

central control of any one director, and therefore the contest which is carried on by each for itself results in an over-supply of organization, or an output of goods in excess of the total demand for goods, and when such excessive supplies take place the market, from the point of view of the firms, becomes depressed. There is what is called an over-production. This does not mean that there are too many goods in existence, but that there are more goods than can be sold at a price which will cover the cost of producing and selling them. From the point of view of the consumer a price is a scarcity mark, and everything which has a price at all is not over-produced so far as he is concerned. But from the point of view of the firm the price in a glutted market falls so that it does not cover costs, and the competition which tends to bring about this result at recurring intervals is in this way regarded as a tendency to over-production and depression, and the depression extends to those who are employed by the firm.

We may contrast, for example, in this respect, the industrial competition of firms and of the workers within a firm. No doubt the workers compete with each other for work or for promotion, but they are not allowed to overlap with each other or to work without

reference to each other, or to try to take each other's work. Every one's place and duty is assigned to him by the conscious direction and control of the manager. It is competition under conscious regulation. There is no such control of the firms themselves. The completeness and independence of the firms means that no one employs them and assigns them their work, as they employ their men.

Another feature of this which has become more marked in the nineteenth century is the increasing risks which great firms carry. Invention has brought it about that for the most economic production of goods there is needed a greater investment in fixed plant and machinery. Whether a firm produces much or little, these fixed charges remain and must be paid. The greater its output the more it can distribute these charges over every pound or every ton of its goods, and the lower it can make its price per pound or per ton. In order, therefore, to hold the market by offering its goods cheaply, and in order to cover the risks of its fixed investment, it must use every means to extend its output, and this implies that it must often speculate for a market. It gets caught in the system, and when we are considering the tendencies to these recurrent periods of depression by excesses of

supply, it is plain what a driving force there is in the fixed investments that modern business requires.

This, however, is not yet a full explanation of the evil results of industrial competition as they affect working people. We have still to ask why it is that depressions of this kind recur not in one industry alone, and not even in every great industry, but in all these industries at once. The wave motion by which industrial evolution proceeds means that times come when the market and the labour of each industry are in the same position of depression. Our figures of unemployment, for example, would be at any rate steadier and probably less if the depression of one trade coincided with the activity of other trades. And even in any one trade competition by itself implies that what is loss of trade to one firm is gain by its rivals, so that thus far we have not an explanation of these periods when all the competitors together, as well as all the large industries, are suffering from depression.

To explain this we must take into account, in the first place, the credit relations which exist between firms in one trade and those in another. The financial interconnection of industry has in this way become very great. A disaster to a few large firms in one industry

will spread itself over other fields of industry also. And again, from the side of workmen, a depression which means some degree of unemployment or of low wages in one trade implies less purchasing power over those final commodities of other trades for the sake of which all stages of production exist. So that an adverse influence on purchases of final goods is spread backwards over the industries which produce the goods which make these final goods.

In the second place, there is a common dependence of all industries upon the supply of credit that can be given by the financial system. In England especially the organization of credit is such that a tremendous structure is built up upon a very slight basis of gold. About twenty thousand millions of credit transactions are dealt with in the clearing houses of our banks every year. Against this there is held at any time in the Bank of England forty to fifty millions of gold. This organization is as powerful as it is delicate, so that not only the difficulty of one industry but even the difficulties of a few very large firms would create a strain upon our credit resources which would extend to all industries together. Through the common medium of credit, therefore, a serious depression brought about by

the existence of industrial competition in one industry causes other industries to find themselves in difficulties, and we have the result, which is seen in the wave motion of all industry in the nineteenth century, of depressions that are chronic and recurrent and general.

Since it is evident that many of these defects of industrial competition are due to separate-ness of organization and of policy it is a matter of course that combination, or a further degree of combination, is necessary to their remedy. Something has to be done for the firms themselves such as is now done within the firm by the management in arranging the work of the employees. Any common government of this kind will tend to prevent not only those depressions which come from over-trading under the influence of competition and risk, but also those forms of panic that are due rather to the fear of bad market conditions than to actual conditions. Nothing is more infectious in an industry where many separate firms are competing than the influence upon any one producer of a local glut or over-supply. He sees a certain quantity of goods suddenly thrown into his own local market, probably from abroad. The amount of this import as compared with the whole amount that is

produced by all the firms at home is insignificant, and ought not to have any effect upon the home price. If the home industry were regulated by a common government it would be seen that the import presented no danger; but when many separate firms are responsible for the output at home, one of them finds that this import is considerable when compared with its own output, and therefore instead of holding steady it lowers its price, thereby practically adding to the supply which is said to be "dumped." Another firm in the same quarter of the market is in turn influenced by this larger quantity at a low price, and it also must try to hold its market by making reductions. In this way a depression spreads which is not justified by the real conditions of the market, but is due to the separate policies and calculations of individual firms. A common government which perceives the true proportion between a low-priced foreign import and the total home supply is not influenced by panic of this kind, and is able to hold the home market in a steadier condition.

There is, in fact, always some degree of combination even between competing firms, apart from any deliberate desire to combine. The very fact that a number of firms are pro-

ducing in the same district means that this district comes to obtain railway and shipping facilities and public services which are worth giving because the volume of manufacture is on such a scale, and would not be worth giving to scattered firms. Each firm, therefore, obtains the use of many local facilities of that kind just because there are other firms working in the same district, and it also obtains a share in the good-will of the locality itself. The forces of industrial evolution have made it profitable for the great industries of a country not only to be centralized—that is to say, to work in one district given over specially to the production of certain goods; but also to be localized—that is, to work in certain districts having special advantages for their own forms of production. And the working of these two forces of centralization and localization of industries has made these common economies in which each business shares. Further, there is a certain degree of combination even between competing firms through the practice of insurance, whereby all of them subscribe in order to support any individual firm if it should meet with certain special losses; and finally, there has been a great development of opportunities by means of Chambers of Commerce, Institutes, and trade journals for

the discussion of matters affecting the interests of a whole industry. Competition, therefore, works within the grip of a certain amount of combination, so that the remedy for the defects of industrial competition is to be sought by a fuller and more conscious development of a force which is never entirely absent even from competitive industry.

And, as combination develops further, the field of private trade itself has to take account of what is best in competition while correcting its defects. As we shall see, means have to be employed to keep alive this test of efficiency, not between individuals only, but between works, even in the strongest forms of modern combination, and it is in this way that we have to read the opinions of great authorities as to the "necessary persistence of competition." "No one," said Mill, "can foresee the time when the stimulus of competition will not be indispensable to progress." And he adds that "instead of looking upon competition as the baneful and anti-social principle which it is held to be by the generality of mankind, I conceive that even in the present state of society and industry every restriction of it is an evil and every extension is always an ultimate good." Mill's sympathy with industrial co-operation in every form was very

strong, and statements of this sort must be read as meaning that he desired under any form of industrial co-operation to maintain, although to regulate, the test of efficiency.

Indeed, the relation of the two forces to each other when they are made to work together is even closer than this. For it is only by some degree of combination that we can obtain for the benefit of industry certain elements which used to be ascribed to free competition. An argument like that of Adam Smith on behalf of the right of the individual to invest his labour and capital as he thought best assumed that each individual had both a perfect knowledge of the market, and also a perfect freedom to move his labour or his capital from place to place. It was on these assumptions that the equalizing influence of competition was founded. But in fact knowledge and mobility are elements of competition in the ideal, which do not belong to actual competition until it is regulated by some degree of combination. Capital has gained mobility through the development of the large business and Joint Stock; and labour has gained in power to move from place to place through the help of Trade Union organization; while the organizations of both labour and

capital have helped each individual to obtain a knowledge of the market outside his own locality which it would have been difficult, if not impossible, for individual competitors to obtain. Combination, therefore, makes actual in competition certain elements which without it belong only to competition in the ideal, so that even the benefits of competition are only obtained by alliance with this other force.

The interlacing of these two forces in industry means that there is usually both an individual interest and a common interest to be allowed for. The individual claims the right to measure himself against every other individual, that is his interest; but the common interest must guard against the results of pure speculation in competition of this kind. To compete efficiently and combine adequately is the mark of industrialism in nations that are both progressive and sympathetic.

Of the two forces in Western civilization, it is combination which tends to come too late, and competition which tends to last too long. Competition has been the more prompt and willing of the two influences. The building-up influence of combination has lagged both in practice and in public approval.¹

¹ v. Cooley, *Personal Competition*.

We must now proceed to consider the typical forms of industrial government as they exist at the end of our period, in which the spirit of combined working has constantly gained greater force.

CHAPTER VIII

TYPES OF INDUSTRIAL GOVERNMENT

THE end of the nineteenth century shows us in the field of industry three main types of government, all of which are highly developed results of the Combination Movement. So far as we can see, each is suited to extend over a certain part of the field to which its form of government is at present the best adapted. There is, in the first place, the wide field of capitalist industry, in which the problems of competition and of adequate capital have been met first by Joint Stock, and in most recent times by the Trust. There is, in the second place, a field of industry also under the government of private capital, but the control of which is so widely spread among the people that it forms an industrial democracy rather than a capitalist undertaking. This is the field of co-operative industry, limited as yet to those goods of which the working-class shareholder perceives that he is a direct

consumer. And in the third place there is a growing amount of industrial government which is in form of a public kind by the development of schemes for municipal trading. Here also, as will be shown, it is the nature of the goods which marks out the scope of the form of organization. All three are growing in strength as the twentieth century begins, and if we try to forecast the shaping of industrialism as the new century advances we must consider not only what are the economic limits of each of these forms, but also how far questions of policy and expediency are likely to arise in connection with any of them.

I

Municipal trading is the most recent of these systems of government, its history in this country extending back about forty years, but its development has been a rapid one, so that it is now in existence for one industry or another in most of the municipal corporations of England and Wales. At the opening of the new century two hundred and ninety-nine out of a total of three hundred and seventeen corporations were carrying on reproductive undertakings with a total capital of about 120 millions sterling. These undertakings repre-

sent the main public services which are at the basis of the industry and life of great cities, especially the supply of water, gas, electricity, and tramway service. Every political voter has a share in the control of all the industry of the nation, since there is nothing in this country which Parliament may not do in the way of industrial regulation or appropriation of industrial revenues. But the policy of direct public government of industry is still in this country mainly local, and is the chief cause of the building up of a heavy local indebtedness. The post office and the coinage are as yet our only nationalized industries.

This form of industrial government is suited to goods and services that are of a special kind. Their first characteristic is that the market for them is always a local one. This is obvious in the case of services such as street transport or harbours, which can only be rendered for each city or town within its own area, and cannot be produced for it anywhere else. Tramway service is not like iron or wheat. It cannot be produced at a few great centres and distributed all over the national market. A service must be produced on the spot where it is rendered. And the service of one city may cost a quite different price per unit from that of other cities, without

there being any competition between the two. If the cost of tramway service per mile is twice as high in Leeds as in Sheffield, that does not enable the Sheffield trams to compete with those of Leeds. Each district is a separate local market for such services, and the same is true of certain goods such as water and gas and electricity, the supply of which is very similar to the supply of local services. It is not impossible, if the price of gas is much higher in one district than in another, to transport it from the cheaper to the dearer place, but practically the manner in which gas and water are supplied in any district prevents competition of this kind, so that these goods become fixed to local markets after the manner of services. It is to such local monopolies that municipal trading is at present (with some very unimportant exceptions) limited. This form of government is based, in the first instance, upon the fact of local monopoly of supply.

In the second place, there is a strong tendency to unify the supply in each locality. The reason for this is that the fixed charges in these industries are very great. They require not only a producing plant, but a distributing plant which extends like a nervous system over the whole area supplied. The cost of

these fixed means of production and supply forms a very large proportion of the price of the goods or services. Since this is so, to duplicate the manufacturing or distributing plant would be unusually expensive and wasteful; the market being only a local one, all the expense of such competition would have to be paid for in the price of the goods by the consumer, who would have two capitals to maintain. We have seen the history of such duplication of the fixed plant for public services in the case of the American railroads, where a wasteful competition has at length been superseded by strong combination. Heavy fixed charges always make it economical to unify the supply, so that these goods and services, besides having local monopolies, lead towards further monopolies within each locality.

But there is another consideration. These industries are, in a certain sense, privileged. The laying of their distributive plant requires that they shall have certain rights to use the streets or lands of the city. It is this fact of privilege which soon raises the question how far such concessions should be made to private companies, and whether the industry itself is not very closely related to the activities of the municipality. In any case it is clear that

the municipality must regulate such industries in a special way, must limit their rights and their prices, and watch carefully over their administration. It becomes a short step to public ownership, and the step is made easier because of the fact that a public body, when it takes over municipal trading, does not enter into a competitive field, but is concerned rather with the duty of local administration than with the risks and speculative demands of competitive enterprise.

It is probable that public trading of this kind will greatly increase its scope, and there are many advantages which follow upon it. For instance, it is an advantage that there should be public industries not worked solely for profit which can come to the relief of the labour market when there is a depression in private trade. Extensions or alterations of public work can be planned out and to some extent reserved, especially when these works are of the nature of large schemes of city improvement, which require some time for their completion and can be carried on at a faster or slower rate according to the conditions of the market. It has been found, for example, that in Prussia the public ownership of the railways has given the government this influence towards steadying conditions

of labour. Again, although labour disputes in public services cannot be entirely avoided, municipal ownership helps to prevent their arising or being discussed simply from the standpoint of immediate material gain, and an opportunity is offered for public conditions of model employment by which standards of pay may be set for certain forms of work. To this end a Fair Wages clause has already been widely adopted by municipal employers.

On the other hand, it has been traditional to regard public industry as making less for efficient service than private. On different grounds many people are afraid of the rule of bureaucracy in industry. For instance, it may be said that a city council does not necessarily include experts who can guide its policy in the management of public works, so that these works become less subject to the criticism which makes for high efficiency. To this may be answered, first, that public criticism is kept alive by the comparison of one city with another in the cheapness and efficiency of their services. Reference to the local press shows how constant criticism of this kind is, and how it bears upon the public officials of any city. And secondly, that the quickness and promptitude in accepting or undertaking risks which are needed in competitive

trade, are not required in the same degree in administrative trade.

It is impossible to say that municipal trading will not extend beyond those goods and services whose special features at present give a field for this form of government, but if municipalities should enter upon the supply of competitive goods which move freely over the national market we should have a form of public trading which would call for a new kind of ability. It is for this reason that we cannot regard the large and increasing amount of public municipal trading in these goods and services as by itself showing that industry in general is on the way to be brought into public hands. When a municipality enters with success upon the local supply of iron or wheat or textiles, we shall have a new fact. At present we are able only to point out that the special nature of certain local industries is such as to make them suitable for successful administration by public bodies. It is administration which is in point, rather than the technique of manufacture or the complex problems of open competition.

II

The development of Trusts has also been a feature of the last forty years of industrial

evolution. Special conditions in a few of the great industries of America, especially oil and sugar, gave rise to a strong movement towards combination of producers at the beginning of the last quarter of the century. The opposition of public opinion was at first very great and the movement spread slowly until the last decade of the century. The depression of 1893 and the rising market which followed until 1900 saw a great extension of this form of government both in America and on the Continent. At the present time some of the most important industries of the most advanced Western nations have been brought under the rule of a small central government, which, in the case of America especially, gave great industrial and social influence to a small circle of men. Although public opinion cannot be said to have become reconciled to this result, the law has allowed the development to take place and the official census itself gives us details of their organization and management. The size and importance of organizations like the Oil Trust and the Steel Trust have led to perhaps an exaggerated idea of the extent to which private trade has been unified. At the end of the century the Trusts in America employed about $8\frac{1}{2}$ per cent. of the labour, paid about $9\frac{1}{2}$ per cent. of the wages,

and produced about 14 per cent. of the output of the great manufacturing industries. What specially commands attention is the rate at which this movement has grown and the importance of those industries upon which it has secured a very strong grip.

Under the general name of the Trust Movement are included two forms of combination of producers which in many ways are in contrast to each other. East and West of us we see a remarkable difference between industrial and political methods of government. It is in the great industrial democracy of the United States that industry has taken the Trust form—that is to say, the form of a government which places the decision of policy in the hands of a very few large capitalists, and is in some cases almost an industrial despotism. On the other hand, it is especially in Germany, whose political government is still a powerful monarchy, that this recent development in industrial affairs has attempted to keep a degree of democratic government, so that the firms which combine do not entirely lose their independence. Although the Trust and the Cartel are both aspects of the same force of industrial combination there is a marked difference in method between them.

The field of industry in which both have

developed has been that of goods which are subject to strong competitive influences. Our evidence goes to show that most of the Trusts and Cartels have been, in their origin at any rate, defensive movements. There is no competition so keen as that between large independent firms, because the risks they carry are unusually heavy and the reward of successful competition is monopoly. The fight for the market, therefore, led to wasteful expense in agency or advertisement, to long periods of selling below cost, to overlapping in the market, to industrial depressions and breakdowns of credit. And a tendency toward excessive investment of capital was created by the high tariff policy of America, which tempted new firms to enter into many staple industries, so that over-production and excessive competition soon demoralized the market. Then came the idea of combination. Some idea of the intensity of the competition which led to the Trust movement may be gathered from the number of works which were shut down after the Trusts were formed. Out of twenty-four firms which came into the Sugar Trust it was found possible to supply the whole market with only six; while out of eighty firms which came into the Distillers' Trust it was found that sixty-eight were superfluous. The

capacity of the Steel Trust for finished products in 1902 was nearly 60 per cent. greater than the greatest actual annual output of finished steel ever reached previously in the United States. Only after much wasteful investment had already been made, therefore, did the Trusts arise in order to form a central management which should do for the various independent firms what the manager of a business does for his staff. The government of a Trust became the employer of the firms. It arranged for a division of work and of the market and diminished, at any rate, the area, while it regulated the force, of competition in goods which are not tied down to any locality, but whose market is the whole world.

To the government of a Trust we may apply the expression which has also been used of a more democratic organization—that it is “a State within the State.” From its central government a Trust rules many local concerns and decides on problems of policy according to the circumstances of different localities. It decides where prices are to be held up and where they must be kept low. Not only do the strongest Trusts administer the affairs of an industry within one nationality, but they have their colonies abroad, or seek to obtain agreements to divide the markets of the world with

great foreign organizations like themselves. The problem of the Trust is indeed the weight of responsibility and of government which falls upon the shoulders of a limited body of men. It is more than a captaincy of industry that is required; for the problem of extending the market, which is the fighting part of its work, is combined with the problem of holding together the great concerns which have been taken over, and keeping many separate managements adequately under the inspection of one central Board. The greatest bar to the success of Trusts is the problem of management. The usual method is to supervise the management of each individual works by demanding from it daily or weekly accounts of costs in relation to output and wages. It is only by this means that a Trust is able to maintain efficiency within its own organization. It plays off one manager against another and keeps each up to the mark by a premium on special efficiency as compared with other managers, or by sharp criticism if his accounts show less than the average results. But it is plain that this is a work of extreme complexity and difficulty, and that the chances of internal friction in the management of Trusts are very great. The central government is in this case master of the local managements, and must

therefore carry upon its own shoulders details and problems which in a more democratic organization would be left to the local managements and would not reach the central body at all.

The weight of responsibility which Trust management carries is increased when a Trust finds itself faced either in fact or as a possibility with a Trust in the goods which it has itself to buy. The great combines, in order to protect themselves against this, have been compelled to increase their already heavy organizations by taking up other stages of production. This is now becoming a common feature of the great industries. Thus the Steel Trust does not only produce steel, it uses its own supply of ore, its own coal and coke and limestone, smelts its own iron and carries it through all the further stages of manufacture. This is a second defensive movement. It makes the structure of a Trust more imposing in size, more wonderful as an example of industrial government, but more liable to risks and strains, especially when it loses the great personalities which have founded it and built it up.

It is not solely under the stimulus of private profit that the great leaders of the Trust movement have worked. Most of these men

have come to be beyond the need of accumulating personal wealth. Their business has become the expression of their personality, the thing they do for the sake of the work and of succeeding in it. In America especially, where there are no ranks or titles, the success of a career depends upon some other kind of social influence and power. The captain of industry cannot, in that country, retire with a peerage. To keep his influence he must go on, making his business his life, and building it up from strength to strength, until he becomes an oil king or a steel dictator.

From what has been said of the inside structure of Trusts it is plain that they do not extinguish the competition which formerly existed between firms. On the contrary, they are anxious for the sake of efficiency to keep this competition alive, and do so through the system of obtaining and comparing weekly or daily accounts. The former competition between the firms is now regulated. There is an endeavour, that is to say, to obtain the advantages of competition under conditions of industrial combination, and this system is of interest as showing on what lines industry might proceed, if any parts of it ever became nationalized, in order to ensure a high standard of work.

But Trusts have always had outside competition to face also. To some extent they even encourage new competition to arise. Even a small margin of outside supply interferes seriously with the regulation of trade by a combine. We have seen, therefore, new forms of competition which have been used by the Trusts in fighting the independent firms. It is only since the rise of Trusts that we have learnt what competition is capable of by the use of such methods as the boycott, the rebate, and the differential price or rate. The era of competition is not nearing its end merely because through great industrial combines a great part of the field is brought under a stronger control; and there is no prospect that competition with outsiders will become less severe.

When we look at the European form of industrial combine, the Cartel, the conditions are somewhat different. In the Trust everything is ruled downwards from the centre, and the rule is in the hands of comparatively few men. The Cartel is built up in another way. The firms which enter into it do not lose their independence; they are not bought up, and do not become merely agents of some central committee; they enter into an agreement for a definite number of years that they

will regulate their output and fix their prices according to the decisions of a representative body to which each firm sends its delegates. A kind of producers' Parliament is formed, but the internal management of each firm remains with its own shareholders. There are many advantages in this method of regulating competition. It does not make for the dominion of a few great magnates as the Trusts do, and it avoids the problems of internal friction which result from the authority of the central government of a Trust. The Cartels ensure that the agreement between the firms shall be kept by forming a central bureau through which all the sales of all the firms pass. Each firm agrees not to sell directly to the market, but only through the bureau. In this way the price or the output which has been agreed on is kept at the level which the whole conditions of the market seem to require, and no individual firm is able secretly to lower the price or exceed its share of the output. The Cartel is the best working model of democratic government among producers' organizations. In many ways it resembles the third type of combined working which we have chosen for discussion—the Co-operative movement.

III

The Co-operative movement represents the largest amount of direct working-class control over production. About one-fifth of the people are represented in its membership, and they are now carrying on, by a highly developed system of representative government, a trade of more than 110 millions per annum on a share capital of 35 millions, and with a profit of over 12 millions a year. This system of government is built up upon the freedom of the local society, which is responsible for the management of its own affairs and is not bound to deal with the Wholesale, which is the common distributing centre of the 1550 societies concerned. Co-operation is a system which avoids many of the risks of business, partly by the nature of the goods in which it deals, and partly by the terms upon which its share capital is held. Its goods are those of what may be called the "home trade"—the things that are in common and steady demand in the homes of the people. There is the least degree of risk in dealing in such goods, and it is known that Co-operative sales suffer less than other forms of trade in a time of depression. They are goods, too, in which changes of fashion

are of less importance, because they are final goods and are sold to the persons who use them last. Goods in which the producers' risk is very great, such as the machinery which helps to make the goods of the home trade, and is itself liable to change by invention, do not enter into the Co-operative system of manufacture. Whatever be the technical changes in the instruments of production, there must be a constant demand for the standard forms of food, clothing, and household goods. Again, the risk of Co-operative trade is lessened by the method in which its profit is distributed. The $2\frac{1}{2}$ million shareholders in the movement make an annual net profit of over 30 per cent. on the share capital, but only 5 per cent. of this is paid upon the basis of the share capital. The rest is distributed to the shareholders whose capital has earned it, but it is distributed in proportion not to their capital, but to their purchases. In view of the fact that the consumer is also the shareholder, the Co-operative system is as fully a producers' as it is a consumers' organization. Its capital is very widely distributed, and it chooses to distribute its profit on a method of its own, but the profit goes to the shareholders in this business, as in any other

business. Were co-operative profits divided as the profits of a Trust are divided, the same people would receive them as receive them now, but they would receive them according to their capital instead of mainly according to their custom. This system of distribution of profit gives a sure market for the goods of co-operative bodies. The goods supplied are just those which the shareholder wishes always to use, so that it pays him both as a consumer and as a producer to attach his custom to his own society. And it is because each subscription of new capital in the co-operative organization brings with it a guarantee of custom that the problem which occurs so constantly among Trusts of what is called "over-capitalization" is absent from the Co-operative movement. A Trust finds often that it has more capital than the custom of the market will support so as to give an average dividend, but in Co-operation the custom of the market comes along with the capital subscribed.

As a system of representative government in industry, Co-operation is similar, as we have seen, to the Cartel, since the central body, the Wholesale, is the servant of the local bodies, and does not govern or interfere with their local affairs. It is their buying

agency, just as the bureau of a Cartel is its selling agency. And although this vast amount of well over 100 millions of trade is done in the Co-operative movement annually, the system does not create the problems of government which occur especially in the Trust. The freedom of the local store means that only matters of general interest reach the district meeting or the central board. Government is devolved and distributed so that it does not fall on a central body with the stress which creates the serious aspect of government in a Trust. In spite, therefore, of the fact that Co-operation has, like Trusts and other great businesses, adopted the method of securing its lines of communication by owning a transport system, a manufacturing system, and some estates in land of its own, its governing power is not in danger of being over-taxed by these new responsibilities.

Each of these types is of interest simply as a spectacular view of industry. They are aspects of government sufficiently different from each other to show that there is room in the industrial system for much variety of structure, and that the present variety is based upon differences in the nature of the goods traded in. Municipal industry appears

likely to absorb its own field more and more completely, but the Trust movement and the Co-operative movement are not unlikely to come into contact or conflict with each other in the field of transferable goods. At the present time the working classes do not realize that they are consumers of steel and timber and machinery, and of the goods which stand behind the articles of final use, but they are likely to realize this if such articles come to an increasing degree under the control of capitalist combines. There would then arise the question how far the Co-operative movement and Co-operative government was suited to the manufacture of these more technical and uncertain products. Or again, the conflict might take place with regard to those goods now purchased by the Co-operative from large private producers or combines of producers, in case the combines should desire to impose on the Co-operative, as consumer, the terms on which, or at which, they ought to re-sell. Conflict of this kind has already arisen on the ground that the Co-operative dividend on purchase is a breach of the agreement to sell at minimum net prices. This objection is not well founded, since it fails to observe that the Co-operative consumer is also the shareholder, and would be entitled

to his dividend in any case; but the conflict has raised the question how far the democratic organization of private business is protected against possible boycott by the capitalist organizations. The protection at present is of a threefold kind. In the first place, Co-operation has a large manufacturing reserve. It does not yet produce nearly up to the limit of its sales, so that a boycott from outside would merely stimulate Co-operative production. In the second place, so far as concerns goods not yet produced within the Co-operative movement, there is a large reserve of both labour and capital. A concern which covers one-fifth of the people could easily obtain in an emergency enough labour of almost any kind to staff a works of its own. As yet only a small part of the labour which forms the membership of the Co-operative is employed within the Co-operative. And in the third place, as things are now the Co-operative movement is too large to take liberties with. It would give even the strongest Trust bad dreams to think that its goods were withdrawn from the Co-operative market where others were being pushed instead. The Co-operative movement has now become a big bargainer, with the alternative of producing for itself, and has

little to fear from any restrictive agreements, such as the combines have often sought to impose.

Each of these forms of industrial government, the results of nineteenth-century evolution, has its contribution to make to the estimate of the future. Municipal trade indicates what means there are for keeping alive, under public government, the outside criticism of administration. The lesson of the Trusts is that many of the advantages of competition can be got from within great concerns, and under the regulation of one management, but that a fuller degree of devolution of government is desirable. Co-operation shows that the people have the ability to construct and govern industry, to devolve responsibility, and to choose and trust leaders of their own. Out of these results, one can gather the elements of a judgment upon the possibilities of more complete combination.

CHAPTER IX

DEMOCRACY AND LEADERSHIP

THE history of the nineteenth century and of the movements which have been studied in the preceding chapters may now be reduced to the statement of a problem which has been felt at every stage to underlie economic change. If we take any point in that history and consider the position both of opinion and of industrial development, it is always possible, according as we look backward or to existing conditions, to take either a hopeful or a despairing view. This is true of the end of the century as well as of the middle or of any point at which thought was active. It has always been found, that is to say, that there has been great material advance in the power of industry and the circumstances surrounding it, but that yet there is in industry itself some kind of flaw, such that the future must not only seek to make continued advances within the system, but must set itself to modify the

system. Mill and the Christian socialists were as conscious of this double attitude as are the social reformers of the present decade. For ever since the terrible circumstances which accompanied economic change at the beginning of the century gave rise to the protests of Cobbett and other early socialists there has been a constant succession in what may be called the non-academic professors of the economics of labour. And at the beginning of the twentieth century any one who writes on the assumption that industrial organization does not merely contain problems but *is* a problem, has ceased to be an economic heretic, and is in agreement with what is said by leaders of public opinion on every hand. We have seen how this problem shapes itself in the study of the nature of employment. It is necessary now to state it in its broadest features, and as it affects not only the change of the industrial system from within by such movements as Co-partnership and Co-operation, but also as it affects that system by the political influence which the working classes can bring to bear through the use of the franchise.

The title of this chapter indicates where, in the view of the writer, the problem lies. The relation of employment and the system

of competitive enterprise imply the government of the great field of national labour by those who are not under the direct industrial control of the people. We have to ask whether it is to be the settled form of industrialism that the policy by which goods are made and marketed is to be shaped on this non-representative basis, and if the great mass of the working producers are to wait for the call and to follow the lead of this kind of enterprise. This is a question which may fairly be asked without implying that every side of national life is open to the same criticism. There is leadership in art and in literature, with regard to which such a question would commonly be felt to be absurd. But leaving aside the problem of the limits of representative government as regards the goods of all kinds on which a nation lives, in industry, at any rate, history itself has shown that the question is in point and arises out of the real instincts of progress among wage-earners. This is so both because the supply of the material goods on which all the rest of life depends was at the beginning of the change possible for each worker on his own behalf before handicraft passed away, and because, therefore, combination and the development of a hundred years have taken from him an

independence which he once possessed; and again, because this field of the production and distribution of material goods is that for whose results and activities even the great organization of political government so largely exists; and because, in the third place, work itself, that is to say the right to make a just claim upon the goods of the nation, has become an object of search now that the complexity of the system has broken off the connection between the things which a man makes and those which he wishes to use. Rights to goods and rights to work are questions which have made the field of industry at any rate justly open to inquiry on the question of leadership and democratic control. And history further justifies such inquiry when we see how industrialism arose in advance of a true understanding of the nature of the change that was taking place, or of the possibility of its being fashioned while it was still pliable by the ideals of an educated democracy. The question of leadership is merely that of the control by the people of that which is most vital to any higher development—work and its products.

The largest part of the field of industry is that in which the forces are shaping themselves towards completer results in the way of non-democratic leadership, by the growth of

the Trust movement. The great personal qualities which have been required in building up this industrial mechanism and the wonderful view of organization which the Trusts present to us cannot conceal the greater sharpness which they give to the problem of leadership. The law can, as it does, forbid monopoly or the attempt to obtain monopoly, but the history of the law here and in America in its attempts to stem the force of economic combination has not been a distinguished one. We must realize that there is economy in the movement which saves the wastes of independent competition. If this is so the position of the leader in private capitalist industry will, under some name or other, continue to grow in strength and in the range of working conditions which can be controlled from it. Monopoly may be the just reward of special skill and efficiency; competition is in its nature the endeavour to obtain a monopoly, and legislation which attempts to enforce and maintain the régime of independent competition has shown itself likely to obtain only nominal success.

In this problem of leadership it is not only the material results which count. We have seen that the advance in material comfort of the working classes has in recent times been

very great, and relatively greater than that of any other class. We must take account now not only of the system of distribution that is the result of the wage relation in private industry, but of a spirit which has been fostered by the growth of political democracy, and which regards the relationship of employment and the scheme of industrial government as unsatisfactory simply as a matter of personal status. This spirit of democracy is an essential fact to reckon with in building up the future of industry.

No doubt the industrial leader is the person who both makes and takes the first risks of industry. He has to be paid for enterprise, and in considering whether the enterpriser's position is one to which democracy can permanently assent we must consider the chances of loss which he takes, and which are such as to reduce the average reward of invested capital to about 4 per cent. per annum. Is his position not more justifiable considering that many who lead fall in the industrial contest, while they furnish to the working classes the use of fixed machinery and stock which the chances of the market may render obsolete or idle? Is our view of the personal status of the leader of industry not to be influenced by the low reward on his capital

to which, on an average, he can look forward? Are we to forget the off-set of risk in discussing the industrial position of the leader?

A very important point arises in answer to this question. The industrial system is such that the wage-earner is paid off at a rate which is supposed to discount his risk. It is because of this that he loses his claim to govern the internal affairs of the firm. Then the actual pay which he gets over a certain time is what the employer expected he would be worth when he offered him that rate at the beginning of the contract. In other words, his realized income and his expected income are the same. But consider the position of the employer. The rate which he may expect upon his capital averages out, in a great industry, at some 4 per cent., but the forces of industrial competition bring it about that the actual rate differs for each employer or body of employers. The realized incomes are usually different from the incomes which at the beginning may be expected on the capital. Those who lose in this competitive struggle increase the advantage of those who gain, and when we are considering leadership as a system what is of importance is not that an average of about 4 per cent. may be expected on the capital which they risk, but that very great surpluses

over and above this amount are in fact created by competitive conditions, and that in the result we have industrial leadership made stronger. It is to the realized gains that we must look and to the positions of industrial advantage that are given to the successful takers of industrial risk. The fact that many have fallen by the way in order to create the strong economic position of a great captain of industry does not lessen the force of the problem of leadership that is created in the result. On the contrary, it does much to make the problem more serious.

There is further a result of the concentration of property which is thus brought about which tends to intensify the problem. It is well known how the profits of some of the Trusts and great concerns have been applied to the trustification of other industries and to the spread of the personal influence of industrial leaders over broader fields. It is to the actual gains of invested capital that we owe the widest possibility of variation in personal wealth. There is a limit to this variation in the case of the incomes of wage-earners or salaried persons. The highest incomes of this kind, that is of personal effort, were found by inquiry to be only about twice as great as the incomes half-way up the scale. But in the case of

incomes which are due to successful industrial investments, the highest of such incomes were found to vary from those in the middle of the scale to quite an indefinite extent. So far, therefore, as under modern conditions industrial leadership secures success to certain of the leaders, it brings into force in a higher degree the cumulative and separating tendency of interest. The position of the industrial leader becomes less democratic as it becomes more elevated, and the spirit of democracy is not reconciled to it merely because the averaged profits of invested capitals come out at a rate far lower than the realized amounts of those who succeed.

In any case, we have already seen reason to doubt whether an industrial system could be called organic merely because it specialized the functions in different grades of labour, including the function of the risk taker. The force of circulation, as we saw, should be added to those of specialization, of combination, and of nervous interconnection. Even if there were a freer opportunity for personal capacity to move from one part of the system to another, many would doubt if the result were even yet organic. Classes not directly sharing in industrial government would remain even if individuals could move from one class to

another. When one is dealing with a system made up out of personal units, ideas of status and of personal values might well enter into the definition of what makes the system truly organic. If we find a disruption of the continuity of interests and sympathies at a certain level of the social structure, if a great class has different thoughts, different leaders, different literature, different standards for measuring men and things, from the entire body of the class above them—all this would not be cured merely by the facilities for individuals of superior energy and talent and self-denial to raise themselves from the lower of these grades to the higher. And similar reflections as to the organic unity of industrialism are suggested to us by the fact that the strongest internal influence on government which the working classes can exert is through bargaining, which holds in reserve the threat of a stoppage of work. And this contrast of interests has never been carried to a higher point than by the very recent movements which have aimed at making the armoury of bargaining still more formidable. Trusts and great businesses, as we have seen, have sought to strengthen their position by bringing under the control of one body of capitalists all the industries subsidiary to the main industry

concerned; while *on the same lines of advance* the labour movement is looking towards Syndicalism or the union of all workers of all kinds within an industry into the new bargaining unit of labour. Is this strongly armed peace more organic than the system of international politics, whose diplomacy rests upon armed forces held in reserve?

Of course the potential unity of all the forms of industrial combination is in the political power of the people. At present this influence is being used to redistribute, through taxation, and the imposition of obligations on employers, the surplus gains of industrial leadership. This scheme of redistribution is, in fact, the alternative which is preferred by all non-socialists to that of making industrial government directly democratic. As things are now, it could only be by political means that the change could be made which would make industrial government representative. Co-operation has shown that the representative government of industry is a possible scheme, which is not to be dismissed with the statement that modern industry cannot be conducted through committees. The Trusts themselves have shown that forces can be preserved within great industrial organizations which keep the advantages of compe-

tion and maintain the efficiency test. So that a political movement for a representative government and leadership is not out of touch with actual historical results ; and examples of the development of Trusts themselves, which have shown some new possibilities of industrial government, may quite well render transference to public control both necessary, in view of the invidious influence over the labour of masses of people which they tend to give to a few men, and easy, because of the centralizing work which they will have done.

This is merely a statement of possibilities or a warning against dismissing such results as impossible. But at the present time part of the problem of the democratic control of industry by the political method is that leadership spreads its influence from industry to politics itself. Leadership, indeed, over any one side of national life is a cumulative thing, and passes into a general leadership which implies a strong personal influence. It may be that the industrial influence of capital obtains, through the party system, a strong hold on politics. Or it may be that it becomes an influence over the movement of public opinion through control of the press. There is a nexus of relationships between the forms of leadership, the result of which is that the main

point of view that is publicly expressed and in the direction of which opinion is led is in favour of the system called Industrialism, though with constant improvements in the conditions of the people. Reform goes as far as such leaders shape it.

And even when we look at these things from the side of the people it is remarkable how the more advanced socialist opinions that are met with among the individual members of the electorate dissolve at times of political crisis or choice into a weaker solution of social reform. This result is due largely to the tremendous personal repute that has come to be attached in England, perhaps more than anywhere, to political leadership. It is a leadership not simply of causes, but of men and the thoughts and purposes of men. It has established so strong a grip on the people that it has created nothing less than a new English aristocracy. The opinion on any issue, whether closely or only remotely connected with politics, of a great political leader has a power over the minds of the people greater than that of the expert. Theology and Literature and Social Science can furnish well-known examples of this. It is against the personal force of this new aristocracy that democratic causes strike and fall back in

a weaker wave. And the constitution of political government in England brings in a further element of conservatism since it requires a constant connection between political leadership and the aristocracy of rank. The position of our Second Chamber in the government of the country actually requires that the Cabinet itself shall contain a large infusion of non-democratic and hereditary interests. It is such interests which have most to lose by the recent proposals for economic change. By contrast with this, only one representative of the working classes has ever sat in an English Cabinet.

Democracy, of course, is not forbidden to trust great personalities, but it is forbidden to submit merely to great names. Its spirit requires a real power of initiative and a constant power of check on public policies. And what can scarcely be said yet to exist in the political sphere is that type of leadership which democracy has created in the sphere of co-operative trade—the leadership which is tested in small things before being made guardian over great things, and which carries the sense of democracy with it as it rises from the bottom to the top of a system. Municipal government in England is not yet a training ground for political leadership.

On the contrary, local government suffers severely by the higher premium which has come to be set upon the political life in this country. Parliament alone is regarded as an honourable career by those of great social influence and leisure. Sympathy with the economic issue can only with difficulty arise with a true understanding from these sources. At the end of a century of leadership of this kind we are still in despair as regards fundamental economic conditions. And if the political power of the people is really to gather into a unity the various sides of the combination movement, the leadership must represent an interest in the people which is different, for example, from that which a fisherman has in fish. The people must not simply be the object matter of political careers. They must in a far greater sense than ever initiate policy. The economic issue will otherwise be constantly postponed to others which the people would never have chosen, but which, under the powerful personal influence of leadership, they are persuaded to believe in as vital—military, perhaps, or fiscal or diplomatic questions—which would often not have been raised at all but for the personal contest between powerful leaders who are still able to choose them and urge them and make

them the issues of long-drawn political campaigns.

Even movements which, if we look to the content of their proposals, would be called democratic, are not completely so if their success is won rather by personal force and the method of over-statement than by the adoption of their principles by a democracy which understands them. The ebb and flow of political opinion, its evolution, changes and fluctuations, show how superficial is the hold of policies recommended merely by the personalities who urge them.

As regards the conditions of life which have grown up with the evolution of industry, it is to local government and administration that we must look for their most adequate treatment. But even here, as is well known, the influence of national politics obscures the various problems of localities. So that it is not upon Housing or local by-laws for social improvement that municipal elections are fought, but upon the wide party issues of imperial politics. An increased respect for local government and an appreciation of its place in the social problem will not only exercise the minds of the people upon the things not done which lie nearest to them, but will also do much to lessen personal

domination in public affairs. As it is, the arena of public life is so narrow that the aristocracy which it creates, whichever party is in power, slights the reputation of our local affairs and retards the formation of a living democratic interest in city politics.

Other forces also must be taken account of in order to explain the relation of the democracy to the economic issue. We have already seen that at the opening of the twentieth century about one-third of the population of two English cities was estimated to be living in poverty. And other inquiries carried out on a national basis have shown a tremendous inequality in the distribution of the wealth of the nation, and yet at the same time it is a commonplace that the franchise represents mainly the power of the poorer sections of the people. What other forces are there which enable such a franchise to coincide with such results? In other words, what makes for social peace spite of the unrest and ferment that is caused by the economic position?

Here we return to the problem as to how far social organization is organic in its nature. A great Italian writer¹ has sought to explain the continuance of social peace on the ground

¹ Professor Loria.

that there are certain inorganic bonds which clamp or hold together the different sides of national life. While others are speaking of organic unity he prefers the name of "connective institutions," implying nothing more than the bare fact that these institutions do actually prevent social disruption. In his view religion and public opinion have had a double influence in this direction. They have prevented disruption partly because they have served to discipline the self-interest of those classes which stand for property and prevent them from exploiting the non-propertied or working classes to the full extent of their power. In the second place, these forces have acted upon the self-interest of the working classes themselves. They have, as he thinks, vitiated that self-interest by preventing it from asserting itself to the full extent of its rights. And thus these influences become, to him, the foundations of continued economic and social life. It may perhaps be true that there are countries, and Italy may be among them, where the teachings of religion have such a hold over democratic thought, but it is certainly open to question if such a remark could be applied to England; while apart from religious influence that which is called by Loria public

opinion is within the question already discussed of leadership and its results.

In this country there are three forces of which account has yet to be taken in the explanation of social peace. The first of these is habit. No better statement of its social influence could be given than that of the great psychologist, Professor James. "Habit," he says, "is the enormous flywheel of society, its most precious conservative agent. It alone is what keeps us within the bounds of ordinance, and saves the children of fortune from the envious uprisings of the poor. It alone prevents the hardest and most repulsive walks of life from being deserted by those brought up to tread therein. It keeps the fisherman and the deck-hand at sea through the winter; it holds the miner in his darkness, and nails the countryman to his log cabin and his lonely farm throughout the months of snow. It dooms us all to fight out the battle of life upon the lines of our nurture or our early choice, and to make the best of a pursuit that disagrees because there is no other for which we are fitted and it is too late to begin again. It keeps different social strata from mixing" (*Principles of Psychology*).

Secondly, charity in its manifold forms. Suppose it for a moment abolished, in

both its institutions and its subscriptions, and it is plain that from the lives of large classes of the people there would be removed a mainstay whose strength is scarcely realized.

Thirdly, there is a large class of goods not of a material kind, which are of tremendous value in relation to their cost. Classes of society, separated by conditions of wealth, do not in the same way vary in their power to enjoy them. They are the personal relationships of private social life. They have no economic measure. Inquiries into the manner of life of the nation have shown us what they count for in holding off economic discontent by their preoccupation of the thoughts and lives of the people.

Whatever has grown up in and around the industrialism of the nineteenth century has, from another point of view, been allowed to grow up; or at any rate, if we take account of the lateness of the development of public education, been allowed to remain. If the democracy does not yet, as a body, fully grasp the ideals of change of system within industry and of surrounding conditions of life which might follow thereon, but continues by slow steps to follow a more conservative lead for social reform—we must seek the reason in

these personal and social forces of leadership, habit, charity, and private life, which retard the will to press economic claims and rights to the full degree of the wish and the belief.

NOTE ON BOOKS

A COMPLETE bibliography of this subject would be in exhaustible. The following books have been chosen as bearing specially on the argument.

Mill wrote in the middle of last century, and looks both backward and forward, so that his *Principles* are a good basis of study. The most useful chapters are Book II, 1-4 and 11-16 ; Book IV, omitting 5 and 6 ; and Book V, chapter 11.

For general history, Porter's *Progress of the Nation* and Levi's *History of English Commerce* are the best. They should be supplemented by Cooke Taylor's *Modern Factory System*, Toynbee's *Industrial Revolution*, the tenth and fifteenth Essays in Giffen's *Economic Enquiries and Studies*, Bowley's *History of Wages*, and Bucher's *Industrial Evolution*.

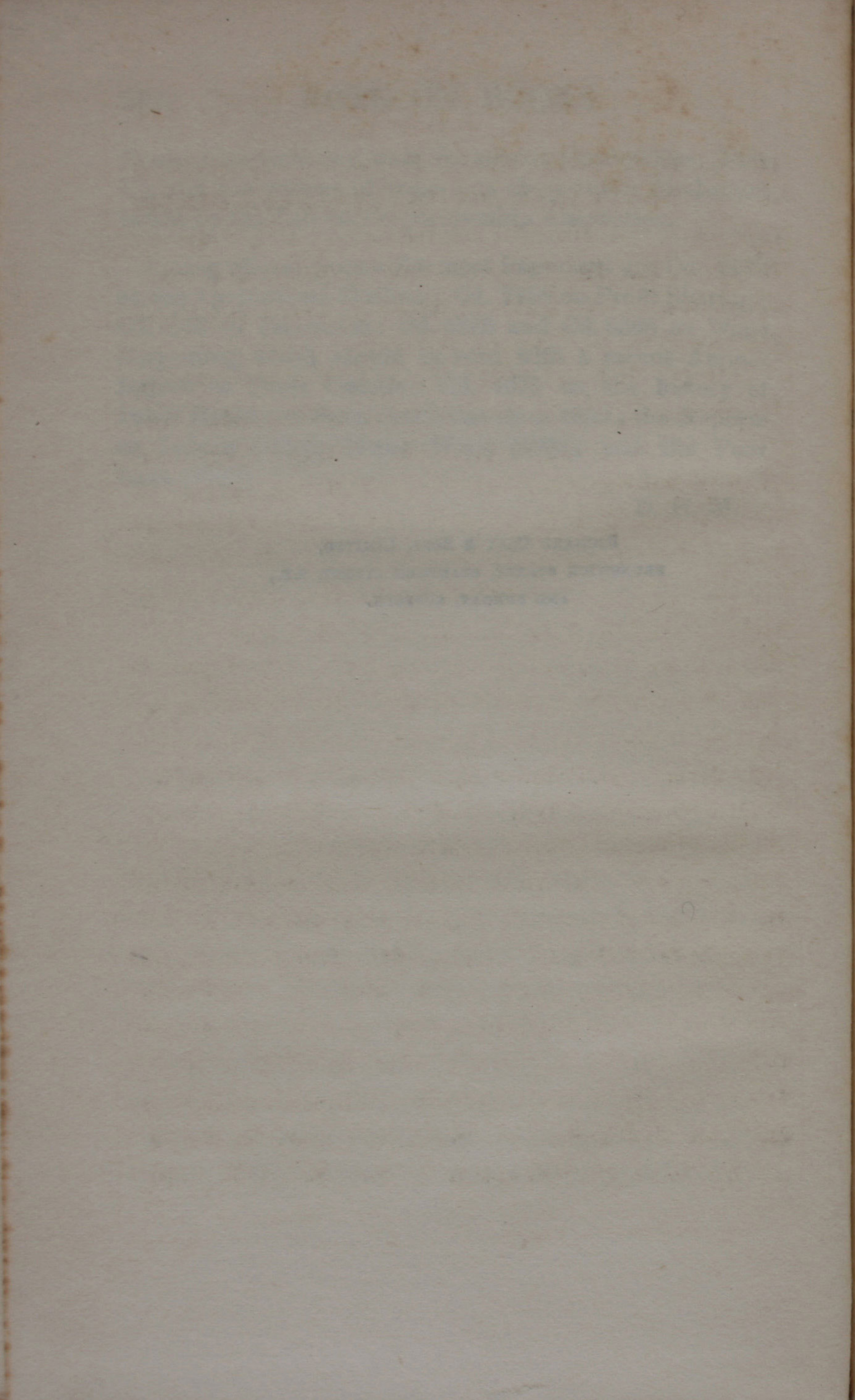
Aspects of the industrial problem are dealt with in Cooley's *Personal Competition*, Baernreither's *English Associations of Working Men* (Part I), Loria's *Economic Foundations of Society* (Part I), Schloss's *Methods of Industrial Remuneration*, Meakin's *Model Factories and Villages*, Booth's *Life and Labour* (Vol. I, part i, and Final Volume), Rowntree's *Poverty*, Miss C. Potter's *Industrial Co-operation*, Mr. and Mrs. Webb's *History of*

Trade Unionism, my own *Industrial Combination* (Part II), and the volume of papers on *Co-operative Production* issued by the Labour Co-partnership Association.

Among official papers the most important are Cd. 3273 on the Agricultural Decline ; Cd. 7458 on Profit Sharing ; Cd. 4757 on Education ; Cd. 5346 and Cd. 5366 on Wage Bargaining, which should be read with a recent Annual Report on Trade Unions ; Cd. 4671 on the history of *Public Health and Social Conditions* since 1850 ; the Reports on Labour (1894), Home Work (1908), and the Poor Laws (1909).

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