersonally. Thus, as I said in my first lecture, the time has actually come when money does business on its own account, and human beings fluctuate up and down according as they are drawn into this whole stream of money economics, money business. They are drawn in far more than they imagine. Precisely during the last decades of the nineteenth century, the circulation of money has become objectified — it has become impersonal. This brings me to a peculiar phenomenon of the nineteenth century, particularly the end of the nineteenth century. In Economics, everything depends on an open-minded consideration of life as a whole; we must gain a clear vision of the whole of life. The phenomenon to which I refer appears, to begin with, in the psychological sphere, but afterwards plays a great part in the economic life. It is this: Conditions which were brought about in the first place by very real forces afterwards continue rolling on by a kind of social inertia, just as a ball will do when you have given it a certain momentum. They go rolling on and on, even after the original impulses have ceased to be active in them. Down to the first third of the nineteenth century, there were true economic impulses present in the whole system of loan and investment. Then, through the instrumentality of the banking system, these economic impulses began to change into purely financial ones; and in this process the whole thing became not only impersonal but unnatural. Everything was drawn into the stream of money, as it moved itself along. Pure money business, without any natural or personal subject that is the end towards which, as the nineteenth century drew to a close,

everything which had originally been upheld by a personal and natural subject was gravitating.

Strangely enough, this "subjectless" economic life, this "subjectless" circulation of money, was accompanied by another phenomenon. It was this: Political States themselves began to do business out of economic impulses; it was out of such impulses, for example, that they began to colonise. We shall see later what influence colonising has; de-colonising, too, will have to be considered in this connection. We can observe very well, as a real economic process, the significance of colonisation in the case of England. Fundamentally speaking, England scarcely ever went beyond the kind of colonisation which we may perhaps describe as "Imperialism with an objective content." Such Imperialism, I mean, as contains a real economic substance economic meaning. But if, on the other hand, you take the case of Germany, you need only look at the colonial accounts and you will see that German colonisation was burdened from the start with an adverse balance. There were at most tiny areas which showed a favourable balance. And in other countries too the tendency crept in, merely to enlarge themselves by acquiring colonies. Isolated people — Hilferding, for instance, in his book *Finanzkapital*, published in Vienna in 1910 — actually called this process "objectless Imperialism" — Imperialism without an object.

These two modern phenomena are particularly instructive: on the one hand, the subjectless circulation of money, impersonal and unnatural; and, on the other hand, objectless Imperialism. Characteristic as they both are of largescale economy, their appearance together suggests that the one depends upon the other.

Such a thing is purely psychological, to begin with, though in the further course it becomes economic; for if we have unproductive colonies we must pay for them — and that means that they at once affect the economic life.

So much for what we had to discuss today.

## **World Economy**

## LECTURE X

Dornach, 2<sup>nd</sup> August, 1922.

## LADIES AND GENTLEMEN,

We must now consider something which I indicated yesterday when speaking to a few among you. I mean the relation between Labour and that which happens when Nature is transformed and elaborated into an object of economic value. In the further course, as we saw, organised Labour — divided Labour — is caught up, in a certain sense, by Capital; and Capital eventually emancipates itself and passes over completely into free spiritual activity, if we may so describe it. From all this you will observe that while there is no such thing as a direct economic value in Labour (this has already been explained), nevertheless, it is Labour which sets economic value in motion. The Natureproduct, as such, comes into economic circulation by being worked upon; and the elaboration which gives it its value is the real reason why the object of economic value begins to move. It is so at least within a certain sphere. Subsequently it is the human Spirit working in Capital which keeps the movement going. To begin with, therefore, we have to do with movement. For as soon as we enter the sphere of Capital, we have to reckon with the movement that takes place through Trade Capital, Loaned Capital and eventually through Production Capital proper — Industrial Capital.

Speaking of this movement, we must be aware of one thing above all, namely this: *There must be something to bring the values into economic circulation*. To get the right idea in this respect, we must today concern ourselves with a somewhat ticklish question of Economics. This question cannot be seen clearly unless we try again and again to discover from direct economic experience what can be said about it and in a certain way to verify things.

I refer in the first place to that which we may call economic profit. The question of profit is extremely difficult. Let us imagine, for instance, that a purchase is taking place: A buys from B. In ordinary lay thinking, we generally apply the concept of profit to the seller only. The man who sells is supposed to make a profit. It is, of course, really an exchange between what the buyer gives and what the seller gives; but if you think the matter through exactly, you can by no means admit that the seller alone makes a profit in the case of purchase and also of barter. For if the seller alone were to profit, then in the total economic life the buyer would always be placed at a disadvantage, whenever a simple exchange takes place. The buyer would always be at a disadvantage; and you will readily admit that this cannot be so; otherwise every transaction of purchase would be an exploitation of the buyer and that is obviously not the case. We are well aware that the man who buys wants to buy advantageously. not at a disadvantage; there can be no doubt about that. Thus, the buyer too can buy in such a way as to make a profit. We have therefore this peculiar phenomenon: Two people make an exchange, and — at any rate in the normal process of purchase and sale — each one of them must make a profit. For practical Economics it is far more important to consider this than is generally realised.

Let us therefore suppose that I sell something and receive money for it. I must gain by giving my commodity away and getting money for it. I must desire the money more than I do the commodity. The buyer on the other hand must desire the commodity more than he desires the money. This, then, is what takes place in the reciprocity of exchange. Both objects passing in exchange — the one in one direction and the other in the other — increase in value. By the bare process of exchange, the things exchanged on both sides become of greater value. How can this be?

Only in this way: When I sell something and receive money for it, I am enabled to do more with the money than he who gives it can do. Conversely, the other man, who receives the commodity, must be able to do more with it than I can. This therefore is the position: The two of us, the buyer and the seller, must stand in different economic situations. The increase of value can only come

about through that which lies behind the actual process of purchase and sale. Thus, when I sell something, I must be so placed, economically speaking, that the money has a greater value in my hands than it has in his; while in his case, by virtue of his particular connection with the economic system as a whole, the commodity has a greater value in his hands than it has in mine.

In Economics, you will perceive, we cannot merely consider the actual fact of buying or selling in the abstract. The essential question is: What are the respective economic relationships in which the buyer and the seller stand? If we look at things precisely, we are led, as so often, from what takes place immediately before our eyes at any given place to the whole interconnected economic system. This can also be seen by taking another illustration.

We can observe the real facts if we take our start from barter. Fundamentally speaking, the line of thought I have just opened out can tell you, what is quite true, that barter is not entirely transcended even by the introduction of money into an economic community. In effect, we still barter commodities for money. Precisely inasmuch as *both* parties make a profit in the transaction, we shall see that the important point is not the mere fact that the one possesses a commodity while the other possesses money. The real point is this: What can each party *make* of that which he receives? What can he *do* with it by virtue of his particular economic situation?

To understand it more exactly, let us turn back to the most primitive form of barter. That will throw light on what obtains in circumstances economically more complicated. Suppose that I buy peas. I can do many different things with these peas. I can eat them. And so, assuming that barter is the order of the day and that I have exchanged some other thing which I have manufactured — that is, some commodity - for peas, I get the peas by means of barter and I can, if I like, eat them. But suppose I have acquired a very, very large number of peas, so many that I cannot eat them all — not even if I have a large family — then I shall find someone who may be needing peas, and I shall exchange them with him for something which I in my turn require. I give him peas in return for something which I for my part can use. Substantially, the peas have remained the same; but economically they have not remained the same at all. Economically they have changed, through the very fact that I, instead of consuming them myself, have passed them into circulation, myself merely effecting a transfer of them in the economic process. Economically speaking, what have the peas become by this process? Given the necessary conditions including a statute enacting that everything shall be exchangeable for peas (a sufficient number of peas would have to be produced and it would have to be the law that everything can be exchanged for peas) — and then the peas would be money. In such a case, peas would have become money in the economic process. I mean it literally, in the true sense of the word "money." A thing does not become money by being essentially different from other things existing in the economic process. It becomes money by undergoing — at a particular point of this process — a transformation from commodity to money. This has been the case with all money: all money has at one time or another been turned from a commodity into money.

Hence you will see once more that with the economic process we always come to the *human being*: we can do no other than place the living human being into the process. The human being is there in the economic process in any case as

a consumer. As a consumer, he stands within it from the very outset. But if he plays an active part in some respect which does not lie within the sphere of consumption, he enters into quite another relationship with the economic life than that which he has as a pure consumer. Such things *must* be taken into account if we would work towards the formation of true economic judgments, the kind of judgments, in fact, which must above all be formed in what I have called the "Associations." Within the Associations there must be people who by their practical experience can form their judgments on the basis of such points of view.

Now the point is: If we have any kind of elaborated Nature or divided Labour in the economic process, we must investigate what it is that brings these economic elements into movement, into circulation. Yesterday, in another circle, I said that we ought to bring into our economic thinking the work or Labour which is active in the economic process, in precisely the same way that the physicist, for example, brings the concept of "work" into his thinking about Physics. The physicist does this by developing a formula, wherein Mass and Velocity occur. Mass is a thing which we determine by the balance. It is with the help of the balance that we are enabled to determine it. Apart from such quantitatively determinable mass, there would be nothing to move forward in the process of "work" in the sense of Physics. The question arises: Is there anything similar in the economic process, so that here, too, Labour or work gives value to the objects, and then at a later stage the active entry of the Spirit gives them value? Is there anything in the economic process comparable, as it were, to the *weight* of an object in the process of "work" in the sense of Physics? If I describe diagrammatically the progression of the several economic processes, I



see at once that something must be there to bring the whole thing into movement — to push or press the economic element, so to speak, from here to here (see Diagram 6). Moreover, the thing would be still more pronounced if there were not only a pressure working from here to here, but in addition a suction from the other side, so that the whole thing were driven forward by a real force present in the economic process. The economic process would, in fact, have to contain something that drives it forward.

What is it then that drives it forward? I showed you a little while ago how certain forces constantly arise, in the case of both the buyer and the seller. With everyone who has something to do with any other human being in the economic process — not at all in the moral but in the purely economic sense — *advantage* or *profit* arises. There is no place within the economic process where we cannot speak of advantage or profit. Nor is this profit anything merely abstract; the immediate economic desire of the man attaches to it, and it must needs be so. Whether he is a buyer or a seller, his economic craving attaches to the profit, to the advantage of the transaction. It is really this attachment to profit which generates the economic process and is the force in it. It is the thing that corresponds to Mass in the process of "work" in the sense of Physics.

You will observe that we have thus revealed something very weighty in the economic process — literally weighty, I would say. Weight, you will admit, is a most prominent thing in purely material products — those products for which the stomach craves. It is the stomach which tells the purchaser that the fruit is more advantageous than the money, in the moment at which he makes the exchange. Here, then, we have in the human being himself the driving motor. And in other cases too — not only in the case of material goods — there must be such a driving force. You need but consider that the mood or feeling of making an advantageous deal is also present in me when I sell a thing and receive money for it. I know that I by my faculties or opportunities shall be able to do more with the money than with the commodities which I possess. At this point, I am already taking a hand in the process with my spiritual faculties.

Transfer this idea to the sum-total of *Loaned Capital* in any economic organism, and you will soon see: Those who desire to undertake or to do anything, and who need Loaned Capital for the purpose, have precisely the same motive force in their need for Capital as is inherent in the striving for profit. Only, the Loaned Capital works as a kind of suction. If we regard advantage or profit as an impelling, pushing force, the effect of Loaned Capital is one of suction. Moreover, it sucks in the same direction in which advantage or profit pushes. Thus, in profit and in Loaned Capital respectively, we have the forces of pressure and of suction in the economic process.

We thus gain a clear picture of the fact: Inasmuch as the economic process consists in movement and everything must be brought about in it by movement, we must place the human being in it everywhere. For an objective science of Economics this may be uncomfortable; man is a kind of incommensurable magnitude, he is changeable, we have to reckon with him in so many different ways. But there is no getting away from it, this is the fact; and we must reckon with the human being in many different ways.

Now we have seen that, in the process of lending, a kind of suction takes place in the economic process. You know there were times when it was considered immoral to take an interest on loans; it was only considered moral to lend free of interest. Under these conditions there would be no profit in lending. This is indeed the fact. Originally, lending did not arise from the profit one derives from it, that is to say, from the interest; but it arose from the following presumption. If I lend someone something, he can do something with it which I cannot do. Take the simplest instance: Suppose that someone is in dire need and that he can alleviate his need if I am in the position to lend him something. Under conditions more primitive than those of to-day, he would not pay me interest, but the presumption would be that if I, too, am ever in need, he in his turn will help me out. Wherever you trace the matter back in history, you will see that this is the pre-supposition of lending: The other man will lend to me in turn when need arises. It even applies to more complicated social conditions, for the same thing happens when someone borrows money from a moneylending firm and requires guarantors. It has always been the experience of money-lenders that mutual aid plays a great part even in this service. A comes to a money-lender and brings B and C with him to stand sureties; they enter their names as guarantors. In such a case, money-lending firms always reckon on the probability that if B ever comes to borrow money, he will bring with him A and C; or again, B having paid his debt, C will arrive one day and will bring with him A and B as guarantors. In certain circles this is taken as a matter of course. Economists declare that such a law can be assessed just as well as any that can be clothed in mathematical formula. Of course these things are to be taken with the well-known grain of salt which we must always take into account. Our power to do so is part of the mobility of the economic process.

To sum up, therefore, we must say: Originally, there is no return for the service of lending, save the presumption that the borrower will lend to us again; or if not that, that at least he will help us in borrowing, as we helped him. Notably where it is a question of lending and borrowing, human mutuality or "give and take" enters the economic process in a striking way.

If this be so, what is interest? Interest — as has already been remarked by some economists — interest is what I receive if I renounce this "mutuality," that is to say, if I lend someone something and we agree that he shall be under no obligation to lend to me. If I renounce this mutual right, he pays me interest for it. Interest therefore resolves something which takes place between two human beings; it is a compensation for the human mutuality which plays in the economic process.

This is, however, something which we must set in its right place in the whole economic process. In doing so we must of course remember that there is no sense nowadays in studying economic processes other than those which stand entirely under the sign of the division of Labour: for it is these with which we are in fact concerned. When Labour is divided and distributed, human beings grow dependent on the principle of mutuality to a far greater extent than is the case when every man not only grows his own cabbages but also makes his own hats and boots. It is with the division of Labour that the dependence on mutuality comes. In the division of Labour we have a process working in such a way that the several currents diverge. Yet in the economic process as a whole we see it come about that all these different streams tend to unite again, only in a different way, through the exchange which, in the case of a more complicated economic process, takes place with the help of money. Thus at a certain stage the division of Labour makes mutuality a necessity. In other words, it involves the same element in human intercourse which we find in the case of lending and borrowing. Where much is lent, this principle of

mutuality is inherently involved, but in this case it can be redeemed by interest. For *interest is mutuality realised*. It has been transformed into the abstract form of money. The forces of mutuality are the interest; only they have undergone a metamorphosis. And what we see quite plainly here in the payment of interest takes place throughout the economic process.

This is the great difficulty which besets the formation of economic ideas. You cannot form them in any other way than by conceiving things *pictorially*. No abstract concept can enable you to grasp the economic process; you must grasp it in pictures. Whereas it is just this which makes the learned world so uneasy today — this demand, no matter in what sphere of thought, that we should pass from the mere abstract concepts to ideation of an imaginative kind. Yet we can never found a real science of Economics without developing pictorial ideas; we must be able to conceive all details of our Economic Science in imaginative pictures. And these pictures must contain a dynamic quality; we must become aware how such a process works under each new form that it assumes.

You will understand me rightly if you will acknowledge to yourselves that there are actually human beings in the economic process — no doubt at its more primitive stages — who are quite unable to think in the way you have learned - or are supposed to have learned - to think in the course of your studies. Nevertheless, they are often excellent husbandmen, excellent economists. They feel precisely whether a given object can be bought or not be bought at such and such a price — whether or no it will be advantageous to buy it. Sometimes a peasant, for example, has not the remotest notion of economic concepts; yet, having attained a certain age, having simply observed the conditions of the market here or there in his district, he knows with precision — without relying on any theoretical concepts — what the picture signifies, when he gives a certain sum of money for a horse or plough. Of course he may make a mistake, but you may do that even if you have studied the logic of Economics! — but the mistakes will not be the most important thing. The picture that is composed before his mind — the picture of a certain sum of money and a plough — calls forth in him the immediate feeling that he can still afford to give so and so much more money, or else that he cannot. He has it directly out of his feeling-experience. Now even in the most complicated economic process, this feeling-experience is not to be eliminated. That is thinking in pictures.

To form abstract ideas would only be fruitful if we could say definitely: One thing is a commodity and another thing is money and we are trading the commodity for money, the money for the commodity. If that were all, it would be simple; but as I showed you just now, even peas may become money. It is simply not true that we in the economic process can grasp anything of it by working abstract concepts into it; it is only by working imaginative perceptions into it that we can grasp anything of it. For instance, we may have the imaginative perception of peas on their way from the market-stall to the mouths of the people only. That is one definite picture. Or we may have the imaginative perception of peas being used as money. That is another picture. Even in Economic Science we must work towards such pictures, pictures taken from what is immediate perception. This means, in other words, that to act rightly in the economic sense, we must make up our minds to enter into the events of production, trade and consumption, with a picture-thinking. We must be ready to enter into the real process; then we shall get approximate conceptions — only approximate ones, it is true — but conceptions which will be of real use to us when we wish to take an actual part in the economic life. Above all, such conceptions will be of use to us when what we do not know by our own sensibility (supposing we ourselves have not arrived through sensibility at the corresponding pictures) is supplemented or corrected by others who are *associated with us*. There is no other possibility. Economic judgments cannot be built on theory; they must be built on living association, where the sensitive judgments of people are real and effective; for it will then be possible to determine out of the association — out of the immediate experiences of those concerned — what the value of any given thing can be.

Strange as it may sound, it is not possible to determine theoretically wherein the value of a product may consist. We can only say; A product enters into the economic life as a whole through the several parts of the economic process; and its value at a given place must be judged and estimated by *association*.

How can it be done? How is it that such judgments can be formed judgments which if they arise in the true way in the economic process do actually arrive at the truth? You can understand it best by analogy with any human or animal organism. The human or animal organism assimilates the foodstuffs that come into it. If I may draw your attention to the scientific facts in this sphere, I may say for example: The human being absorbs the food, permeates it with ptyalin and pepsin, passes it through the stomach, through the intestines. No matter whether the food is flesh or vegetable, the first thing necessary is for the food that is thus passed through the organism to be *killed*; its life must be quelled. All life must be eliminated from what we have in our intestines. Thereupon, that which we have in our intestinal organs is sucked up by the lymphatic glands and *called to life again within ourselves*. That which passes from the lymphatic glands through the lymphatic vessels into the blood consists of nature-products (plant or animal) which have died and have been called to life again. Now if you wanted to determine theoretically how much a certain lymphatic gland should receive and call to life again, you simply could not do so: for in one man a lymphatic gland must absorb more, and in another less. Not only so; in one and the same man a lymphatic gland at one place must absorb more and a lymphatic gland at another place must absorb less. Digestion is a most complicated process; no human science could keep pace with this wisdom of the lymphatic glands, with all their beautiful division of labour.

In such a case we are not dealing with judgments propounded, but judgments working in reality. In deed and truth, between our intestinal organs and our arteries, such a sum total of *Intelligence* is working that nothing comparable to it is to be found in all our human science.

So it is with the economic process. The economic process can only be sound when such a wise *self-active Intelligence* is working within it. And this can only happen if human beings are united together — human beings who have the economic process within them as pictures, piece by piece; and, being united in the Associations, they complement and correct one another, so that the right circulation can take place in the whole economic process.

Of course, the right mentality is needed for such a thing as this, but the mentality alone is not enough. You may even found Associations, Associations whose members have a great deal of economic insight; yet if something else is not contained within the Associations, all their insight will be of little avail. Something else must be contained in the Associations, and *will* be contained in them once the necessity of such Associations is recognised. There must be in them the *community-spirit* — the sense of community, the sense for the economic process as a whole. The individual who immediately uses what he buys can do no other than satisfy his own egoistic sense. Indeed he would come off very badly if he did not satisfy his own egoistic sense. As a single man in the economic life, he cannot say, if someone offers him a coat for 40 francs: "Oh. no. that price does not suit me: I will give you 60 francs for it!" That will not do; at this point the individual within the economic process can do absolutely nothing. But the moment the life of Associations enters the economic process, it is no longer a question of immediate personal interest. The wide outlook over the economic process will be active; the interest of the other fellow will be actually there in the economic judgment that is formed. In no other way can a true economic judgment come about. Thus we are impelled to rise from the economic processes to the mutuality, the give and take between man and man, and furthermore to that which will arise from this, namely the objective community-spirit working in the Associations. This will be a community-spirit, not proceeding from any "moralic acid" but from a realisation of the necessities inherent in the economic process itself.

I should like this to be observed in relation to all the discussions that are opened up, for instance, by my book *The Threefold Commonwealth*. There is no lack of people nowadays who say: "Our economic life will be good — ever so good — if once you human beings are good; you must become good." Think of the people like Professor Förster and his kind, who go about preaching: "If men will only become selfless, if they will only fulfil the categorical imperative of selflessness, the economic life will become good." Such judgments are really of no more worth than this one: If my mother-in-law had four wheels and a handle in front, she would be a bus! Truly the premiss and the conclusion stand in no better connection than this, except that I have expressed it rather more radically.

What underlies *The Threefold Commonwealth* is none of this moralic acid, which can, no doubt, play a great role in another field. Rather the purpose is to show, simply out of the economic facts, how selflessness cannot help being inherent in the very circulation of the elements of economic life. This is the case, even in the detailed instances. Take, for example, the case where someone is in a position to receive Loaned Capital on credit and is thus enabled to establish an undertaking or an institution and to produce by means of it. He goes on producing so long as his own personal faculties are united with the institution. Afterwards, the thing he has worked up will be handed on in the most intelligent way to some other individual who has the necessary faculties. It will be transferred by a gift — a gift, not from one man to another, but one that takes place through the whole course of economic life. We need only consider how such gifts will be able to be made in an intelligent way by the threefold social organism. Here the domain of economics borders on the social element in man, in the most comprehensive meaning of the term. It

touches on that which needs to be conceived for the social organism as a whole.

And you can see it also from the other side. I pointed out how in the simple case of exchange, where money becomes more and more important, or indeed where exchange is recognised at all, the *economic life* enters directly into the *region of law and rights*. Moreover the moment Intelligence is to enter the economic life, we must allow to flow into the economic domain that which prevails in the *free life of the Spirit*. The three members of the social organism must stand in the right relation to one another, so that they may work on one another in the right way.

This was the real meaning of *The Threefold Commonwealth* — not the splitting into parts of the three members; the splitting apart is always there. The point is rather to find how the three members can be brought together, so that they may really work in the social organism with inherent intelligence, just as the nerves-and-senses system, the heart-and-lungs system, and the metabolic system, for example, work together in the natural organism of man. That is the point, and of this we shall have more to say in the near future.

## **World Economy**

#### LECTURE XI

Dornach, 3<sup>rd</sup> August, 1922.

#### LADIES AND GENTLEMEN,

In the opinion of a number of economists, as you are probably aware, it was quite impossible for the World War to last as long as it actually did last. From their knowledge of economic relationships, these economists declared that the economic life, as existing at the time, would not permit such an extensive war to last more than a few months. Yet, as you know, the facts of life refuted this idea. If people thought objectively, this in itself would convince them of the need to revise their science of Economics. For if you took the trouble at this moment to follow up the reasons which *some* economists, at any rate, adduced for their assertion, you would by no means be able to conclude that they were mere fools. Quite the contrary. You would see that their arguments were not at all bad and carried some conviction. Nevertheless, the reality of life refuted them. The War went on far longer than was theoretically possible. Obviously, therefore, Economic Science did not embrace the reality; the reality turned out quite differently from what Economic Science had supposed.

We can only understand such a thing as this if we see clearly the nature of *the evolution of economic life* upon the Earth. It consists of a series of successive

stages, but one in which the earlier stages continue to exist side by side with the later. Similarly we may say that the lowest organic forms now living are somewhat like the earliest living creatures of Earth-evolution. Thus in a sense the most primitive creatures are still here, existing side by side with the highest creatures which have yet evolved. There is a difference, but there is also a marked resemblance in the forms. So it is in the economic life. The phenomena of primitive phases of economic life are still here today, side by side with those which have attained a higher stage. But in the economic life there is another peculiarity. While in the animal kingdom, for example, the more primitive forms can live literally side by side in space with the more highly evolved, in the economic life the more primitive processes are constantly penetrating into the more highly evolved ones. We might very well compare it with those cases where bacteria penetrate inside higher organisms. Only, in the economic life it is infinitely more complicated. Nevertheless, we can detect certain underlying structures, and from these we can take useful examples which will help us to bring our line of thought to its conclusion.

The more primitive forms of "political economy" must be conceived as private agricultural economies on a large scale. Their magnitude is relative, of course; but we must understand that if the private agricultural economy is selfcontained, it includes within it the other members of the social organism. It has its own administration, possibly even its own defence force, its own police, and moreover its own spiritual life. Such a private economy — grown to gigantic proportions, it is true, but still preserving in all essentials the character of a primitive agricultural concern, a gigantic farm — was the so-called kingdom of the Merovingians. It was a "kingdom" in a quite external sense, but it was certainly no State. It was in fact no more that an immense farming estate, comprehending a huge area. The entire social structure of the Merovingian kingdom was really no different from this: — the economic life underlay everything. On it was built an administrative system which accorded with the prevailing ideas of right and justice; and into this was placed a spiritual life an extraordinarily free one for that time. For, ladies and gentlemen, it is only in more modern times and notably under the influence of "Liberalism" that we have seen the rise of the maximum of unfreedom in the spiritual life. Not until "Liberalism" came did the spiritual life begin to grow more and more unfree; and it reaches the zenith of unfreedom in that embodiment of all political bliss, the Soviet Republic of Russia. Only books approved by the Soviet Government can be sold at all. The Pope does at least content himself with proscribing books; but under the Soviet Government proscription is automatic, inasmuch as no books are printed and published save those which the Government permits.

Now if we trace the further course of evolution, we see how private economies gradually passed over into national economies,\* which again at a certain time — at the beginning of the modern period — tended to become State-economies.† The way it happens is characteristic. Private economy — initiative in private business — gradually passes over into the hands of government departments, and thus the fiscal administration grows increasingly into industrial organisation. We see the economic passing over into the life of the State; and we see the spiritual life absorbed by the life of the State at the same time. So then we witness the rise of the modern economic and spiritual organism of the State. The State, as such, has grown increasingly powerful.

We, as you know, are aware that it will have to be, so to speak, articulated once more in distinct members [wiederum eine gewisse Gliederung erfahren musz] if economic life is to progress.

\* The German "Volkswirtschaft," here translated "national economy," is also the ordinary word for "political economy." The fact (indicated in the lecture) that the *Science* of "political economy" owes its form to its origin in the period of national economies is, of course, emphasised by the German word in a way that is not possible in English, though we are reminded of it by the title of Adam Smith's book *The Wealth of Nations.* — Translators.

† Cf. Lecture I.

At the moment, however, we are not concerned with "three-folding." We observe, as I said, how private economies were gradually joined together. It generally happened on a pretty large scale. Private economies grew into something which could be called economy on a larger scale — national economy; and in this way a new social structure was created. Yet, within the new, the element of private economy was still preserved. The more primitive phase of evolution was still there as an insertion in the new. What is it that arises at this stage in the true sense of national economy? It is a mutual exchange between the several private economies. The exchange is regulated in many different ways. The regulation hovers like a kind of cloud over it all. The exchange, the trade or commerce between so many private economies, is the essential thing that arises with this welding of private economies into a national economy. What is the outcome? We saw yesterday that in the process of economic exchange each of the parties has an advantage, or can have an advantage. The result is, therefore, that the single economies which join together for the sake of mutual exchange (the essential thing in all economic life) profit by so doing. Once more, then, the single economies, the single businesses, gain an advantage by joining together. They profit by it simply because they can now exchange one with another. We can draw up a statement. We can calculate how much the one private economy or business will gain by means of the other private economies with which it is now connected. Each party gains an advantage, and the gain of each and all becomes significant for the entire national economy.

Now at the time when the modern science of Political Economy was founded that particular stage had been reached. National economies had taken shape out of the private economies. This must be borne in mind if we wish to understand the economic ideas of Ricardo or Adam Smith. Only on this foundation can we understand the thoughts which they evolved about "Political Economy," as they called it. It was this working together of private economies which they actually saw and upon which they based their views. In Adam Smith you can see it again and again — how he thinks from the point of view of private economy or private business and thence draws his conclusions. At the same time he has before him the picture of their joining together into a national economy. Yet even in their ideas about this latter process the older economists retained to a large extent a way of thinking based on private business. Such were the views at which they commonly arrived: they treated national economy on the analogy of private economy. Thus the fertility, the prosperity of a national economy, as they conceived it, lay in this — one national economy would exchange with another, would come into mutual intercourse with another, and would thus derive profit and

advantage. The "Mercantilist" school, for example, was based on the advantages arising from such exchange between national economies.

Now already at this early stage, where the single private economies or businesses come together into a large national economy, there is sure to arise a kind of leadership. In effect, the most powerful of the private economies which have merged into a larger complex will naturally assume the leadership; and this would undoubtedly have happened at the transition from the stage of private economy into that of national economy. But it was masked and hidden; it did not come fully to expression, inasmuch as the State undertook the leadership. If this had not happened, one private economy — namely, the most powerful of them all — would naturally have been the leader. So in effect it happened that the single private economies passed imperceptibly into the form, not of national, but of *State*-economy.

But it was different at the next stage, when in the further course of modern history the mutual exchange between national economies — world-trade, in other words — became more and more comprehensive. Then, indeed, such a leadership emerged guite evidently. It happened, as an absolute matter of course, in the further progress of economic life, that England's national economy became the dominating one. From another point of view I have already drawn your attention to the fact that England evolved directly from trade into industrialism. Let us think what happened while England was acquiring her colonies. She set the standard for currencies. Her colonies, in the manner of private economies, joined together into a larger complex. In the first place this gave rise to those internal advantages which are always the result of mutual exchange. But, not only so: it also gave rise to that powerful economic hegemony which, with the further evolution of world-trade, subsequently exerted a dominant influence on the economic life of the world. While she was gaining her colonies, England set the standard for currencies, because it was precisely through England that gold was forced on those countries which adopted it throughout the world. For, as you may easily compute, in economic intercourse with a rich country having a gold currency, any country which did not possess it would be at a disadvantage. In a word, we may say that under the influence of world-trade England became the leading economic power.

Moreover, while this was going on, it was still possible to develop concepts of national economy in a straight line — with whatever modifications and improvements — from Hume, Adam Smith and Ricardo, and, we may add, Karl Marx — for fundamentally, though he turned their ideas pretty well upside down, Karl Marx only continued along the same lines. The ideas of these economists are only to be understood if we have before us the picture of that economic life, which arose under the dominating influence of England's economic power.

Now with the last third of the nineteenth century, there was a transition from world-trade to *world-economy*. It is a very remarkable process — this passage from world-trade into world-economy. Definitions are of course inexact, for these transitions tend to take place in successive stages; but if we want a definition we must say: At the stage of world-trade the economic life of the world is characterised by single national economies exchanging with one another. This traffic quickens the whole process of exchange and thus essentially alters prices — alters the whole structure of economic life. But for

the rest — in all other respects — the economic life is carried on *within* the several territories. As against this it may be called "world-economy" when the single economic units not only exchange their products one with another, but when they actually work together industrially: when, for example, half-manufactured products are sent from one country to another, for their manufacture to be continued there. That is a radical example of what I mean by their working together industrially. So long as it is merely a question of raw products, the account will continue to show a condition of pure trade. This cannot yet be described as an actual working-together in the industrial life. But when *all* factors in human life (in so far as they are affected by economics), that is to say, when all production, all distribution, all consumption — not merely production alone or consumption alone — are fed from the entire world; when all things are intricately interwoven and fed from the entire world — then we have *world-economy*. And through the rise of this world-economy, certain advantages which existed formerly for the national economies are lost.

Let us look back once more. When private economies join into a national economy, ladies and gentlemen, they gain on the whole; they derive advantages. Every single one derives advantages. But, apart from this, what is it that impels them? It is of course not always conscious insight which impels them thus to join together. Their joining together is, as a rule, not brought about by conscious economic insight, for in most cases the feeling for liberty is too great; the private business man is not as concerned as all that with the piling up of the profits which arise in this way. Economically, these profits certainly arise; but the process is more complicated than that. The fact is that the single private economies or businesses have the same characteristic as every living organism. Namely, their life tends in the course of time to become weaker and weaker. It is a universal law and it applies equally to economic life. An economic life which is not being constantly improved always deteriorates. Thus, as a rule, the merging into larger "wholes" did not take place with the object of making private businesses profitable beyond their original level, but with the object of protecting them from imminent decline.

When once they join together, they gain the corresponding advantage, though of course it varies from one case to another. And we may say that whatever the single economies have lost in course of time is amply made up for by their joining into national economies. Indeed, as a rule, it is more than compensated. Moreover, whatever the national economies have lost in course of time is amply made up for by world-trade and the transition into world-economy. But when world-economy is once achieved, what then? With whom can it exchange? This, in effect, is what has happened. We have seen the economic life of the entire Earth gradually merging into world-economy. And at this point the possibility of reaping further advantages by merger is at an end.

The economists who declared that the World-War could not last as long as in fact it did last were thinking in terms of national economies, and not of world-economy. If world-economy had been national economy, their declarations would have been quite true. But from the very beginning the World-War had the tendency to spread and spread, and by this very fact it had a longer life.

If in the state of world-economy we continue to think in the spirit of national economies, world-economy itself will at a certain point break up. Even if the break-up had not already been precipitated by various dark forces, this would have been the inevitable outcome of men's continuing to think in terms of national economy.

You see how there play into the economic domain circumstances which are quite clearly perceptible, but which cannot in the nature of things be easily taken hold of with figures and statistics. And this will show you, ladies and gentlemen, that it is quite impossible to prolong in a straight line the old economic ideas. We are obliged to admit that a science of Economics is now needed which will express the realities of the immediate present. The economic categories formed about a century ago no longer hold good to-day. What we need is an Economic Science capable of thinking in the spirit of worldeconomy. Herein you see one of our greatest historical problems.

Observe the leading statesmen of to-day coming together at Versailles, Genoa or the Hague. Science has only provided them with a way of thinking in terms of national economy. Whatever results they arrive at, unless and until they are permeated with world-economic thinking, must lead down-hill. Can they deny that they are tearing the economic life still more to pieces, erecting fresh artificial barriers and thus hindering the transition into a pure world-economy? We see this tendency in the immediate past — the tendency to break the world asunder as far as possible even in the economic life, and at the same time to conceal the tendency under the cloak of political and national pleas. Yet we shall have to pass into a real world-economy and a corresponding Economic Science, or we shall create an economically impossible state of affairs over the Earth. Such a condition of affairs can only continue in being for a time through one part of the Earth stealing advantages at the expense of another by means of differences in currency or the rates of exchange. This is precisely what is happening in economic life at the present moment.

To conceive what world-economics really means, we must see clearly, to begin with, that at the frontiers of the domain of world-economy (if we may use the expression) the conditions will be quite different from those of economic domains bordering on one another. Relatively speaking, world-economy exists today; and therefore, relatively speaking, a Science of World-Economy will have to follow. The domain of world-economy borders on *nothing* else, and this makes it necessary for us to observe still more precisely those economic processes which emerge within a closed economic domain, independently of its external frontiers. The cardinal problem for modern Economics to solve is the problem of the closed economic domain — a self-contained domain of one giant economy. For today the very smallest question — even the price of breakfast coffee — is influenced by the economic life of the entire Earth. If it is not so, it only means that progress is partial. This state of affairs is actually on the way and our thinking will have to follow suit.

To understand the economic conditions in a *closed economic domain*, we must see clearly that within the economic domain — in the mutual interplay of production, consumption and commerce (that is, in effect, circulation) — we have on the one hand consumable commodities, some of them relatively lasting, no doubt; while on the other hand we have the thing we call "money." Now as regards the form of economy to which these things are subject, it makes an essential difference whether we envisage the class of foodstuffs for example (short-lived products) or of clothing (more long-lived) or, let us say, of furniture or houses (more long-lived still). With respect to their use and

consumption we have these important differences of duration as between different kinds of economic products. As an instance of a really lasting economic product, we might point once more to the diamond in the Crown of England, or any other crown. Or, again, we might think of the Sistine Madonna. Such things may be to some extent regarded as a kind of product that will keep; we find them especially among works of art. Now in a social organism subject to division of Labour, having therefore an extensive process of circulation, there must be some equivalent of every product. There must be the money-value, representing the price. But a very little observation of the economic realm will convince you that this equivalent between the commodityvalue and the money-value is fluctuating. A product is worth so much at one place and so much at another. A product can be worth more if it is worked up in one way, or less if it is worked up in another. Be that as it may, however, in the total economic life you will perceive that, apart from a few exceptional goods of very long duration, we always have to do with goods which pass away in time. They lose their value, and after a certain lapse of time are no longer there.

The one exception, strange to say, in our whole economic life is money. Although it occupies a position of perfect equivalence to the other elements of economic life, money does not wear out. You can get to the root of the matter in this way: If I have £20 worth of potatoes, I must see to it that I get rid of them. I must do something to get rid of them. After a time they are no longer there; they are used up, they are gone. Now if it were in a true relation of equivalence to the goods that are produced, money, too, would have to wear out, like other goods. That is to say, if the body economic contains money which is incapable of being used up — money which does not wear out — we may well be giving money the advantage over goods, which do wear out. This is a most important point and it becomes all the more so when we take the following into account. Think of all that I must do, if — let us say — through my activity and Labour I want to thrive so well that as a result of having a certain amount of potatoes today I shall have double the amount in 15 years' time. And think, on the other hand, how little an individual person has to do if he possesses £20 in money today and wishes to possess double the amount in 15 years' time. He need do nothing at all; he can withdraw his entire labour-power from the social organism and let other people work. All he need do is to lend his money and let other people do the work. Unless he himself in the meantime sees to it that the money is spent, the money need not be used up.

This is the very thing which brings into the body social so much of what is afterwards felt — shall we say — as a social anomaly, as an injustice. Indeed, gigantic changes are brought about in the body social, even economically speaking, by this reshuffling — I will not say of the relationships of property (I will not speak of these) but of the relationships of work and activity. And we may ask: How are these changes related to another factor, by which it is perhaps more easy to apprehend them? For there is still something rather vague about it if I merely describe empirically, as I did just now, this existing discrepancy as between money and the real objects in the economic organism. How can we get a picture-thought of some particular instance?

We can get a picture of it if we consider, to begin with, how absolutely fundamental for the whole economy of a closed domain is the consumption by

all the human beings contained in it. This is the very first premiss: the total *consumption by all the human beings* who live in the economic domain. That is something which is simply there; it is presupposed: the consumption by all the human beings contained in any economic domain.

But there is also another thing which is of fundamental significance; and that is the land as such. Though this was badly misunderstood by the Physiocrats, for example, nevertheless the land is of fundamental significance, in spite of the fact, which has emerged from these lectures, that it must be constantly devalued. Indeed, it is just because of its fundamental significance that it must again and again be devalued. The Physiocrats made the following mistake. They lived in a time when land (as is of course still the case) had capital value. They conceived their ideas under the influence of this fact. They traced the economic relationships, indeed, in a very clear and graphic way. Of all the economists, they were the most rational. And from their standpoint they came to the conclusion that the intrinsic worth of an economic realm lies in the cultivation of the land, i.e., in the production of those goods which actually serve for the nourishment of man. So long as we remain within this field, we must in fact regard the land as the more or less fixed and given foundation of that which constitutes the intrinsic worth of an economic realm. You need only reflect how the workers who work upon the land, who unite with their Labour the Nature-products which subsequently serve for human nourishment, do in effect — so far as food is concerned — feed all the others along with themselves. All others are dependent on them; all others must be nourished by them. The others, it is true, can somehow get the means to pay for it, and pay more or less dearly. But we may think it out in simple terms in order to grasp the essential point. Let us suppose that there is a certain number, A, of eaters. This number A will include all the farm-workers, all the industrial workers, all the investors, all the traders, all the spiritual workers, right up to the freest spiritual life. All these require feeding. There will be another number, B, of those who have nourishment to offer. That is to say, B is the number of those who by their work really provide whatever passes over directly into human nourishment — into that part of the sum-total of economic consumption which represents the food consumed. Now if A is increased to A<sup>1</sup>, while B remains constant, B's product will have to be further divided; and unless B can also be increased in its value somehow, people will have to be brought into the country and the yield of the land increased.

In other words, you cannot arbitrarily increase the number of spiritual workers, for example, within a given economic domain, without increasing on the other side the number of those who are responsible for the production of foodstuffs. Alternatively you can increase the fertility of the soil. The latter may, of course, be the achievement of spiritual workers, but in that case it follows that the spiritual workers of a period when the fertility is higher must be wiser; they must have higher faculties than those who went before them. Thus the increased yield of farm-Labour is in a certain sense equivalent to the enhancement of the insight with which we elaborate the products we receive from Nature. This may be done in many different ways. A man may enhance the forestry of a whole country by improving the bird-life of the country. It may be done in countless ways; we are only concerned with the principle.

So long as we are only thinking in terms of national economy, it is clear enough that such things can happen. Into a country endowed with a lesser degree of insight cleverer people may immigrate from another country, and they may then improve the cultivation of the land. Or, on the other hand, if more people move up into the classes which are not actually producing food, fresh workers may be called into the country. All these things actually happen within and across the frontiers of national economies which border upon other national economies.

All that we can think upon this matter may now be expressed in the question: What is to be done if on the side of A consumption is in excess of what B can produce? Whatever we may think at this point in terms of purely national economy, it ceases to be thinkable when world-economy arises, and when the conditions of the world are already in a certain sense disposed as for worldeconomy. What we have to do, ladies and gentlemen, is to form an idea of the changes entailed by the existence of a self-contained economic domain.

We can study it empirically by observing some small economy wherein exports and imports can be more or less disregarded. After all, there *have* been such economies. Empirically, we can study the condition within a self-contained economic realm. And we find it true: The foundation is the land. What the land yields is subjected to Labour — elaborated — and thus receives an economic value. Thereafter Labour itself is organised. We come to the class of men who are no longer actual producers of food, who are consumers but not producers so far as food is concerned. Above all, when we come to the spiritual workers, we have consumers and not producers, so far as foodstuffs are concerned. In a self-contained economic realm we must therefore distinguish, with respect to food, a certain number of producers who indeed — if I may say so — are very much aware of the fact that they are the producers; and over against them the consumers.

These things, of course, are relative; the transition is gradual. But if we consider the whole of human life within a self-contained economic realm of this kind, we must bring about what I explained a few days ago: The Capital must not be allowed to become congested. Hence at the place where the spiritual life is most highly evolved in the forming of Capital (this "place" is of course spread out throughout the entire economic realm) the excess of Capital which has been acquired must not be allowed to flow into the land, where it would become dammed up. Provision must be made for the elimination of the excess Capital. The Capital must not be allowed to become congested in the land. That is to say, at an earlier stage in the process, the congestion must be prevented by the free gift, to spiritual institutions, of the excess which has been acquired. Only what I described as a kind of "seed" must be allowed to pass on. It is here that the concept of "free gift" confronts us inevitably; there *must* be free gifts.

Study any of the self-contained economic realms which have arisen in the course of history, and you will see that the free gift is always there. In all essentials, the spiritual life is dependent on what, in the economic sense of the word, are free gifts, pure and simple.

From the simple case where Charles the Bald, out of what he had to give away, maintained his Court Philosopher (which some may regard as a rather superfluous article of furniture!) — Scotus Erigena — to Peter's Pence whereby

the Roman Catholics of all the world give their free gifts to the Church in tiny doses, such gifts are always there. Wheresoever an economic life, no matter how gigantic it may become, represents an economic domain more or less self-contained, you have the transformation of accumulated Capital into gift-Capital for the maintenance of spiritual institutions.

In other words, now that we have inevitably come to a closed economic realm, namely that of the entire world, we should reflect that one thing is inevitable in a truly economic sense: What would otherwise become dammed up in the land must vanish into spiritual institutions. I say once more, it must somehow vanish into the spiritual institutions. It must take effect as a free gift.

For a truly modern Economic Science, we must seek an answer to this question: How (in the sense of economics) must we buy and sell, so that the values, primarily created as food-values within the purely material realm, may vanish within the spiritual domain? That is the great question. I will formulate it once more: What form of payment must we strive for in our economic intercourse, so that that which is created by the elaboration of Nature, where the productive process primarily works for the nutrition of mankind, eventually vanishes in spiritual institutions? This is the great economic question, to the answering of which we shall proceed in the next lecture.

## **World Economy**

## LECTURE XII

Dornach, 4<sup>th</sup> August, 1922.

## LADIES AND GENTLEMEN,

Yesterday we formulated a very important question which came to the fore with the transition from national economy to world-economy. With this transition the question of price begins to acquire a very different significance in the economic life from what it had before. But there are other things to consider before we can gain a conception of the factors which really determine price. For the price — the public price so to speak — which eventually emerges on the market, or in the circulation of goods, is really of far less economic importance than that which lies *behind* the forming of prices and of which price-formation and price-fluctuation are merely the final results.

Now these factors which precede the forming of price, both on the buying and on the selling side, are connected with the social relationships in the midst of which the buyer and seller stand. It is these relationships which determine whether the buyer will attach a greater or less value to a certain sum of money. I mean value not only in the subjective sense. Economically speaking, the

subjective is only important to the extent that it is properly grounded in the objective — i.e., to the extent that it rests on a true judgment of objective processes. But the value of money is very important even in an objective sense. The economic question nowadays cannot be isolated from the social question. Only by observing the interplay of the two can one reach a valid judgment. Thus we must recognise that the social discontent underlying the present social disturbances is connected above all with that which precedes the forming of prices and of which the forming of prices is merely the final result. As I have shown already, even in the payment of wages — i.e., in that price-formation which, under the existing economic system, ultimately finds expression in the rate of wages — we really have an instance of purchase and sale. Thus everything that leads to wage disputes really depends on social relationships in which both the worker and the enterpriser are involved. relationships of which the upshot is that kind of price-formation which constitutes the payment of wages. Accordingly, the first thing to investigate is: How does money itself influence the forming of price? For money itself plays the chief part nowadays both in ordinary purchase and sale, and in the payment of wages, and in all the rest of economic life as well. We must distinguish between that which eventually emerges as price in terms of money, and that which constitutes the essential value of the money in the hand of one man or another — in the hand of the seller or of the buyer. Today, therefore, we must pause for a moment to consider money as such.

In the current treatises on Economics you will find various elegant statements on the nature of money. For instance, you will find a list of the gualities which money must have in order to permit of its use as money. Let us consider critically some of the qualities which are thus enumerated, for this will show you how necessary it is to get away from many of these current ideas of Economics into a rather different way of thinking. For instance, it is said: In the first place money must have a universally recognised value. But the question is: Who is to be the recogniser? When you have said that money must have universally recognised value you have said nothing. You have simply asserted that it ought to have a certain property, but you have not told how it is to get it. The second property enumerated is still more remarkable. It is said, for instance, that money must be small in volume and yet, being rare, in spite of its small volume it must be possible for it to have a high value. For this property makes money especially easy to store up and, if only for this reason, will constitute a fairly strong inducement to the amassing of wealth. If sovereigns were as big as tables it would be far more difficult to hoard them. Lycurgus saw this long ago and introduced a rather more bulky currency as a preventive against excessive enrichment. If sovereigns were as big as tables it would indeed be less comfortable to get rich than it is now. People would notice it more, and so on. The reason therefore appears to be a rather superficial one. The next thing they say is this: Money must be divisible at will. (I have found this statement, too, in one of the text-books on Political Economy). But this again can only be brought about by some act of recognition. Something must first be done to make it so. It is therefore once more a rather empty statement. Then they say: Money must be easy to preserve. Well, this property of being "easy to preserve" will be brought home to us in its full significance in the course of today's lecture.

You see, we must not only be clear on this, that Nature as such only receives an economic value when it enters into the general economic circulation when it is taken up by Labour — and again, that Labour only receives an economic value through the way it is organised or divided, and finally, that Capital only receives a value through the fact that it is taken over by the Spirit of Man and so worked into the economic process. We must also be clear that money as such receives its value by the free process of circulation. And now we must consider the changes which money undergoes in the course of circulation. The premises are given to us by what we have said already in these lectures.

Speaking of money, the first thing we have to deal with is ordinary purchase*money* — the money we use to buy anything which serves us for consumption. But we must also consider what we may call *loaned money*. This we have seen in a former lecture. The question now is: Bearing in mind its connection with the whole economic process, is loaned money quite the same as purchasemoney? If you are considering purchase-money you will have to ask: How does purchase-money come into existence among all the other elements of buying and selling? It comes about by this means: He who makes use of money, in giving his money, has not only given something which effects an immediate exchange, but he has also given something which *mediates* an exchange. He gives something which inserts itself into the exchange. As I have shown already in these lectures, everything that enters as a mediator into the process of exchange is money. Suppose I am not content with acquiring as many peas as I can eat myself. Suppose I acquire peas with the object of using them trading with them — in order to obtain some other things which I require. In that case, simply through this mediating function I am already transforming what would otherwise be an article of consumption into money. Spengler makes a very shrewd observation on this point. Spengler exploits his ideas along a general line of thought which is unfruitful, but he often makes very sound observations. He says: At a certain period of Roman History human beings, economically speaking, became money. The slaves became money. So long as I used the slaves for myself — that is to say, if as an Ancient Roman I only acquired as many slaves as I could use in my own household — the slave was, of course, a means of production. But it is different the moment the slave is hired out or lent. At a certain period of the Roman Empire this was the case. People had so great an army of slaves that they were able to lend them out. They could apply them to all manner of profitable purposes by trading with them. When this took place the slaves became money, so that for that time, we may say, human beings became money. This is a perfectly correct observation of Spengler's, from which you can see once more how that which acts as purchase-money gradually emerges out of what is at first only an article of exchange. It follows from this: Whatever we use as money — to be a really useful form of money — must not merely oscillate, like peas, between the function of being consumed and the function of being passed from hand to hand. For this would involve constant fluctuations of value in the process of circulation. We want something which is used for no other purpose than for mediating an exchange; and to this end there must be a certain — albeit only a tacit — agreement among those who use the money. This, then, is an essential point: The money must only be used for an exchange, for a medium; it must not be used for consumption.

But loaned money is something essentially different from this purchasemoney. For in the case of purchase-money you have no other foundation on which to estimate its value — nay, you have no other need to estimate its value than this: How much will you get for it? And as to that, time makes no essential difference. For whether you buy a pound of meat today or after a certain lapse of time, you must estimate the pound of meat according to its consumptionvalue. Your money may in the meantime have acquired a different value in relation to the pound of meat. But for the human being who eats it the value of the pound of meat cannot, properly speaking, change in course of time. This, however, *is* essential: The given pound of meat can only be eaten during a certain period of time. That is to say, it can only have a value for a certain period of time. For it goes bad. And this is a very pertinent economic fact. Everything that is a genuine object of use or consumption is subject to decay.

Now, when for the purposes of pure exchange we use money as an equivalent, we must admit that, as against articles which decay, money is an unfair competitor. For, in normal circumstances, nowadays, money does not seem to decay. I say advisedly, it does not seem to decay. Here you can see what an unhealthy element is introduced into the economic life when we bring into it different relationships from those which obtain in reality. By our established institutions money has a fixed numerical value under all conditions. No matter how it may otherwise be placed in relation to the social life, money has its face value and is supposed to keep it permanently. But in reality it does not do so. Everything else is honest. Meat after a period, which varies with its guality, begins to smell. Money does not do this, no matter what its quality may be. Money does not openly "smell." And yet, when we see circumstances bring it about that an article grows cheaper or dearer after a certain time, we are obliged to admit the following. While the article itself, by virtue of its qualities for human life, must retain the same value (for general conditions will ensure its being consumed at the right moment and a new one substituted for it), the same thing is not true of money. Consequently money, as such, as a pure medium of exchange, is an unfair competitor because it does not reveal in any way the fact that it also is really subject to changes. If I have to pay a certain sum of money for a pound of meat today and a different sum of money for a pound of the same meat a fortnight hence, the difference (the increase for example) in the money I must pay cannot be due to the pound of meat. It must therefore be due to the money. It is in fact due to the money. And if the money still bears the same face value, then the money is beginning to tell a lie, for its real value has decreased. If I must give more in exchange for a pound of meat, the value of the money has decreased. That is guite obvious. In this way, by the act of circulating the money, I bring into the process something which is not really there economically. Economically the facts are otherwise. Economically the situation is that money itself, simply through the economic process, undergoes changes.

We must now investigate the occasions upon which money undergoes changes. In addition to exchange-money or purchase-money we have loaned money. Take for instance the loaned money which a man obtains in order to set on foot some enterprise. For him it is not purchase-money; for him it becomes working capital.\* Now you must see that this working capital, this loaned money, has an essentially different value — an essentially different property. Loaned money is fundamentally different from purchase-money. Except for the fact that it still consists of gold, silver and paper, not many of its original properties are left when purchase-money is transferred to the sphere of loaned money. It acquires its value in quite a different way. The moment loaned money comes into circulation the Spirit of Man seizes it. Human thinking sets to work and it is through this entry of human thinking into the process that loaned money receives its actual value. When a bank-note is lent to a man who is about to undertake some business — at the moment he begins to use it, it would be far more important to write on the note whether the man is a genius or a fool in business. For the value of the loaned money in the whole economic process will henceforth depend upon the way he acts with it.

\* The literal translation of "Unternehmergeld" would be "enterpriser money." — Translators' note.

Lastly we must pass from loaned money to the third kind of money which I mentioned a few days ago. Nowadays as a general rule it is not taken into account and yet it plays the greatest imaginable part in the economic process. In fact, we must now pass on from loaned money to *gift-money*. Gift-money, fundamentally speaking, is all that is spent on education. This plays an enormous part in the economic life. Gift-money, again, is all that is spent on endowments and the like — all that has the effect of preventing the evil damming up of Capital on the land by Capital investment, which is so ruinous for the economic life. At this point we must say: For the man whose livelihood depends on purchase-money, gift-money simply becomes valueless. It loses its value. Gift-money is the opposite of purchase-money, as we can see from the simple fact that only he who has received the gift can purchase with it; one who has not received the gift cannot purchase with this particular money!

We have therefore three kinds of money, qualitatively different from one another; *purchase-money, loaned money* and *gift-money*. Now to comprehend the relation between these three, we must consider economic systems such, for instance, as the private economies which we assumed hypothetically in the last lecture — economies representing a kind of closed domain. There we shall find that after a certain time all that is loaned money passes over into giftmoney. Nor can it be any different in the case of that closed economic domain which is "World-Economy." Loaned money must gradually pass over entirely into gift-money. Loaned money must not be allowed to be dammed back into purchase-money, so as to disturb the latter.

Loaned money, therefore, passes over into gift-money. So it must be in a selfcontained economic system. And what does it do in the domain where giftmoney is working? It loses its value. Thus we may say, if we take the domain of purchase-money, the money will here represent a certain value. In the domain of "gift" on the other hand, the money has, in respect of all that obtains in the domain of purchase, a negative value. It lets the purchase-value vanish into nothing. Finally, between the two, the transition is brought about through loaned money. The loaned money itself gradually vanishes into gift-money.

Perhaps, ladies and gentlemen, you will say that this is hard to follow. It is. I am only sorry that we cannot go on for months detailing instances where we can see that the facts are as I have stated, with regard to the valuation and devaluation of money. This, however, should really be our task. All that can be said in the present lectures should be taken as a basis for further researches in Economics. In the brief period of a fortnight, only hints and suggestions can be given; but you will find that all the economic statements which have here been made will be transformed by detailed investigation into valuable economic truths — valuable both in science and in practice.

It does actually take place, ladies and gentlemen: In the economic process money undergoes metamorphoses; it acquires different qualities as it becomes loaned money or gift-money. But we mask this fact if we simply let money be money, and use the number inscribed on it as the unit of measurement and so forth. We mask it and the reality takes its revenge — a revenge which reveals itself in fluctuations of price, with which (though they are actual enough in the economic process) our reasoning faculty cannot keep pace. We ought to be able to follow them. If I may say so, we ought not to let money merely flow into circulation and give it freedom to do what it likes. For we thereby do something very peculiar in the economic life. If we require animals for some kind of labour, the first thing we do is to tame them. Think how long a riding-horse has to be tamed before it can be used. Think what would happen if we did not tame our animals, but used them wild, taking no pains to tame them. But we let money circulate quite wildly in the economic process. If and when it chooses to do so — so to speak — we let it acquire the value it has as loaned money or as gift-money. And we do not foresee, when somebody who is an industrialist possesses a money, from whatever source, which has been wrongly transformed from loaned money into gift-money and pays his workmen with it, that the result is quite different from what it would have been if he had paid them, say, out of pure purchase-money.

In effect, the more a man is obliged to pay his workers with pure purchasemoney, the less will he be able to give them — that is to say, the cheaper will they have to deliver their products. On the other hand, the more he is able to pay them with money that has already been transformed (i.e., that has already passed into the sphere of loan or gift), the higher wages will he be able to give them. That is to say, the dearer will they be able to bring their products on to the market. The point is to grasp the matter with our reason.

You see, as things are today, the function of money has constantly had to be *corrected*. Take the case, for example, of a national economy bordering on other national economies. By letting money function in this wild unguided way, without bringing any intelligence into the process, a national economy may easily find itself in a disastrous position with regard to the price of some piece of goods, or something else that is required. So long as the national economy is one among others (and no repressive measures are adopted) the people will simply import the article in question. Their imports will be increased. Things are constantly being corrected in this way. For world-economy, on the other hand, no such correction is possible. We cannot import things from the Moon, If we could import from, or export to, the Moon and Venus and the rest, world-economy would also be like a mere national economy. This is precisely the great question: What becomes of our science of national economy — that is, Political Economy — through the fact that the world is now a single closed economic domain?

And now let us suppose that we really make up our minds to *allow money to grow old*. Suppose you have a certain piece of money, no matter of what substance it is made, or what is the date inscribed on it. Say it is "1910." And now you take another piece of money with the date "1915." The money marked

"1915" begins to exist, as money, economically, in that year. And now suppose that by some reasoned treatment it undergoes the process which is undergone by all other exchangeable products, namely, that it loses its value after a certain time. The precise figures I mention are not important; they are merely illustrations. The actual figures required would have to be the subject of infinitely numerous — but perfectly possible — calculations, as we shall presently perceive. Suppose, therefore, for the sake of example, that the piece of money would have lost its value for economic intercourse by the year 1940. It would only have a definite value between 1915 and 1940. For that period it would have, as we shall see directly, a determinable value. If money loses its value in the economic process after twenty-five years, a piece of money bearing the date "1910" will have lost its value in the year 1935. Thus I should assign a peculiar property to the money which I carry about on me; I should assign to it a kind of age. This 1910 money is older; it will die earlier than the other — earlier than the 1915 money. Now you may say: "That is just a scheme." No, it is nothing of the sort. What I have just explained to you is the actual reality. That is how the economic process actually wills it. The economic process of its own accord makes the money grow old. The fact that it does not appear to grow old — the fact that we still buy things with 1910 money in the year 1940 is only a mask. In doing so we do not really buy with *this money*; we buy with a fictitious money-value.

If therefore the money in my purse grows old in this way, if its date of origin has a real meaning (and by "growing old" I mean getting nearer and nearer to its death), if this be so, then money, like man and every other living thing, has a certain value impressed upon it by the fact that it is growing older. The money comes to life and a value is impressed upon it. Suppose you have young money, money of the present year — 1922 money — this 1922 money will be good purchase-money, needless to say. But now suppose that you are an enterpriser and you ask yourself: "How shall I supply myself with money for my undertaking? Suppose, according to my calculations, my undertaking must be planned for a period of twenty years. Shall I provide myself with old money or with young money?" Then you will say to yourself: "If I take old money, it will have lost its value in five years or in two. Therefore it will not do for me to use old money. If, according to my calculations, I must provide for a long period, I must have young money." Thus, under the influence of long-period undertakings young money receives its peculiar economic value — a value far greater than that of old money. This economic value really exists — and it is there now. On the other hand, suppose I have to embark on an undertaking which involves calculations covering a period of only three years; in that case I should be a bad economist if I used very young money. For the young money, by virtue of its youth, is the most valuable and accordingly the most expensive. Thus, if I require the money for a shorter period, I shall provide myself with cheaper money. Thus you see, for anyone who has to apply his spirit — his intelligence — to money, the age of the money can begin to play a part, of which he is quite conscious.

Please note, ladies and gentlemen, that this is not a thing which does not exist already. It exists, but in a wild untamed way, which results in mutual disturbance and unhealthy economic conditions. On the other hand, if you *tame* money, if you really assign to it a certain age, letting young money — as loaned money — be more valuable than old, then you will be impressing the

money with its real effective value, the value it possesses through its position in the economic process. *This* value really only inheres in the money *qua* loaned money, for even if money is loaned money, yet as purchase-money it still retains its former value. Nor need you consider too carefully whether you ought to provide yourself with other money in addition for what you, as enterpriser, are going to consume. These things will correct themselves of their own accord.

And now remember that free gifts also play a part in the process, wherein they have a very real significance — those gifts of which I have already spoken in various connections. All that we put into the educational system is a gift — notably when it is a question of a really free spiritual life. This, too, is happening already, only people fail to notice it. When you give directly, your intelligence is in the process. As things are now you do give, but the gift is absorbed into the general pool of taxation. It vanishes into a vague economic fog and you do not observe what happens. So the thing runs wild. In the other case, conscious intelligence would come into it. Consider, for a moment, what kind of money you will use where it is a question of free gifts. If you are thinking in a true economic sense, then, where it is a question of free gifts, you will use old money — money that loses its value as soon as possible after the gift is made; provided that the person who takes the benefit of the gift has just enough time to make his purchases with it.

At this point, needless to say, there must be some rejuvenating process. The money, in fact, must have a successor. The important thing is, as you will readily perceive, that things must not be allowed to happen arbitrarily through the general chaos which the Economic State spreads everywhere. The Economic State brings about a hopeless confusion of values by failing to distinguish loaned money, purchase-money and gift-money, though in reality these three are separated all the time. You will readily perceive that if you do not wish to leave the thing to chance — if you wish to bring reason into it you simply must interpose the necessary associative bodies at the transition points between purchase-money, loaned money, gift-money and the renewal of money. Take the case of one who has money to lend. You will not let him lend it in a senseless way. You will bring him into connection with his Association. The Association will act as a mediator. The Association will provide him with the most sensible way in which to lend, or again, with the most sensible way in which to give. When a gift takes place (and every individual is free to give or not to give) the money, if it has a year-value, as explained above, will not undergo the same process. But the important thing is to bring about sensibly and in accordance with reason the things which happen in any case in the economic process, but behind a mask. The money, when it has served its purpose, must be collected. And then once more, at the beginning of the process of purchase and sale, it must receive its original value. That is to sav. it receives its new year-number and passes into the hands of those who are dealing once more with Nature-products, Nature-products which are just beginning to pass into the sphere of Labour. For here it is pure purchase and sale that are going on. This is the associative method of managing things.

The three kinds of money must be treated in different ways. In the first place, gift-money, which is the oldest, must be handed over to an Association which will bring the valueless money back again into the whole economic process, by

uniting it with Labour at the point where the Nature-process begins. There can be no economic difficulty in this. What then will be the essential difference from the existing practice? It will be this: In a self-contained economic realm which, as we saw, is not like a national economy bordering on others, where exports and imports can be carried on — three distinct domains arise, so far as money is concerned: — the domain of loaned money, the domain of purchasemoney and the domain of gift-money. And when anything occurs which would otherwise have had to be corrected by export and import from another country, it will be corrected by the three domains. If purchase-money sets up a disturbance, there will be a corresponding flow between the spheres of purchase-money, loaned money or gift-money. These things will adjust themselves of their own accord. Irregularities will undoubtedly arise, and having arisen they must correct themselves. Life cannot go on without irregularities coming in. It is an irregularity when the stomach is full. Accordingly digestion has to follow. In the same way circumstances must continually arise under which, for certain commodities, purchase-money is too cheap or dear — and then the cheap money will flow into the other domain, so that on the other side it becomes dearer again as purchase-money. What would otherwise have been corrected by export and import will now correct itself within the self-contained economy, All that is required is actual human intelligence; this will be brought into the process through the Associations, which will be there observing things with their collective experience and taking the proper corresponding measures.

It is necessary above all to grasp the essential nature of money. People fail to grasp it precisely because it is always there before them without their being able to see what it really is. In the social organism there is no such thing as "money as such," there are only these three *kinds* of money. Moreover, each kind of money only becomes what it is at the moment when it is actually entering into the economic process or passing over from one form of economic process to another. In the very process, it is constantly being changed. The point is that we must learn to know money properly, before we can pronounce what part it plays when it becomes an expression of the price of something else. To penetrate the economic process clearly, we must not remain at the surface, merely observing how things appear on the surface. Seen on the surface a 10-franc piece is of course a 10-franc piece today, no matter whether 1910 or 1915 or 1920 is inscribed on it. Outwardly considered it is always the same 10 francs, and of course in ordinary sale and purchase it behaves accordingly. I do not observe that a difference has taken place, till I have less of it — or things have become dearer. But in this very "having less" or "becoming dearer," there lies inherent what I expounded to you today as the greater or lesser age of the money. To perceive the economic process clearly, we cannot merely speak of cheap or dear money, of cheap or dear commodities. We must find out what money is in its real essence: this must first be recognised and known. For it is with money that we master the economic process nowadays. (We shall show tomorrow how substitutes for money have to be treated in a similar way).

This is the important thing. We must not fight shy of penetrating beneath the surface, into the depths, to see the real underlying facts. We must not speak in economics merely of cheap or dear money in relation to commodities. We must

realise that in the living economic process, we have to speak of money being "old" and "young."

# **World Economy**

## LECTURE XIII

Dornach, 5<sup>th</sup> August, 1922.

### LADIES AND GENTLEMEN,

To understand how the sort of thing we discussed last time can be maintained, we must now turn our attention to certain features in the economic process which also take a part in the determination of economic values and which at the same time show how very difficult it is to value in the economic sense that which comes into the process through the human mind and Spirit. I will give you an example, not exactly fictitious, but put in such a way that its value as an example does not depend on the specific facts on which it is based.

The following may happen. At a given time there lives a great poet, recognised as such during his lifetime and increasingly so after his death. Now one of those who concern themselves with this poet, being perhaps particularly fond of his poetry, may hit upon the following idea. "In the near future," he says to himself, "they will make more and more of him. I know for certain — at any rate I can afford to take the risk — that in the near future, say within 20 years, they will make still more fuss about him than now. Nay more, following the habits of our time, within 20 years they are sure to set up an institution to collect his manuscripts." From various things which he has picked up and turned over in his astute head, this man says to himself: "These things are guite sure to happen. Very well, I will begin at once to purchase autograph MSS. of this poet. For they are still very cheap." And then one day, when he is sitting in the company of others, one of them says: "Personally I am not very keen on speculation: all I desire is to have a reasonable interest on my savings." Another says: "That is not good enough for me. I am buying shares in suchand-such a mining concern." He is more of a speculator; he is buying "paper" (industrial shares). But the third, namely our man, says: "I am buying up the best paper on the market. It is very cheap indeed. But I shall not tell you fellows what it is" (for it is part of the venture that he does not give his game away). "The paper I am buying will rise in value more than any other in the near future." So he buys nothing but autographs of the said poet. And after 20 years he sells them to the archives, or to others who will sell them to the archives in their turn. He sells them for many times the amount he gave. So that he was the biggest speculator of the three!
It is a perfectly real case, only I will not give any further details now. It occurred in fact. And, you perceive, it brought about a very significant reshuffling of economic values. Now what were the factors that contributed to this reshuffling of values? In the first place, simply the prudent exploitation of the fact that the poet's reputation was growing — a growth which in the end found expression in the establishment of archives. But you must add — at any rate as to the reshuffling of values, the bringing of it all into the hands of a single man — the fact that he kept his own counsel about it, did not draw the attention of others to it; nor did they hit on the idea themselves. So he was able to make an enormous profit.

I mention this case only to illustrate how complicated the question can become, how many factors converge in the nature of value and how difficult it is to grasp them all. Thus the question arises: Is it quite impossible to grasp them in one way or another? You may say that for a considerable part of life it will be perfectly possible for men and women of sound intelligence, in the right associations, to estimate the factors, even to the extent of giving them numerical expression. But there will still be many things — things of decisive importance for a true estimate of values — which it will not be possible to grasp with ordinary common sense, unless we look for some fresh aids to understanding.

We saw how Nature, to acquire an economic value, must be transformed by human Labour — must, as it were, be combined with human Labour. There is the Nature-product. In an economic organisation based on division of Labour, the Nature-product has, properly speaking, no value to begin with. Now let us try to find our way into this picture. Values arise by the joining together of the material of Nature, if we may call it so, with human Labour. Thus, if only in a kind of algebraic formula, we may begin to approach the real "function" of value-formation. For instance, we can see at once that it cannot be a question of simply superimposing Labour upon the Nature-element. For the Labour changes the Nature-element. It cannot be a merely additive function. It will be more complicated than this. But we can hold to what we have already said; we see the economic value arise where the Nature-product is first taken over by human Labour.

Obviously the first stage in the process — in the taking-over of the Natureproduct by human Labour — is direct work on the land. Therefore, when all is said, we must always look upon the cultivation of the land — in the widest sense of the term — as the starting-point of economic life. This is the condition precedent to the whole of economic life. But how is it when we go over to the other side of the economic process? I need not enlarge on it any more at this stage; it is quite evident from the preceding lectures that even such a thing as the redistribution of values plays a considerable part in the movement of economic values. How shall we find anything *comparable* in all these different factors? If we regard "Nature times Labour" as the value which comes up from the one side (or, as I said, whatever the right function is); then we must look for something comparable on the other side. We cannot simply compare Nature with the Spirit, for we shall find no point of comparison — least of all by way of purely economic considerations — if only for the reason that a highly subjective element here enters in. Think of a simple village economy — a self-contained one, if you will. There have actually been such economies — to some extent at any rate — within the experience of man. It will consist, to begin with, in the things produced — we will imagine even the market and the town out of the picture. It will consist in the peasants, the workers on the land, the workers in the different trades (those who clothe the people, for instance, and a few others) but no special proletarians; such a thing will not yet exist, nor need we, on our present lines of thought, turn our attention in that direction. Whatever is relevant to the proletariat will appear in due course. But our village economy will also include the schoolmaster and the parson, or one or two schoolmasters and parsons. They — if it is purely a village economy — will have to live on what the others give them. Whatever develops there, of the free spiritual life, will in the main have to develop among the teachers and the parsons — or possibly a parish clerk will be added. Now we must ask ourselves: How does a proper valuation come about in this simple economic circuit?

There will be very little else of "free spiritual life." We can scarcely imagine the schoolmaster or the parson blossoming out into a novelist, for if the village economy is a closed one he would not be able to sell very much. A novelist would only be able to earn, in this community, if he were able to instil into the peasants, tailors and cobblers a passion for his novels. In that case no doubt he might be able to call into being quite a little industry. But it would cost a great deal to do that. At any rate we cannot, in the ordinary way, imagine such a thing existing in our little village community. In fact, the "free spiritual life" must await certain conditions. But from the simple fact that there are the parson and the teacher and a parish clerk, we can at any rate conceive how the achievements of these spiritual workers — for they are such, in the economic sense — will come to be valued economically.

What is the requisite condition for these spiritual workers to be able to live in the village at all? It is that the people send their children to school and that they have religious needs. Spiritual needs, therefore, are the fundamental premiss. Failing such needs, even these few spiritual workers could not be there. And we shall have to ask ourselves: How will these spiritual workers economically endue their products — their sermons, for example (even these must be conceived in an economic sense), and their school lessons — with value? How will these things be valued in the whole economic circulation?

This is a fundamental question. We shall only gain an answer to this question, if we begin by imagining quite vividly what the others must be doing. They must be doing physical work. By bodily Labour they call forth economic values. If there were no need for sermons and school lessons, the parsons and teachers would have to do physical work. Everyone would be working with his hands and the spiritual life would drop out of the picture. We should no longer be concerned with the economic valuation of spiritual products. Thus we arrive at the required valuation precisely by observing that parsons and teachers are *spared* physical Labour. If they are to do their spiritual work, which is desired, they must be relieved from the bodily work. Here you can introduce into the line of thought something capable, at least, of a more general treatment. Suppose for example that there is only need for half as many sermons and school lessons. What will then have to happen? You cannot appoint half a parson and half a teacher. Therefore the parson and the teacher will have to

spend part of their time in physical Labour. Therefore the valuation on their side will depend on the *amount* of physical Labour of which they are relieved. This is the measure for the valuation of their work. One man contributes physical Labour, another saves it and his spiritual achievement has a value corresponding to the amount of physical Labour which he saves himself by virtue of it. Take these two economic fields and think the thing through economically, and you will see that even a sermon must have an economic value, and moreover how it acquires this economic value. It acquires it inasmuch as Labour is saved or spared, whereas on the other side Labour has to be applied.

And now the same thing runs through the entire spiritual life. What does it signify, in the economic sense, if a man paints a picture — paints at it, shall we say, for ten whole years? It signifies that the picture acquires a value for him inasmuch as it will enable him once more to spend ten years painting another picture. He can only do so if he can save himself physical Labour for a period of ten years. Therefore the picture will have to become worth as much as would be made out of other products by physical Labour during ten years. Even if you take such a complex case as I explained at the beginning of this lecture, the same result will emerge. In all cases of spiritual production, if you try to find the concept of value you will arrive at this other concept — the concept of Labour that is saved or spared.

It was the cardinal error of the Marxists that they looked at it all exclusively from the physical side. They said that Capital is to be looked upon as crystallised Labour — as a product with which Labour has been combined. Now if an artist paints a picture, the Spirit he has painted into it during ten years is certainly combined with it, but this could at most be computed by those who believe that Spirit is the inner "work" of the human organism transmuted; which is sheer nonsense. The spiritual cannot be assimilated to the natural in that facile way. If I complete a spiritual product, it is not the point that in some way Labour is stored up in the product. The work stored up in it is economically irrelevant. Qua bodily work it may be very little. Moreover what little there was falls, in any case, under the other heading — that of physical work. What gives value to the product is in truth the Labour which it will save me. Thus on the one side of the economic process the actual doing of work, the bringing of Labour to the product, is the value-creating factor; the product absorbs Labour — as it were, attracts it, While on the other side the product rays out Labour, begets Labour; the value is the original thing which calls the Labour into being.

We have now therefore a means of comparison, namely, Labour on the one side and Labour on the other side, and we are therefore in a position to relate them, for we may say: If the value in the one case equals "Nature *times* Labour," in the other we must call it "Spirit *minus* Labour."

V = N,L V = S-L

The direction is exactly opposite. Physical Labour only has meaning inasmuch as the one who wants to contribute it to the economic process actually does it himself. While what is related to the product on the spiritual side is the Labour which one man does for another. It must therefore be entered as a negative in the economic process.

It is a remarkable thing. Study the history of Economics, and you will always find that what is said is right, but only in a limited sphere. There are economists who believe that it is Labour which gives things value — the school of Adam Smith, the school of Marx, for example. But other schools give another definition, which again is right in a certain sphere. According to them, a thing becomes Capital — i.e., a source of value — inasmuch as it saves Labour. Both points of view are true. Only, the one is true of all that is in any way related to Nature, to the soil, the land; while the other is related to the Spirit. Between these two there is a third. For, in effect, neither of the two extremes is ever there in its pure form; they are only there in an approximately absolute sense. After all, even in picking blackberries (which acquires economic value only inasmuch as the workers actually go there and do it) even here there is some spiritual work. If of two blackberry-pickers one is stupid and makes extra work for himself by picking where they are scarce, while the other finds a place where there are plenty and obtains a better yield for his Labour, the blackberries of the former worker are of less value, relatively speaking; he will not get more money for the same amount of berries. Thus, in effect, neither extreme is ever realised absolutely. Even the gathering of blackberries entails spiritual work (although we might not call it so). The work of using one's wits creates values, just as it did with the collector of autographs; at least it creates values by placing them.

Once more, then, we have Labour in the one direction and in the other, and this alone enables us to compare the economic values. But this comparing is done by the economic process of its own accord. We can at most raise it, in a certain way, into the sphere of conscious intelligence. Indeed, all that I have given in these lectures amounts to this: that we lift certain instinctive processes into consciousness.

As I said just now, we have neither of the two extremes in any absolute sense. For on the other side (V=S-L), however much a painter uses his intelligence he must still do *some* bodily work if he wishes to create anything of economic value. Even if he exercises clairvoyant power (a thing which you cannot grasp at all in terms of economics), even then he must still do some bodily work. Relying on his genius, it may be, he can afford to be dreadfully lazy; still, now and then he must take up the brush. Some bodily work has to be done even in this case, just as some little force of thought must go even into the picking of blackberries. (Things that take place in real life cannot be grasped merely quantitatively. They have to be grasped while they are actually happening. Therefore we can only grasp them with our concepts, if we realise that the concepts themselves need to be kept in constant movement).

It is between these two extremes that we can perceive more clearly how in the real economic life bodily and spiritual work play into one another, moving to and fro. Just as in some machine, there is a regulated backward and forward movement, so in industry bodily work from the one side and Spiritual work from the other are passing to and fro. It is in this mutual interplay from two directions that we have, as a third, that which plays into the economic process between the other two. We have the case where a man has to do physical Labour, yet by his spiritual power (using his wits) he is saved some of it. This

is always actually the case, only it sometimes approximates more to the formula I wrote above (V = N,L) and sometimes more to the formula I wrote below (V = S-L). The latter, in effect, would only be fulfilled in its entirety if there could be among the consumers someone who did nothing but save himself Labour by means of his spiritual faculties. It could only be someone who was born grown-up.

In this way we can look into the economic process from this aspect of valuation, valuing what comes from Nature on the one hand and from the Spirit on the other. And at this point we can say: Where positive and negative work into one another, somehow an intermediate condition will emerge. The positive may predominate. Let us assume this for a moment. In the little village economy it certainly will do so, for in such a community there will be no widespread interest in spiritual work, beyond what is absolutely necessary. But the more life grows complicated (or, as we are apt to say sentimentally, the more "civilisation advances") the more highly, as may be seen even empirically, spiritual work is valued. That is to say, the more is Labour saved; a negative element comes in as against the positive. I beg you to consider well: by characterising it in this way we are taking hold of a real process. It is not that physical Labour is done on the one side and annulled again on the other; that would be no real progress in the economic sense; it would at most be a process of Nature. All that is done of physical Labour helps to create values. None of it is destroyed. That which counteracts it — the saving of Labour from the other side — counteracts it only in a numerical sense. In a purely numerical sense, it affects the value of physical Labour. For this very reason, we are enabled to express in a real way what actually happens. Physical workers are active, spiritual workers are active, but the achievement in the one case is work which is positively done, while in the other it is a work which in reality signifies a saving of work. Only by this means is an effectual valuation brought about.

If I may put it so, the things are divested of their particularity and it becomes possible to grasp the process in terms of numbers, inasmuch as it is the same thing which emerges on either side and only the valuation is altered. With the advance of civilisation, then, spiritual work increases in importance, and this implies that the bodily work has a less powerful effect on the valuing process. Physical strength is of course applied, and it must be so more and more as we go forward. Even the cultivation of the soil must be made more fruitful as civilisation advances. More work must be done, in a positive sense. The point is that the physical Labour is divested, to some extent, of its value-creating power. Yet this again can only be so if those who perform the physical Labour evince a growing need for that which has to be achieved from the spiritual side. Here, once again, a human factor comes into the economic process. You cannot get round it; indeed, with the advance of spiritual life, this particular human factor makes itself felt as an objective necessity.

It is quite true that, to begin with, when there are only the parson and the teacher, there is not much of spiritual life in our village. But suppose there are two villages. In one village the parson and the teacher are mediocre people: things will go on as they are. In the other village the parson or the teacher, or both of them, are first-rate people. They will be able to stimulate all manner of spiritual interests in the next generation and, in all probability, by the time the next generation arises, some other spiritual worker is brought into the village.

Now there are three of them. In this regard the spiritual has a very fertile power, which in its turn works back into economic life.

What, in the last resort, does the process signify? It signifies that precisely Labour, or rather the value-creating power of Labour, which in the purely material phase of economic life has an infinitely great value, is more and more reduced in course of time by that which comes to meet it from the other side. I cannot exactly say it is "devalued"; it is reduced numerically. In the workingtogether, as between all that is represented by land-work — the tilling of the soil, etc. — and that which is done from the spiritual side, we have a kind of mutual compensation. And a certain compensation is the only right thing.

Now here, again, complex conditions arise. For it may well turn out that in a given place there are too many spiritual producers; i.e., the counteracting Labour-saving power may be too strong. Then the resultant value is negative, and the people cannot all live together except by consuming one another. Thus there is a limit somewhere to this compensation process. For every economic realm there is a certain balance, in the very nature of the case, as between the production from the land on the one side and the spiritual production on the other.

And until this is understood in Economic Science — how the production from the soil, taken in the widest sense, of course, is related to spiritual production — until this problem, which has hitherto hardly been considered, is very seriously dealt with, we shall never get an economic science able to cope with our present needs.

The first thing necessary is that we should begin working on definite data, from which we may convince ourselves in an atmosphere unclouded by prejudice and agitation, how some particular area gets into an unhealthy economic condition, because it contains too many spiritual workers — and again what power of further development of culture and civilisation an area has, where that limit, of which I have just spoken, has not been reached. Progress is only possible within a given area so long as this limit, determined by the necessary compensation, of which I spoke, has not yet been reached. The task then will be to investigate those elements which still survive today from *closed* economies — such survivals are to be found everywhere, because we are only passing slowly into a world-economy — we must investigate those elements as to which the economy of some area is still closed; we must study the aggregate welfare of those areas in which there are comparatively few poets and painters and sophisticated industrialists, etc., and where there is still much agriculture or other activity connected immediately with the land; and then we shall have to study other areas where the opposite is the case.

From the available data, we must work out empirically such general laws as will emerge for a true theory of balance as between agriculture, or the working of the land in the widest sense, upon the one hand and spiritual work upon the other. This will be necessary. For certain regions, take what we may call the average spiritual workers (do not choose such as would falsify the whole balance) and on the other hand the average physical workers. Balance the one against the other; you will perceive how the one works compensatingly upon the other.

This is a point of cardinal importance for anyone who wishes to contribute to the further progress of Economic Science today. The fact is that this problem, which should really underlie our thinking about price and value, is scarcely anywhere correctly seen as yet. As I said yesterday to a few of those present: In Economics people are always allowing themselves to be misled into a partial instead of a comprehensive way of thinking. There is no doubt that Spengler makes some verv shrewd economic observations at the close of the second volume of his Decline of the West. But he ruins these brilliant observations because he does not succeed in translating into terms of present-day economic realities what he perceives historically. He points out very justly how, in the ancient economies, the economic life which comes directly from the soil was predominant; whereas today that economic life predominates which thinks in money — and consists, therefore, properly speaking, in spiritual work. But he fails to see that these two stages of economic life, which he records historically, continue side by side to this day. The one has not replaced the other in history; they stand side by side to this day, as the most primitive abides within the most advanced. Do we not find the amoebae crawling about free in external Nature and do we not find the same thing in our own blood, in the white blood corpuscles? The different historical stages even in Nature live side by side to this day. And so it is in economic life; the most varied conditions co-exist. Sometimes indeed, in the most highly cultivated economic life — if we may call it so — it is precisely the most highly cultivated elements which return to the most primitive. Values created by our living in a most elaborated culture hark back, in a certain sense, to the state of primitive barter. Those who create their savings-of-Labour, as it were, will sometimes barter one of these for another, to satisfy certain needs among themselves. Such things occur. We often find the most primitive functions applied once again to the most highly elaborated products.

I wanted to add this remark to the present lecture, so that tomorrow I may be able to give you, as best I can, some sort of conclusion to these lectures.

# **World Economy**

### LECTURE XIV

Dornach, 6<sup>th</sup> August, 1922.

### LADIES AND GENTLEMEN,

You will have seen that the main object of our present studies was to find concepts, or rather pictures, of the economic life, such as would help us actually to get inside it. In no one of the activities which are now being pursued in the Anthroposophical Movement — and in which I have myself been taking part — is it my opinion that all the existing scientific results should be simply flouted. On the contrary, I am convinced that there is a wide range of very

useful results in the existing sciences. Only, the method of treatment, both in Natural Science and in the other branches of knowledge, needs to be developed in some essential respects. Thus, in the main, I have tried to give you pictorial concepts, ideal pictures, to aid you in making proper use of the wide range of valuable material which is already there in Economic Science. For this reason I have given you such pictures as could really live. A living thing, you may be sure, is always many-sided and contains many meanings. Many of you may therefore go away from these lectures with the feeling that various objections can be made to what has been said. In a sense I shall be rather glad if you do have this feeling, provided it is combined with real earnestness and with a genuine scientific spirit. Faced by a living thing, this feeling is indeed inevitable. Life will not endure dogmatic theories; and it is in this sense that you must conceive the ideal pictures I have given to you.

The thought-picture of money growing old or getting used up is a particularly pregnant one. You must relate yourself to such an ideal picture as you would do, let us say, to a growing human being. You have a general feeling that he will prove a very able man in one direction or another. You may have fairly definite ideas of what he will accomplish. But these ideas will very likely turn out to have been mistaken. He may accomplish what he has to do in quite other ways. So too for the concept of money getting used up in course of time, you may find various ways in which this can be brought about. The way I have tried to present is one conceived as little as possible along bureaucratic lines; it results naturally from the economic life itself.

Many objections may no doubt be made. Here is a very easy one: How will it be settled that a given enterpriser puts young money and no other into his business? After a short time it may no longer be recognisable whether the money was young or not, for his business will be going on. In answer to this, you must bear in mind that he does not simply get the money from the sky; he borrows it from someone. Moreover, since you can see from my Threefold Commonwealth that I do not think that interest on money should be abolished. provided the money has real value (on the contrary I believe that up to a point interest is actually necessary in the economic life), you may say: How shall I as an enterpriser get money from those who might lend it to me, if I am only going to pay them interest for an atrociously short time? They will only wish to give me money on the assumption that they will get interest out of my business for as long a time as possible. Thus, you may find that it is not enough simply to let money grow old in the way described. This may lead you on to think out the method in greater detail. For instance, money issued today might be datestamped, not with the present year but with a future year, in such a way that the value increased up to that year, and after that decreased.

In short, a living thing may realise itself in a variety of ways. By the act of grasping it livingly, you give it the possibility to realise itself in the most varied ways, just as a living human being can use his ability in various ways. This is the essence of a non-dogmatic concept. To make such concepts your own, especially in Economics, is to see how well these things enter into real life. Only on this foundation will you be able to make proper use of what is given in the so-called economic science of today out of quite good but only partial observations.

Take for example what is said of Price. You will be told that the conditions determining price-levels are the following, so far as the seller is concerned: his relative need for money, the value of the money, the costs of production which he has to meet and the competition among buyers. But if you analyse these concepts you will always find that, though you can think about them rightly enough, you cannot enter with them into the realities of life. For you would first have to ask yourself: Is it an economically healthy state of affairs if it so happens that a particular enterpriser is in need of money at a particular time and thereby, in accordance with his private need for money, prices rise or fall in a particular direction? Can the utility-value [Gebrauchswert] of money, if we may call it so, work in a healthy way at all? Both things can work in a healthy and in an unhealthy way. Or again, speaking of costs of production, it may be desirable for the attainment of a healthy price not to think how the price will come out if costs of production are looked upon as something absolute, but on the contrary to think how the costs of production for a given article might have to be reduced so that it has a healthy price when it comes on to the market. In other words, you need to have concepts which really begin at the beginning. You cannot let a living man begin his life at the age of 25, nor should you let your concepts, which are to enter into real life, begin at any arbitrary point. You should not let your economic concepts begin, for example, with the competitive relation between buyers or between sellers. For the question is: May it not be, under certain conditions, the fundamental error of our economic life that an excessive competition should exist at all, as between sellers or between buyers? These are matters of principle, which must be taken very much in earnest.

Quite apart from whether one or other of you may agree with particular parts of our exposition, the endeavour has been throughout to *make our concepts living*. If they are living, then, in the event, they will show of their own accord how they need to be modified. What matters is that we should be brought on to the path of these living concepts. Thus, we can say: If we have money that is used up, i.e., grows old, then, inasmuch as money comes into circulation and figures as purchase-money, loaned money and gift-money, the peculiar qualities of money will bring it about in the natural course — if they are allowed to function in a purely economic and unhampered way — that the demand for young money will arise at one place and the demand for old money at another.

I ought, of course, to be able to go on elaborating these things for many weeks, and then you would see how well they fit in with a sound economy. Wherever an illness arises in the body economic, you would see that it is just by the observation of these things that it can be healed.

What is it that really emerges when we think, in this way, that in money in circulation we have a kind of reflection of that element of use and wear which in fact is present throughout the whole range of consumable goods — and even spiritual services are consumable goods for the economic life? In a money which wears out we have a parallel process to goods, commodities, real values, which also wear out. What have we, in effect, if we perceive this *parallelism* — we can extend it over the entire world-economy — *between the real value and the token value?* Truly we may describe it essentially as a kind of book-keeping system for the whole world-economy. It is the world's book-keeping. When some item is transferred or delivered, this simply signifies the

entry of an item in another place. In actual practice the thing is done by passing money and commodities from hand to hand. The principle is fundamentally the same whether we contrive to record the items in their proper places in an immense book-keeping system embracing the whole worldeconomy, and so direct things simply by transferring credits, or whether we write out a chit and give it to the person concerned, so that the thing is done in external action. In the circulation of money we have in effect the world's bookkeeping. And this is, as everyone can really see for himself, what should be aimed at. For in this way we give back to money the only quality which it can properly have — that of being the external medium of exchange. Look into the depths of economic life, and you will see: Money can be nothing else than this. It is the medium of exchange of services or things done. For in reality men live by the things actually done, not by the tokens thereof.

It is quite true that money can create a false impression of things done, and with the rise of a kind of middleman's trade in money, the whole economic life can thus be falsified. But this kind of falsification, this counterfeiting, is only possible when we do not give money its true character.

It is important for us to see, as I emphasised in the last lecture, that different kinds of services must be judged in different ways with respect to the values circulating through the economic life. As we showed yesterday, that which is gained from Nature to begin with, and on which Labour is expended, corresponds to the picture: "Labour united with an object of Nature." In a certain sense, we can begin the economic process at this point. Here, we may say, the value is created by the Labour which I unite with a particular product of Nature. But in the economic process there is also the contrary stream, which comes into play the moment there are spiritual services. As soon as spiritual services come into play, another formula of valuation, if I may call it so, has to be introduced, namely: "A spiritual service is worth the amount of Labour which it saves to the person who contributes it." Take for example the artist who paints a picture and thereby provides a value, a value for which real interest is felt (otherwise it would not be a value). If the production of the picture and the existence of the artist are to be economically healthy, the artist must value it in this way: It must save him the amount of Labour required to satisfy his own needs during the time which it will take him to produce a new picture in like manner. Thus, in the economic process spiritual services ox products come to meet those which are mainly based on the elaboration of Nature, i.e., on manual Labour, upon, say, means of production. On the one side we must have Labour uniting itself with the means of production, while on the other side Labour must be saved or spared. Thus there arises the economic circuit with its two opposing streams, which must compensate each other in a healthy way.

The great question is: How shall they compensate each other? In the first place we need only bear in mind the universal bookkeeping of our world-economy. It is here that we should find the items on either side which must somehow be mutually balanced. And this would be the source of Price. But the point is that the items in this universal book-keeping must mean something. An item — A which I insert, will correspond to what we may describe as "Labour united with Nature," or another item — B — will correspond to "so much Labour is saved by this service." Every such item must have concrete meaning. But it can only have a meaning if it represents something which is comparable, or which is at least made comparable by the economic system. We cannot simply ask: How many nuts is a potato worth? We cannot ask a question like that without more ado. First we must say: "Nut" signifies a Nature-product united with human Labour: "Potato" signifies a Nature-product united with human Labour. And then we can ask how the two values are to be equated. The problem is to find something which will enable us to assess economic values one against the other. It becomes still more difficult if you take, say, a literary essay. The essay, too, must be, economically, worth the amount of physical Labour upon some means of production which is saved by it, minus the very small amount of physical work spent on the actual writing. At any rate you can see that it is not altogether easy to work out how these things are to be equated or assessed as against each other. Nevertheless, by taking hold of the economic process from another angle, we shall find means of reaching such an assessment. For on the one hand we have the physical Labour spent on the means of production, including Nature herself. At a given time it is guite a definite amount of Labour. I mean that at a given time a definite amount of Labour is needed, shall we say, to produce wheat over a given area, say x square metres of land, taking "production" as ending in the moment when the wheat is in the merchant's hands, or at some other given point. Once more then, a definite amount of Labour is needed to produce wheat. It is a given magnitude, which under certain conditions can actually be ascertained. Properly regarded, all human economic service or achievement — of whatsoever kind — eventually takes us back to Nature. There is no other possibility. The farmer works upon Nature directly. One who provides, shall we say, clothing, works not directly upon Nature, but ultimately his work goes back to Nature. His Labour will contain an element of "Labour saved" to the extent that he applies Spirit or intelligence to it. Nevertheless even his work has its connection with Nature. Everything, right up to the most complicated of spiritual services, eventually goes back to Nature — to Labour that is expended upon the means of production. Think it through clearly and you will see that everything in economic life can be traced back in the long run to bodily work upon Nature. The process begins from Nature; values are created there by the application of Labour; and it is these values — taken to some definite point still as close to Nature as possible which have to be distributed over the whole of a "closed" economic domain.

Go back to the hypothetical case I took yesterday — the closed village economy, In such a self-contained village economy you have the manual workers, but I assumed that the only spiritual workers were the parson and the schoolmaster and possibly the parish clerk. It is a very simple economy! Most of the people are doing bodily work, bodily work upon the soil; only, they have to do in addition enough bodily work to provide for the needs — food, clothing, etc. — of school-master, parson and clerk. It will be additional, for the schoolmaster, the parson and the parish clerk do not do their work upon Nature for themselves. Say that the village economy consists of 30 peasants plus the three — what shall we call them? — "worthies." These three supply their spiritual services. They need the spared Labour of the rest. Suppose that every one of the 30 peasants gives to these three, or to each one of them, a token, a ticket, on which is written so much, say x, of wheat — that is, wheat elaborated to a certain point. Another member of the community might give a ticket on which something else was entered, something comparable to wheat for purposes of consumption. These things can be ascertained. The schoolmaster, the parson and the clerk will collect these tickets. Instead of going out into the fields to fetch their wheat and rye and beef for themselves, they will hand over their tickets to those concerned, who in their turn will do the necessary Labour in addition to their own and will give them the product in exchange. That is a process which cannot help developing of its own accord. It cannot possibly be otherwise, nor does it make any difference if it occurs to some bright individual to introduce metallic coin instead of tickets. It amounts to this: Some kind of tokens must be devised, based on the stored-up material Labour — Labour expended on means of production, Labour invested in economic values. And these tickets must be handed over to those who need them, so that they can save themselves the Labour.

Hence you will see that no kind of money can in reality be any other than an expressions of the sum-total of means of production available in a given region — means of production including in the very first place the land itself — reduced to the form in which it can be most suitably expressed. This will relate the economic process to something which we can at least take hold of. It is not possible to bring about an economic paradise anywhere on earth. Let those believe it is, who invent Utopias without reference to reality. It is so easy to say that an economy should be thus and thus. But, ladies and gentlemen, an economy — including that economy of the entire Earth which we can call "world-economy" — cannot be absolutely determined, but only relatively so. Suppose that in a closed economic region we have an area, say Ar, of land. Now supposing all the people in this area are doing everything which it is possible for human beings to do, then a different amount will be available for consumption if B million people live in this area of land, than will be the case if the population is  $B^1$  million.

Thus in effect it depends on the ratio of population to the area of land, and on how much a given population can get out of the given area, for it is from the land that everything ultimately comes. Take now the hypothetical case: An economic area has a population of, say, 35 millions — the number does not matter. What holds true, here, of a self-contained economic territory, is true also of the world-economy. Assume 35 million inhabitants at a given time; and that the problem is to bring these 35 million people economically into an economically just relation. (I may not be putting it quite clearly and precisely, but you will soon see what I mean). What would you have to do if you wished such a condition to prevail among these 35 million as would bring about feasible prices? The moment you begin to lead over the economic life of the region into a healthy condition, you would have to give each one of them an amount of land corresponding to one 35-millionth of the entire area available for production, adjusted according to fertility and ease of cultivation. Suppose that every child were to receive such an area of land at birth, to be worked by him in perpetuity. The prices which would thus arise would be feasible prices for such an area, for things would then have their natural exchange values.

Now the curious hypothesis which I have here put forward is nothing else than the reality. The economic process actually does this of its own accord, Of course you will not believe that I mean what I am now saying in any other than a figurative sense. Yet these are the actual conditions. You can imagine the entire area distributed among the people concerned, remembering that they will also have to elaborate, in the proper way, such products as become detached from the soil. You can imagine the entire area divided up among the population, and it is in fact this which gives to each individual thing its exchange value. Indeed it might well be that if in some place you were to note down the actual exchange values, you would find a very close approximation. But if you now compare this with ordinary present-day conditions, you will find the price of one thing far above and the price of another far below that level. Still, if you like to suppose a Utopia somewhere, populated solely by newborn children (looked after by angels to begin with), to each of whom you have given his piece of land, then, when they are able to begin work, you will have produced conditions under which the natural exchange values will arise. And if after a time prices are different, it can only mean that one has taken something away from another, It is this kind of thing which produces the various social discontents; men dimly feel that here something works into the process which does not correspond to the real prices at all.

Yet if the economic life becomes permeated with a way of thinking such as we have here adopted, the actual measures we shall take will bring about the result I have stated. It all depends on that. We shall find that our currency, representing, as it were, the day-to-day book-keeping of world-economy, will have to be inscribed, let us say: "Wheat producible over a given number of acres," and this will then be equated to other things. The different products of the soil are the easiest things to equate. So you see where it is we must start from — our figures must mean something. It simply leads away from reality if money has inscribed on it: "So much gold." It leads towards reality if it has inscribed on it: "This represents so much Labour upon such and such a product of Nature." For we shall then have this result: Say there is written on the money "x wheat," all money will be stamped "x of wheat, y of wheat, z of wheat." The real origin of the whole economic life will then be made evident. Our currency will be referred to the usable means of production upon which bodily work is done — the means of production of the given economic region. This is the only sound basis of currency — the sum-total of the usable means of production.

One who can look into the realities with open mind will see, as he looks, that this is so. It may be objected that no one value can be precisely equated to another. But to a great extent this can be done. For since in this method of valuation everything is ultimately valued through consumption, the values of different kinds of services do not differ so very much from one another. However spiritual a worker I may be, I need so much saved Labour every year - namely, as much as I require to maintain myself as a human being. Moreover, by this means it will be evident how and to what extent a spiritual worker needs something in addition, beyond what a manual labourer needs. And when the thing has become as transparent as this, it will be acknowledged because it is transparent. Even today — though they become increasingly rare - conditions do exist in selfcontained economies under which the spiritual workers receive all that they need; where the others give it them gladly, without even writing it down on slips of paper beforehand. In saying this, I do not wish to reduce an economic to a sentimental argument. I say it simply because this, too, is part of the realities of economics and because in an economic system you are after all always dealing with human beings.

Above all, you will attain in this way to a relationship between the members of an economic whole which will be really visible to all. Each one in every moment will then have his connection with Nature, even in the money. It is just this which makes our present-day relations so unsound; they have become so far remote from Nature — the connection with Nature is no longer there. If we can bring it about (and it is only a question of evolving the necessary technique in the associative life) that we really have the Nature-value recorded on our papermoney in place of the indefinable gold value, then we shall see directly — in every-day business and intercourse — how much a given spiritual service is worth. For I shall know, when I paint a picture, that for me to have painted this picture so many workers on the land, for example, have to work for so many months or years on wheat or oats, etc. Think how transparent the economic process would become. The ordinary way of putting it today would be to call it the substitution of a Nature-currency for a gold-currency. Yes, and that is just what we need. For by this means true economic conditions will be brought about.

Once again I have placed a picture before you. I have to speak in these pictures, for they give the reality. What people generally have in their heads in economic intercourse today is not reality. He alone has the reality who in receiving a piece of money of a certain magnitude in exchange for something, knows that it signifies so much work upon the land. We must, of course, include in our calculations the work that is done on other means of production. These will, however, be equivalent to Nature. For the moment they are finished, and thus leave the realm of commodities altogether, they are devalued inasmuch as it is no longer possible to buy or sell them. They thus becomes equivalent to the means of production which we have in Nature directly. It is therefore only a continuation of the part which Nature already plays in the economic process, when we say that means of production should be dealt with in this way. Moreover, it is only in this way that we can have a clear idea of Nature herself, considered as means of production. The concepts of land which you will generally find in Economics are always open to objection, unless you conceive of "means of production" in the way I attempted in my Threefold Commonwealth. You need only consider this: Even a given region of Nature may have to be worked upon to some extent before it is available as "land" — before it is fit for cultivation. Up to the moment when Nature — or a given part of Nature — has been cleared and can be handed over for use, during this period also, some Labour must be expended on it. In other words, by the time this Labour has been done, even a piece of land may justly be reckoned a commodity, an economic value, in the sense that it is a piece of Nature combined with human Labour.

Only by formulating the ideas in the way we have done will you get the concept "means of production" clear and transparent, and you will then be able to work it out in the most varied spheres. You will perceive, when for example an author writes an article, that the main value of it, economically speaking, consists in the Labour saved; from which you would only have to deduct the minute amount of bodily work which the actual writing entails. Your concepts will be capable of differentiation in manifold directions so that you stand with them in very life, inasmuch as you are forming them out of life itself. And then, if for example you are concerned with some question of prices, you will no longer be content merely to trace it back to the immediate costs of production; you will have to trace it back to the primal phase of all production. You will have to see what are the conditions of price-formation right from the primal phases of all production. It is only then that you will be able to trace them rightly up to any given point in the economic process.

In this way, ladies and gentlemen, perhaps I may have been able to give you an idea which will at least guide you on your way towards the cardinal guestion of Economics — namely, that of prices. For to engage in economic activity at all is to bring about the exchange of products among human beings, and this exchange lives itself out in the forming of prices. It is the forming of prices that matters, and in this respect you do not have to go back to anything vague or indefinite, For you can always follow things back to the fundamental relationship of value which is brought about by the very fact of work upon the land, namely the proportion of the population to the available area of cultivation. In this relation you will find that which originally underlies the formation of values. In effect, all the Labour that can be done must come from the given population and, on the other hand, all that this Labour can unite with must come from the given land. Everyone needs what this Labour brings about and, as to those who can save themselves the Labour on account of their spiritual services, the others must perform it for them in addition to their own. Thus we arrive at the actual basis of economic life.

Looking at things in this way, we shall admit that even in our present highly complicated economic life, that which was universal in the most primitive conditions — where the simple exchange of goods, shall we say, was the essential thing — still plays its part. The difference is that we are no longer able to see the connection clearly everywhere. But we shall have it before us always, when the connection with Nature is expressed in our currency notes. Whatever we may do, the connection with Nature is always there. Do not let us forget it! It is reality. Once more, speaking pictorially, let me say: While I am giving my shilling quite thoughtlessly for this or that, there is always a little demon who writes on it how much Labour, actually done upon Nature, it corresponds to; for this alone is the reality. Here, too, if we would get at the reality, we cannot stop short at the outer surface.

Well, it has not been possible, ladies and gentlemen, within this fortnight to give you more than a few stimulating suggestions to guide you on your way. Nevertheless, as I well know, these are the suggestions which need to be developed in every possible direction. And I know that the most important thing of all is that you should perceive how, compared with the usual ideas, the ideal pictures we have here evolved do represent something living.

If you have absorbed that which is living in these ideal pictures, you will not have spent these fourteen days here in vain. For it is this that weighs on one so heavily. Great issues are impending. Human beings are in need of free and clear insight into the essentials, for the healing of so many ills of our civilisation. There is much talk of what should be done, but there is little will, alas, to dive down into realities and to draw forth from there the word which tells what should be done. We have gradually departed from the sphere of *Truth*, and from the real life of Rights — *Rights* that spring forth from the very nature of man — and from that which must unfold in man if he is to be of value to his fellows — namely the genuine *Practice* of life. Out of the word of Truth we have slid into the empty *phrase* out of the sense of Right into mere

*convention*; out of a practical hold on life into dead *routine*. We shall not escape from the threefold untruth of *phrase*, *convention* and *routine* till we develop the will to go down into the facts and to see how things are shaped in their own real nature. But if we do so, then, precisely as persons who approach the matter as students, we shall be met with understanding. There are so many agitatory phrases in the world today, doing appalling harm just because there are so few men with an earnest will to go into realities.

For this very reason, ladies and gentlemen, it gave me deep satisfaction to see you here, prepared to work with me during this fortnight, thinking through the realm of Economic Science. I thank you heartily. I may express this thanks, for I believe I see how important it is — how very much those whose position in life today is that of students of Economics can contribute to the healing of our civilisation and to the reconstruction of our human life.

We must endeavour to make Economic Science not a mere theory; it must be our aim that it should prove itself of real economic value, so that the Labour we are being saved can be put to good use by those who relieve us of it, for the benefit and progress of mankind. I believe that in resolving to come here you were thus mindful of the task of the economist; and I hope that this has been confirmed in you by what we have attained, however inadequately, through our united work. Let us look forward to an opportunity of working at these things again another time.

### APPENDIX

THE following answers to questions (on the Tailor Example) given by Dr. Steiner at the "Seminar" which accompanied this course of lectures may be helpful to the reader: —

Q. X brings up for discussion the problem of the tailor. (Lecture IV.)

A. The illusion arises because the effect in relation to the single suit is extraordinarily small and therefore it needs a long time for this small effect to become visible in the tailor's accounts and for the loss to be really felt. Products become cheaper through division of labour. When you work, under division of labour, for a community your own products will also become cheaper than they would be if you were to work for yourself. This is due simply to the cheapening effect of the division of labour. If you interrupt it at a certain point, then you will make the article concerned, which you have made for yourself, more expensive. Now the single effect in relation to a single suit would naturally be small, but it would be marked if all tailors were to make their own suits. When a tailor, who makes his own suits, comes to make up proper accounts, he ought to price his own suits higher than the market price. He must reckon his expenses higher. Naturally, the supposition is that the suits should be bought, not from other tailors, but from the dealers in clothes, the clothiers. The price of a suit at the clothiers is cheaper than it would be if tailors worked without clothiers — otherwise the division of labour and merchanting would have no sense. Therefore the tailor ought to price a suit a little higher if he does without the merchant, because the merchant brings the single suit on to the market more cheaply than the tailor could bring it into use...

Q. Does the tailor depress the price of other suits of clothes by that one suit?

A. He depresses the price of suits by withdrawing one suit from the total number of suits with which the clothiers are dealing. He deprives the clothiers of the opportunity of making a profit on this suit. Therefore the clothiers must demand a higher profit on the other suits. This demand of the clothiers for a higher profit brings about a rise in clothiers' prices, but it means a drop in tailors' prices.

Q. Suppose there are considerably more clothiers than are economically justified?

A. In what I have said there is the presumption that exactly as many clothiers exist as are economically justified. We have to do not with progression in a straight line, but in a direction towards a maximum and a minimum. There is an optimum number of clothiers which will give the best commercial results. Anything over or below it would work uneconomically.

Q. Can the number be ascertained?

A. When you have rational management, then you will have a determinate number of clothiers, as of producers ...

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