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GOVERNMENT AND INDUSTRY



# GOVERNMENT AND INDUSTRY

BY

C. DELISLE BURNS

*Author of "Political Ideals," "International Politics," etc*



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## PREFACE

**T**HIS book is a preliminary survey of a very complex section of social life: it makes no pretence to include all the facts in regard to government or industry, and it implies no claim to finality. It is a study of actual practice with a view to discovering fundamental principles, and it is not a statement of an ideal nor propaganda for a policy; but such a survey may be useful both because the facts referred to affect the solution of such contemporary problems as the nationalization of industries and because a new field of investigation has been opened up by recent governmental experiments and the reports of Commissions and Committees.

Answer

As for the evidence, the survey, so far as personal experience goes, is the result of some years of service in three departments of the Central Government dealing with industry; but a fortunate contact in lectures and classes with adult audiences, representing perhaps the most conscious and critical elements in the political community, has provided some evidence outside the departments as to what the citizen thinks and feels about Government and the State. With regard to industry, the survey is coloured by the experience of visits to the coal "face" in various Durham mines, to textile mills and to engineering shops, to company meetings, to the slums of Pittsburg and to the scenes of economic consumption in Paris,

Rome and New York. This, however, is not imagined to supply sufficient evidence as to government and industry. The reference to such experience only indicates the particular keyhole through which a world of facts has been seen.

Additional evidence has been drawn largely from official reports and current commentary in the publications of employers' associations and trade unions ; but the writings of economists and political theorists have also been used. Unfortunately the economists tend to describe a situation which does not now exist, if it ever existed ; and their psychological assumptions as to motives and their assumed political theory are sometimes astonishing. Jevons in *The State in Relation to Labour* assumes the correctness of the nineteenth-century faith in "natural" forces : Dr. Cunningham in his *Politics and Economics* hardly discusses politics. Professor Shield Nicholson in his *Principles*, Book V—"The Economic Functions of Government"—confines the discussion chiefly to taxation and assumes a contrast between individual freedom and State control which implies an uncritical philosophy of politics. Apart from the economists, perhaps the most important contribution to the analysis of the relation between government and industry was made by Professor Dicey in his *Law and Public Opinion* ; but he makes economic assumptions almost as alarming as the political assumption of the economists, for he implies that the existing economic system is in the nature of things and that modifications of it by law are based upon benevolence for sufferers. Again, he seems to overrate the importance of law as compared with administration and of the State as compared with non-governmental organization. This

criticism of authorities, however, is no denial of the debt the author owes to them for the work they have done.

Although the principles considered are general in their application, they are studied mainly in reference to British experience, and therefore it should be recognized that their treatment here is not adequate, for it is an absurd provincialism to believe that "the State" is, in essence, the United Kingdom or that government is peculiarly British. Of course the various systems of government and the many different organizations of industry in other lands should be studied in order to establish a valid conception of the whole subject; and for this reason alone it should be clear that the following is only a preliminary study. The excuse for not dealing in detail with non-British government and industry is in part personal ignorance, in part lack of evidence. Nevertheless, it does appear to be true that in the United Kingdom a characteristic and very important political and economic tendency is being developed more rapidly than elsewhere.

It may seem that Russia and Germany have made more fundamental advances in connecting the State with industry, for in both these countries there appears to be a sort of Economic or Industrial Parliament parallel to the political. But, first, these are very recent experiments, and, secondly, the most important fact of British industry is that it is organized from below upwards, from the rank and file to the leaders or "captains," whereas both in Russia and Germany organization seems to have been largely superimposed upon industrial life. What makes the British experience specially important is that the movement between government and industry is mutual; for each is approaching the other, almost without losing

its own vitality. For that reason, although the evidence reviewed here is largely British, it is probable that the conclusion may be valid in regard to additional evidence from other lands.

So far as the conclusion can be stated shortly, it is that a new conception of the organized economic community is becoming operative. This is regarded in what follows as in the main good, and therefore as a proper basis for progressive action. The organized economic community, however, is found to be neither the State alone nor the non-governmental organization of industry, but a unique complex of these two. The sharpest contrast may be drawn between this and the controlling ideas of the nineteenth century. During that already ancient time two quasi-psychological ideas dominated economic and political theory—one that each man did in fact seek chiefly his own interest and the common good was thereby attained, and the other that the relation of the State to industry was that of interference in enterprise: but the conception of an organized or organizable economic community, if it is valid, would completely displace that older system of ideas, for it implies that (1) each man does not in fact chiefly, still less always, seek his own interest, that (2) the common good is a different kind of good from the goods of separate individuals, and that (3) government assists, promotes and of its nature even enters into industry, therefore exploding the whole mythology of "interference." The questions, therefore, whether or not the State does interfere or should interfere are quite meaningless.

As for the ideals of the nineteenth century, as contrasted with the prevalent conceptions of fact, these also will

have to be displaced or corrected. Men at that time were urged each to pursue his own interest : it was seriously believed that a society in which each pursued his own interest would be an ideal society and—still more amusing—the ideals of competitive enterprise implied that society as a whole would be protected from exploitation by selfishness, because each man pursuing his own interest would obstruct every other pursuing his. Society, therefore, would be protected by competition preventing every man from attaining that which he was urged to pursue. These conceptions are contradicted not simply by the advocacy of other ideals, but by the actual practice in contemporary life. Social organization is actually based upon the pursuit of a common good shared by individuals, and, in the economic sphere, this organization is co-ordinated by the economic activities of government.

An account of contemporary practice and tendencies, even if it includes a single comprehensive interpretation, cannot present a picture of a perfectly coherent and orderly world : but it has been thought better to include references to facts which are irreconcilable with the main thesis rather than to omit everything which does not square with it. It is easy enough to amputate facts on the Procrustean bed of a theory ; but it is perhaps preferable to allow gaunt limbs of bare fact to stick out from under the bedclothes of a book.

C. DELISLE BURNS.

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# Government and Industry

## CHAPTER I

### THE DISTINCTION BETWEEN GOVERNMENT AND INDUSTRIAL ORGANIZATION

**I**T is commonly recognized as important that, although a man may belong to a religious society or not as he chooses, every man must belong to some State. Religion, science, art, and perhaps some other sections of human activity, if organized at all, are organized by voluntary groups and many men belong to none of them; but political organization appears to be in a sense inevitable and inclusive. The implied philosophy need not be discussed here. It is sufficient for the present purpose if it be granted that every man is a part in the world-wide organization which includes States and their governments, local and central; and that every man seems to be compelled in this matter less by some superior authority than by inevitable circumstances. The State or the organization of government ought not to be regarded as compulsory in contrast with what is voluntary, but as inevitable in contrast with what is avoidable. Thus government is not compulsory in the sense implying restrictions on freedom, but inevitable because it is the condition of freedom; for as no man is able to live without some food and, unless he is a Robinson Crusoe, his source of food involves organization, so no man is able to live with others without some organization of his relations with them. Government arises from that need of

organization, which is as inevitable a condition of life as food and clothing.

Among all groups of men there are some who are regarded as more intimately parts of the State or of government than their fellows: for, although all men are affected by political organization, not many are consciously or continuously political in their interests or their activities. Therefore the few in every country who consider and who affect directly law and administration are often regarded as "the State" by contrast with its subjects. These few include a still smaller group which is called "the Government," which has as its agents the civil service: and when the ordinary man thinks, if he ever thinks, of government and industry, he has in mind a group of politicals and civil servants contrasted with a group of "business" men. Whitehall is contrasted with the City, Washington with Wall Street, the Quai d'Orsay with the Bourse. This is to put into personal terms the general contrast between governmental and economic activities; but it will indicate sufficiently for the present what government is. All that is done in regard to law and administration is government: and it is done by definite groups of men, although what is done in many countries rests more or less insecurely upon the judgment or the acquiescence of all the members of the whole organization called the State.

The State is not the whole of organized society. The word State is generally used to refer to a quite definite type of organization with a limited purpose; and if the word is to be used as it is by certain philosophers, to indicate the whole of social organization, then a new word would have to be found for what the ordinary man means by the State. On the other hand, if the State, in the ordinary sense of the word, is held to be superior to or inclusive of all other forms of social organization, the evidence against this view is to be found in the actual experience of religious, artistic or industrial bodies:

but it is not of immediate importance here, since it is sufficient for the present argument if the State be regarded as one among many forms of social organization. The chief activity of the State, called government, includes legislation and administration; and the functions of government now in most countries include (1) defence and the relation to foreign peoples, (2) criminal and civil law, (3) certain social services such as education, (4) the supervision or regulation of industry, and (5) the organization of the income and expenditure necessary for the performance of the functions of government.

It may, therefore, be taken as proved that the nature of government is to be discovered by reference to these functions; and from these it appears that government secures a certain amount of a particular kind of order and liberty. It is an organization which, whatever its actual effect, is maintained because it is believed to keep the relations between men and groups of men settled and regular and because it is believed to provide a certain amount of opportunity for the free play of certain activities. Its sphere of action is, therefore, moral, and it is to be noted that none of the functions so far mentioned are "economic" in the sense that they exist primarily for the production and distribution of goods. Besides performing other functions, however, government comes into direct contact with the system for producing and distributing commodities; but, although there are instances of government itself entering the economic sphere, the more normal experience is that it regulates or modifies industrial life without providing a substitute for its common organization.

Industrial organization, on the other hand, is a universal system with incoherent or even contradictory elements. Goods are in fact produced and distributed, and the vast majority of men do secure some bread and some clothes: but almost none of this supply is due to the activities of governments. There is, as it were, another world

within which commodities are produced and consumed : some of this world is organized as capitalist companies, trade unions and interrelated private enterprises ; but some parts of this world—for example, sections of “ consumers ”—are as little organized as the Marches were in the Middle Ages. The organization, however, which already exists is very complex ; the machinery is delicate and therefore jolts or violences tend to obstruct the output of goods or their distribution.

This production and distribution of commodities results in a world-wide organization from which no man is excluded : for every man is a part of the industrial organization in so far as he is a producer and a consumer. Not only the business man but also the bishop and the artist affect the economic situation by services which are paid for in aprons or vestments or canvas and hats. The child consumes even before birth, although he does not, in an economic sense, produce goods and services : and the fashionable lady, most similar to a mollusc, affects the supply of chocolates, even if she does nothing all her life but eat and sleep. Thus all men are inevitably parts of the economic organization of humanity ; and although we cannot, as in the case of the State system, say that economic organization is compulsory in the sense of restricting freedom, it is obviously unavoidable because it is the necessary condition of enjoying food and clothing in actual life.

There are, however, some persons who are prominently and essentially producers or controllers of production, “ working ” men and women or “ business ” men. These are, as it were, the representatives of the economic world, the legislature and administration in the supply and distribution of commodities. They may be regarded as the servants or as the masters of the public which consumes. They live by services performed, not in the religious or artistic or governmental sphere, but in the supply and distribution of commodities ; and as the

active element in State or governmental organization is spoken of mythologically as "the Government" or as "Whitehall," so the active element in the production and distribution of goods is spoken of mythologically as Business or Finance or Labour. It is, however, important to recognize that all men form part of this economic organization, as all men form part of the State system.

It seems reasonable, therefore, to say that there are two distinct functions performed by organizations in a complex modern society: one the provision of order and liberty or justice, with which is connected police, armed force and criminal and civil law; the other the provision of food and clothing, which is performed in the main by non-governmental organizations in contact with certain governmental rules such as Patent Laws, Unemployment Insurance, etc., and with governmental offices such as the Board of Trade and the Ministry of Labour. This distinction of functions is the basis of various social ideals now current; and most of these ideals are therefore based upon a dualism. The subject of this book has to do only with the two functions so far mentioned; but it would be misleading to suppose that these two are the only distinguishable groups of functions. There is a third. It is the social function included in everything from the provision of houses and the planning of towns, through health measures, to education, art and religion. This third group of functions will not be dealt with in what follows here: but it is essential to note that they are *not* included in what is called "economic" in this book, nor does it seem possible to include them with the provision of bread, boots and transport in a general "social" function. They include interests and involve psychological impulses and moral ideals which are not those of either (*a*) the police function or (*b*) the provision of goods. Obviously they are nearly related to both, for it is impossible to divide social life into completely separable compartments: but it should be recognized

that, for a description of contemporary social organization and social tendencies, three and not two categories or *cadres* are necessary. Thus there are three chief sections of social life, embodied in action and organization of three chief types. There is "Law and Order," which is usually conceived to be peculiarly the function of the State. It is what the French call "l'autorité régaliennne" and the Germans "Verwaltung"; the Lord Chancellor and the Home Office in Great Britain chiefly embody it, and its expression is in the law of contract and tort, the Criminal Procedure Act, 1865, and the Criminal Evidence Act, 1898. There is, secondly, industrial service into which "the State" enters as it were by accident: this the French call "gestion" and the Germans "Wirtschaft," and in the British form of social life it is embodied chiefly in non-governmental organization but also in the Board of Trade and the Ministry of Labour and the Acts which they administer. There is, thirdly,—and this is not commonly admitted—culture or the development of body and mind, which the French include under "prévoyance sociale" and "beaux arts" and the Germans under "Kultur." In the British form of organization this function is embodied in churches, clubs, educational and artistic or scientific societies and, governmentally, in the Board of Education and the Ministry of Health. These are not our subject here: but it is important to recognize that education is not for the sake of industry<sup>1</sup> and that town-planning and social amenities are results of the desire for beauty, not of the desire for food and clothing. The whole of this third section is omitted in what follows, and no consideration is given to the peculiar relation of government to other organizations within this third section:<sup>2</sup> but the omission must not be held to imply

<sup>1</sup> Nor is religion, in spite of the discovery of Mr. R. Babson that Christianity can be made to increase output and reduce labour disputes. See his *Bulletin*, *passim*.

<sup>2</sup> Cf. Webb, *Constitution of the Socialist Commonwealth*, where the division of functions appears to be dual, but where the parallel is

that it is regarded as of subordinate importance, still less that it is merely a subdivision of the section here called "economic" or "industrial and commercial." We may now consider the other two social functions.

The contrast between government and economic organization is not essentially a contrast between separate groups of men, but between certain elements which are to be found in every man. As in the case of the mediæval controversy between the State and the Church, the quarrel between the "authorities" in the two spheres should not obscure the fact that all men are members of both organizations. The contrast is not that between the spiritual and the temporal, for bread is spiritual and justice temporal, and the mediæval division was too simple: but in every man there is a part which lives in the world of justice and liberty and a part which lives in the world of bread and clothes.

Because all men are thus involved in both organizations, if not because of incompetent and confused thinking, the distinction between the State system and economic organization has not always been perceived: but obviously, unless a distinction exists, there is no question of the relation between the State or Government and industry. The distinction is based upon the difference between different kinds of "goods" or different wants, and everyone agrees that a good dinner is distinguishable from good music; but, of course, it is not pretended that the life of the ordinary man is lived in compartments or that his interests or his motives form complete and clearly distinguishable systems. Nevertheless most men agree that good government is one thing and wealth another: for it is the theorist and not the average man who has most confused the issue, in an amalgam called political economy.

made between the categories of different nations, as above. Rudolf Steiner, in the *Three-fold State*, perceives the three functions but dimly.

The very phrase "political economy" is misleading, because in the first place it confuses together the two very different studies, politics and economics, the one concerned chiefly with law and administration, the other chiefly with the production and distribution of commodities. Secondly, it is misleading because the modern interest in economic problems is so absorbing that in political economy the most important problems of government seem to be those which affect wealth. Thirdly, the standards by which political action are properly judged are moral standards; they have to do with right and wrong, justice and injustice; and these are obscured, if not entirely forgotten, when the attention is turned to the methods by which wealth may be produced. The result, both in regard to thought and public action, is instructive. The economists have inherited the mantle of political economy, and, although the best of them avoid the confusions of the older political economists, many still venture upon moral judgments which are either accepted uncritically or brought forth out of ignorance. Some economists assume the rôle of guides to social policy, with regard to which the study of economic facts is either irrelevant or subordinate. The public meanwhile look to the economists as though the study of industrial organization and financial bad habits were a means for the discovery of moral ideals and political methods: and political science and philosophy, which should be parts of the study of morals, are left to be the accidental results of economic insolvency when an economist takes refuge in such phrases as a "reasonable" profit or a "living" wage.

Adam Smith and his followers initiated the prevailing confusion, but Adam Smith himself saw clearly enough, in regard to the Colonies and India, that the British Government must apply political principles and not give play to the desire for wealth. Adam Smith was in an unexplored field, and he did in fact attempt to



cover both morals and economic life. There is less excuse for the moderns.<sup>1</sup>

In practice the confusion has led to a predominance of economic over moral issues. For example, the controversy as to the nationalization of an industry appears to turn largely upon the question whether an industry so organized can be made to "pay"; but although that question is interesting, it is neither fundamental nor even relevant to the larger issue as to the effect on government if business were undertaken by governmental administrators. Again, the Royal Commission on Coal Mines took the evidence of economists and, although some of them were in fact political philosophers, the problems they were asked to solve were rather those of wealth than those of justice. The two contrasts, however, should not be confused. The distinction between economics and politics is not the same as the distinction between industry and government. The purpose in this book is not to discuss the relation of two kinds of *study*, but the relation of two kinds of practical activity; and for this purpose it is proposed to call the prevailing activities in industry "economic."<sup>2</sup>

<sup>1</sup> An obvious example of confusion is to be found in Professor Shield Nicholson's *Project of Empire* (1909). The Preface says: "The object of the present book is to reconsider the *economic* problems involved." The argument is that internal free trade in the British Empire would be good for "defence." The author does not even discuss the political issues involved, and he quotes with approval Adam Smith's statement as to the Navigation Act that "some of the regulations of the Act may have proceeded from national animosity. They are as wise, however, as if they had been dictated by the most deliberate wisdom. National animosity at that particular time aimed at the very same object which the most deliberate wisdom would have recommended—the diminution of the naval power of Holland, the only naval power which could endanger the security of England" (*W. of N.*, Bk. II, ch. v). But what are "defence" and "national animosity"? These are certainly not economic categories.

<sup>2</sup> The activity of a judge is economic in so far as he earns a living and thus pays for his food, but this is neglected in concentrating attention upon his administering justice.

It would be taking too much for granted if it were assumed that the organizations and offices providing government were distinct in fact from those providing commodities; for then the relation between government and industry might seem to be based necessarily upon the independence of each in regard to the other. When, therefore, it is said that government is one thing and industry another, all that is meant is that the services or functions so named are distinct: but it is allowed that the same organizations may be in fact performing both functions. The State, for example, acts in the Post Office as well as in the Law Courts: the North Borneo Company administers law as well as earning profits. In the main, however, the distinction between functions or types of activity does involve a distinction between organizations. Although no function can be said *a priori* to belong to the State by necessity, there is a general belief that the functions of governmental administration are State functions; and this is historically correct as well as being a truthful description of a large area of modern experience. It does not follow that this is desirable; but in order to discover what is desirable, we must at least refer to what exists. The actual experience of the moment is not the test of the ideal, for the ideal has another source: but actual experience does indicate the conditions which govern the realization of the ideal.

The general effects of governmental upon economic organization are sufficiently obvious; and these effects are comparable to the effects of any social belief or custom upon any other.<sup>1</sup> Centralized government in a great

<sup>1</sup> Thus, List, *National System of Political Economy* (trans. Longmans, 1885), gives a general view of the relation of governmental and other activities to the habits commonly studied by economists. "The Christian religion, monogamy, abolition of slavery and of vassalage, hereditability of the throne, invention of printing, of the press, of the postal system, of money, weights and measures, of the calendar, of watches, of police, the introduction of the prin-

State has the effect of centralizing the management of industry, finance and commerce, sometimes in the capital city ; and this again reacts upon government, strengthening the tendency towards centralization. A notorious example was to be found in Vienna under the late Empire. It was a city of two and a quarter million inhabitants, but it had no great industrial establishments or natural economic resources. Because it was the seat of government, industrial and financial groups and companies found it convenient to have their headquarters there ; and even railway companies whose routes did not touch Vienna had their central management there. Since the dissolution of the Empire various firms whose chief works or other property was outside Austria have moved their headquarters away from Vienna : and thus the dissolution of a government has involved the decentralizing of industry. In every great modern State, indeed, the structure of government inevitably affects the organization of industry. Stability in the form of government makes large industrial enterprises more possible : the extension of government over tropical countries introduces new raw materials and may open new markets : and in every country the distribution of wealth is at least in part due to the law of property.<sup>1</sup>

inciple of freehold property, of means of transport, are rich sources of productive power. To be convinced of this we need only compare the condition of the European States with that of the Asiatic. In order duly to estimate the effect of liberty of thought and conscience on the productive forces of the nations, we need only read the history of England and then that of Spain. The publicity of the administration of justice, trial by jury, parliamentary legislation, public control of State administration, self-government of the commonalties and municipalities, liberty of the press, liberty of association for useful purposes, impart to the citizens of constitutional States, as also to their public functionaries, a degree of energy and power which can hardly be produced by other means. We can scarcely conceive of any law or any public legal decision which would not exercise an influence on the increase or decrease of the productive power of the nation."

<sup>1</sup> " To show why in England the small landed proprietors have

Again, from the opposite point of view, economic life creates some of the most important problems of government. The growth of trading organizations creates the problem of control of commodities, the carelessness of the organizers or the workers creates the problem of industrial accidents ; and the fluctuations of trade or the distresses of famine tend to political revolution. But further, economic life provides some of the means by which its own problems are solved in government. All towns are the results of economic forces, although some of the oldest may have been first formed by other forces—religion, family affection, education and the rest. The great cities and towns of the present day, however, are for practical purposes in the main workshops. People are brought together there because the modern system of production and consumption is more varied and easily organized in great centres of population. Modern economic life produces a complex and an inclusive “ neighbourliness ” which is very different from that of earlier times : but government itself arises out of neighbourliness ; and indeed it has been said that the State itself is a city institution in its birth and in its actual present operation. Government is essentially territorial and inevitably deals first with the everyday contacts of men who are neighbours, and government is therefore easier as well as more necessary when men live in close contact : but most men now are inhabitants of great cities or urban districts, and modern government is therefore assisted by the con-

vanished whilst in Germany and France they have increased and thriven it is necessary to carry our inquiries far back into the history of law, politics and commerce. . . . The present distribution of landed property in England is in the main due to the existence of the system of political government which has made us a free people. And, on the other hand, the distribution of landed property in France and Germany, which writer after writer points to as the great bulwark against revolution, is in the main due to a form of government that destroyed political liberty and placed the people in subjection to the throne.”—Toynbee, *Ind. Rev.*, p. 59.

centrations of populations which are largely due to modern economic life. Again, this same economic life has produced the world market and the national markets which are much larger than those of earlier times : but this is probably one of the chief causes for the size of the modern Great State. Government now covers large areas because economic units are large. Thus each system, the political and the economic, intimately affects the other.

The present situation, however, is a moving point between past experience and future experiments. Indeed, to analyse the situation would be to misrepresent it, if the analytic is opposed to the historic method : for what is to be analysed is a process, not a product. The relation of government to industry is not merely a result of the past, as the older historians would say, but a premonition of the future, since history is not ended ; and an historian who professes himself entirely ignorant of the future on the ground that it does not exist, condemns himself as too credulous in believing, with the average superstitious person, that the present does exist. The traces of the future in the present situation are just as real as the remnants of the past ; and indeed of the three, the past, present and future, the one which does not exist is the present : for the moving point of time which we call the present is only important in so far as it moves towards a future which gives it significance. This is true of all that process which makes human history ; and in every country it is clear that the changes are continuous in political and economic life and in the relation between them.

In regard to British government, taken as a separate unit, the connections with industry or economic life in the past are very intricate ; but certain general statements can be made. There are some activities of government, local and central, which long ago provided, as it were, the framework within which economic life was carried on. When the residents in a locality, or the burgesses or

the King established a fair or a market or a staple, they were extending political order to cover the new economic relationship created by trade.<sup>1</sup> Incidentally, of course, they organized trade ; but only in the same sense as they organized marriage by "recognizing" a monogamous form of personal agreement. In the same way the political authority provided order by substituting public trial for private revenge in the case of murder. In this sense, then, political activities lie at the base of all social life which has reached a certain stage of development. Even in early times, however, there were other activities of government which were in purpose and in effect almost entirely economic. For example, when, after the Black Death, the King attempted to fix wages, he was, in a sense, only maintaining order, but his chief purpose was economic, for he was directly organizing the production and distribution of commodities.<sup>2</sup>

With the passing of the mediæval system the economic activities of government became more numerous and more various, under the Tudors and Stuarts. As an example, the Statute of Artificers of 1563 may be cited. The contents of the Act were not new. Guild regulations

<sup>1</sup> Cf. Stapler's Charter, 6 Edw. II, 1313. "The King to all, etc. . . . We, wishing to prevent damages and grievances . . . ordain that . . . merchants shall take wool to a fixed staple to be assigned by the mayor and community of the said merchants . . . as they have hitherto been wont to do."

<sup>2</sup> Cf. Ordinance of Labourers, 23 Edw. III, 1349. Putnam, *Enforcement of Statutes of Labourers*, Appendix. The following indicates the drift of the argument, but the whole should be read in order to see the economic theory involved in the use of political power: "Because a great part of the people and specially of the workmen and servants has now died in this plague, some, seeing the necessity of lords and the scarcity of servants, will not serve unless they receive *excessive* wages, . . . we weighing the grave disadvantages which might arise from the dearth specially of tillers and workmen . . . order that every man and woman . . . not living by trade, etc., etc. . . . shall be bound to serve him that shall require him . . . and shall receive only the wages . . . which used to be offered." Cf. Toynbee, *Industrial Revolution*, "The Poor Law."

and the old Statutes of Labourers (especially that of 1383) provided the rules which were extended and codified under the new Act. Here, then, the State was attempting to provide a central organization for all that part of economic life which was dependent upon the relation of master and servant or apprentice. A second example shows the State by administration attempting to control prices. A judgment was made in the Court of the Star Chamber in September 1631 against one Archer, of Southchurch in Essex, "charged by the Attorney-General for keeping in his corn, and consequently for enhancing the price of corn the last year." He was sentenced to pay a fine and to stand upon the pillory in Newgate Market an hour with this inscription upon his hat, "For enhancing the price of corn."<sup>1</sup> Finally, there is the well-known example of the Navigation Act, 1660, "for the encouraging and increasing of shipping and navigation, wherein, under the good providence and protection of God, the wealth, safety and strength of this kingdom is so much concerned." Here the State was promoting one particular form of economic service; and although one purpose of the Act was political, the chief purpose was undoubtedly wealth.

The next stage was reached in the beginning of the new industrial system, when government appeared to be chiefly an obstacle to economic activities. The basis of economic organization was entirely changed and the new economic life in the industrial system was not reflected in the parliamentary or administrative organization of government. The maladjustment produced the gospel of non-interference or *laissez-faire*; and this new policy has been so many times explained that it is unnecessary here to review the many causes for the change. It is, however, important for the present argument that the contrast between the old regulations of economic life and the new freedom was really a contrast, not between

<sup>1</sup> Judgment printed in *Eng. Econ. Hist. Select Doc.*, p. 391.

political regulation and political freedom, but between one form of *economic* regulation, based on an old economic life, and the new economic life which had not yet produced its own form of organization and regulation. The new industrialists felt regulation to be a hindrance, not because regulation in its essence is a hindrance, but because the particular form of regulation which existed had grown out of an economic life which no longer existed. Mill and Spencer, like their predecessors, were opposed to what they called government "interference," but the grounds for their attitude were economic and not political. Their arguments in economics were sound, for they could show how old regulations obstructed the production and distribution of commodities under a new system : but unfortunately some of their arguments were political, and these were mistaken ; for they rested upon false assumption as to the nature of order and liberty or justice. It was therefore easy for their opponents to prove that the State is not what Mill and Spencer thought it was. The State is, indeed, not a mere obstruction to individuals : but neither is it in " politics " a sort of universal provider of communal life. There are many social functions which, whether fulfilled for the moment by one or by more organizations, are quite distinct from the maintenance of order and liberty. That is the point which we have reached in the process now to be studied : for we have to describe an existing situation, itself developing, in which the relations between government and industry are continuous and intimate.

The problems to be considered may perhaps be more clearly understood if a reference is made to controversies with which every one is familiar. " Nationalization," " private enterprise," " profiteering," a " fair " wage and a " living " wage suggest controversies ; and it is by no means the purpose of the present argument to show which side is right. It may, however, be pointed out that, quite apart from the correctness of the reasoning



on either side, assumptions are made by both sides in regard to facts which have not been adequately investigated. These are the facts to which attention will be directed in what follows, but first the assumptions of current controversy may be pointed out.

The controversy turns upon the problem of ideals. What ought to be the relation of the State to industry? Some say that it ought to subserve but not to interfere; others say it ought to take over industrial functions: and what the State is actually doing no one pauses to enquire; nor does either side hesitate to describe what it believes to be "the nature of things," without enquiry into the psychological facts or the moral ideals which make up the complex of bad habits at present called civilization.

The problem as to what ought to be the relation of government to industry has already received much attention from business men. Their usual attitude towards the problem implies that the State should assist and promote the established industrial system, and their attitude is closely connected with the belief that (1) the established system is in the nature of things, (2) any evils in it are accidental and irrelevant, and (3) the interests of all men are bound up with the interests of those who derive the greatest benefits from the system. Therefore, it is said, the State should promote private enterprise.

This is developed into a policy and a programme by organized bodies in most industrialized countries. In Great Britain it is represented by the British Commonwealth Union, which makes the following statement of its policy: "The Union considers that the policy of the State in relation to industry should be to afford the maximum of assistance in its maintenance and development and to interfere as little as possible with its control and management." <sup>1</sup> This statement is typical of a

<sup>1</sup> The Union publishes a periodical, for private circulation only, which is called *Industry in Parliament*. This periodical is devoted

common attitude towards the problem to be discussed here, and the policy here outlined is one which is accepted by "business" men who take political power. For example, Mr. Chamberlain in 1896 spoke at a banquet at the Birmingham Chamber of Commerce, in reply to the toast of "Her Majesty's Ministers," as follows:—

"From the moment that we accepted and entered upon the duties of office our most important duty, our most absorbing care, has been, not the party legislation which occupies probably the largest part of our public discussions, but the development and the maintenance of that vast agricultural, manufacturing and commercial enterprise upon which the welfare and even the existence of our great population depends. . . . All the great offices of state are occupied with commercial affairs. The Foreign Office and the Colonial Office are chiefly engaged in finding new markets and in defending old ones. The War Office and the Admiralty are mostly occupied in preparations for the defence of those markets and for the protection of our commerce. The Boards of Agriculture and of Trade are entirely concerned with those two great branches of industry. Even the Education Department bases its claim to the public money upon the necessity of keeping our people well to the front in the commercial competition which they have to sustain; and the Home Office finds the largest scope for its activity in the protection of life and health and in the promotion of the comfort of the vast army of manual labourers who are engaged in those industries. Therefore it is not too much to say that commerce is the greatest of all political interests and that that Government deserves most the popular approval which does most to increase our trade and to settle it on a firm foundation." <sup>1</sup>

It is implied, of course, that the support of private

very largely to activities of the group in Parliament and in regard to the Government Departments.

<sup>1</sup> Quoted in L. S. Woolf, *Empire and Commerce in Africa*, p. 7.

trading by governmental action benefits the whole community ; for the argument in favour of using government for the promotion of trade could be persuasive in a democratic atmosphere only if this promotion were held to benefit all the members of the State : and occasionally an effort is made by those who control industry and commerce to prove that the whole people benefit from their success. It is argued that bread and boots are actually produced and that they are consumed in fact by all citizens : and indeed there is no denying that some benefits do accrue to the majority. There is a story of a mediæval knight who took a goose which belonged to a poor woman. Some one remonstrated with the knight, and he replied : " I did indeed take the goose, but I gave her the feathers." It is implied in the argument above noted that the majority should be grateful if they have even the feathers. The difficulty, however, is not the amount the majority receive, but the proportion it bears to the amount received by the few. If the State is to promote the present system of industry, is it to lend its prestige and power to the present system of the distribution of the product of industry ? It may conceivably be argued that it is good for the people if some of them are in starvation ; or it may be argued that the accumulation of great wealth in a few hands is good for leisure, art, or learning ; but this argument from the eighteenth century is not now publicly promulgated, even if it is still used in drawing-rooms. The closer one comes to the bases of the argument, the vaguer become the statements of those who use it : and in the end the argument looks perilously like a proof that the State is an organization for securing the domination of a few.

The larger issue need not be here discussed. The only question is as to State action in regard to industry and commerce. The State which, in theory at any rate, stands for the whole community, cannot very well be the direct agent of a system which impoverishes the

majority of its members, degrades their minds and enfeebles their bodies.

It is, however, sometimes said that all reference to distribution is pointless because, if the whole of the proceeds of industry were distributed equally, very little addition would be made to the resources of the poor. On this hypothesis there is so little to be distributed among the whole population that the surplus wealth of the few is negligible. It cannot be regarded seriously in devising a public policy.<sup>1</sup> But the assumptions on which this argument rests are not axiomatic. First, the evidence may be disputed: it may be held either that the division of the national income is indeed much more unequal than is stated or that even a slight redistribution would in fact increase the available income immensely because of the increased productivity which would result. Secondly, if the divisible income is indeed small in any case, there may be all the more reason why it should be more carefully distributed; for it is a recognized principle of State policy that in times of shortage all should go short. But these are economic conclusions of moral or ethical arguments which need not be discussed here; for they are referred to simply as examples of current conceptions in regard to government and industry.

It seems likely that the attitude of the commercialists is dependent, not upon axioms, but upon a feeling that the existing system is in the nature of things. The policy of most States is in fact that of promoting the existing organization of industry and of "interfering" as little as possible; and the government of most States is in fact controlled by the same men or the same class of men who control industry and commerce. They are few, but they are powerful: their opponents are many but weak; and this being the situation, any suggestion tending to change it is naturally regarded as either a

<sup>1</sup> Bowley, in *The Distribution of the National Income*, appears to tend to this belief.

reckless and ignorant protest against the nature of things or a direct incitement to anarchy.<sup>1</sup> Perhaps, therefore, it is well to note that at one time government and the administration of justice was a private enterprise aiming at profit for the governors or the administrators. Men exercised control over their fellows, not for the love of public service or an abstract ideal of justice and order, but because it "paid." War itself, as Thucydides observed, was a trade for gain; and war was the policy of early governors of the people;<sup>2</sup> but even the giving of decisions in regard to law or custom was exercised by kings and lords at first because it "paid." It is not implied that this was the only motive in operation; but obviously there is a similarity between early government and modern business. Now, however, it is not commonly believed that the administration of justice should be able to show financial assets. A change has occurred. There is reason to think, then, that what now exists may not be in the nature of things, and government may not, after all, be a means of earning profits for anyone, even indirectly.

In opposition to the existing system in most States and to the policy already described is the group which stands for the entry of the State into the industrial sphere. This group appears to believe that inevitably or in the nature of things the administration of law and justice takes over or becomes the organization for producing and distributing commodities; and it is argued that this inevitable tendency is good or worth assisting. Granted, however, that this is good for economic life, what will be the effect upon law and justice? This is not usually considered. The State Socialists appear to forget entirely the need for goods other than "economic";

<sup>1</sup> This assumption underlies the argument of the Introduction to the 1914 Edition of Professor Dicey's *Law and Public Opinion*.

<sup>2</sup> Edward III captured much cloth when he took Caen: but he is not yet regarded by historians as a bellicose draper.

and some have even supposed that only the production and distribution of commodities would be organized in an ideal society. The extreme Syndicalists agree in this at least with the State Socialists, although more logically they abolish the methods of obtaining law and justice along with the desire to obtain them. The Guild Socialists advocate a State as well as an industrial organization; but they make their political State own property in industry, and further they usually conceive industrial organization as a group of producers over against consumers or users, thus also implying assumptions as to existing facts. There is a general agreement that the State should enter into the field of non-political organization at least so far as to make "social reforms"; and actual legislation has resulted from the general acceptance of this principle, as Professor Dicey showed:<sup>1</sup> but the general public in this matter has been led to think with the lawyers, and therefore the operative principles of the new relation between government and industry have seemed to be simply extensions of the desire for order and liberty. This is the normal interpretation of what is usually called socialism; and presumably if the State goes beyond "social reforms" and actually takes over or operates production and distribution of commodities, the explanation offered would still be that it did so in the name of justice. Thus while on the one hand the commercialists, assuming that the present economic system is inevitable or, worse still, assuming that it is good, repudiate all entry of government into the economic sphere, the various groups of Socialists advocate a taking over by government of economic organization now non-governmental: but neither side has examined what is actually occurring.

Between the extremes of commercialism and State or Guild Socialism there are many schools of thought: but they do not concern the present argument. The

<sup>1</sup> *Law and Public Opinion in England*: cf. also Jethro Brown, *The Underlying Principles of Modern Legislation*.

majority of men adhere to a confused amalgam of all creeds, and politicians contradict themselves even more frequently than they contradict each other. But the various schools of thought and the popular confusion of mind will suffice to indicate the field to which attention is being called.

The purpose is not the inculcation of any doctrine as to what ought to be done ; but a study of the existing situation and of recent tendencies cannot end in such a subject as political philosophy with mere acquiescence in things as they are. The institutions studied are the results of the ideas and desires of certain persons ; the tendencies of to-day are the results of the activities of certain other persons ; and to accept them as we may accept a thunderstorm or an earthquake is not to submit to the Absolute or to the forces of history, but merely to enslave ourselves or our children to our grandfathers or our contemporaries. It follows that although analysis and not exhortation is the purpose of this book, the reason for the analysis is that knowledge of the existing system is useful for controlling it.

The facts to be analysed or described must be viewed first comprehensively. They are all connected with government : but not all the elements in government are to be analysed. At present in most countries government includes criminal and civil law and justice ; it includes the administrative side of education, the registration of births, deaths and marriages, and many other services which do not intimately affect industry and commerce. These are omitted in what follows : but the omission is important to the course of the argument. It should not be forgotten, when the activities of government in Factory Acts or in tariffs are being analysed, that government is also concerned with judicial functions and education. Abstraction is made from these for the purpose of the argument ; but the danger of abstraction is that what is omitted for the sake of argument may be

believed in the end not to exist. Government at present affects industry more intimately than it once did, but government is still concerned with non-economic interests. Therefore in considering the character of government it should be remembered that the contact of government with industry has its effect upon the non-economic functions of government. If, then, government is to mean the administration or organization of coal-mines, what will the effect be on government in regard to education or the law courts? If government is to involve industrial or commercial enterprises in undeveloped countries or in foreign trade, what will be the effect upon foreign policy regarded as the promotion of justice for nationals? These are problems of political science and philosophy and not of economics: and in solving such problems the practical business man or the economic theorist is absolutely and entirely incompetent. Therefore while the economic elements in government are analysed the non-economic must not be forgotten.

The tendencies to be described are to be found in the recently accepted policies of governments and in the programmes of important political parties. Thus, the French Government has recently been committed to a law by which all new mines in France will be leased by the State and not given in perpetuity as private property. The British Government is committed to large financial enterprise in the oil trade. The State is, therefore, in many countries already committed to a very intimate connection with industry. Again, apart from commitments, new programmes are advocated which may involve an even closer connection of government and industry. Parties which have not yet had their programmes embodied in law and administration suggest, for example, the ownership by the State of coal-mines and railways. Other parties suggest the State protection of certain "essential" industrial enterprises. Other parties, for example in France, suggest the diminution



or abolition of State tariffs or drawbacks on foreign trade. All these programmes represent tendencies which may or may not survive to be embodied in administration. The tendencies seem to point in many directions : but it may be possible to find some underlying common element in some of them. Thus the subject to be treated involves (1) a distinction between government and the organization for production and distribution of goods, and (2) the question whether one subserves the other, government being a trade agency or trade a governmental function ; and the method of treatment will be the description of existing facts and tendencies from the point of view of political philosophy rather than that of economics.

## CHAPTER II

### ADMINISTRATION AND INDUSTRY

**I**F one desired to investigate the success of a marriage, it would be unwise to be satisfied with the evidence of the marriage certificate or even with the speeches at the marriage festival. It would be wiser to examine the daily life of the married couple about five years after the marriage. A similar rule for investigation should be used in regard to all social life. The majority of the investigations into government, however, are concerned largely with legislation or the legislative system; and the normal practices of administration are not described. Philosophical treatises on government deal with the various methods of passing laws; but the philosophers lose interest in the subject when the law is passed. This, however, is to make fairy-tale of political philosophy. It is not true that, when a law was passed, "they lived happily ever after." The analysis and criticism of government should begin, therefore, with the study, not of legislation, but of administration; for administration is the daily life of the State, long after the ceremonies are over. Thus in the most general sense administration and not legislation is the primary subject of political philosophy and practice.

With regard to the specific activities of government which affect industry, administration is still more important. The mere text of a law and even the public opinion which produced the law are quite subordinate in importance to the normal daily contact of governmental offices with the practices of industry, for it is

here that, in the truest sense, the relation of government to industry is to be found. The first fact to be looked into, therefore, is the machine of administration. It is, indeed, wrongly called a machine, for its growth has been like that of an organism, and the force in it is like life and not like steam; but one may abstract from its operations and speak of administration as though it were embodied in offices.

In order that the argument may be clear, British examples will be given: but the character of the chief administrative offices has been and is the same in all highly organized States, and the new developments in the various States have been very similar. If we consider only those administrative offices which directly affect industry, we find that all States have had as a basis for action their Treasury or Ministry of Finance; then in the course of time they develop a Ministry of Justice, corresponding to our Home Office; then they establish a Ministry of Commerce or Board of Trade; and in very recent times all States suddenly develop Ministries of Labour, Health, Food and the rest. It is certain, then, that the tendency is universal. There is in all States an increase of governmental activity and—of primary importance to the argument here—most of the new activities relate to the production and distribution of commodities.

Apart, however, from recent tendencies, it is sufficiently obvious that in every State there is a group of governmental offices which are in close contact with industry, either regulating its activities or offering assistance: and these offices may now be considered in their British form. The special activities of each department will be dealt with in greater detail later, when we consider the several functions performed by Government in regard to industry.<sup>1</sup> Here the point must be that

<sup>1</sup> For general views see *Report of Committee on the Machinery of Government*, Cd. 9230, 1918; and ch. ix of Cd. 7338, 1914, *Fourth Report of the Commission on the Civil Service*.

(1) the administrative offices dealing with industry are parts of a single system and (2) there is a definite tendency expressed in the kind of office instituted as experience develops.

The Treasury takes the central point of view ; and from that one may begin. The Treasury co-ordinates the parts of the administrative machine and takes cognizance of each of the other offices : when a public service is not yet organized as a distinct and independent part of the machine, the Treasury has direct supervision over it, as in the case of the Stationery Office. The final and supreme co-ordination of the Executive is, of course, in the Cabinet : at least it is supposed to take place there, even if in fact it occurs only in the Prime Minister's mind or in the consultation of a small " inner " Cabinet and even if it does not occur at all. Co-ordination of that kind, however, is distinguishable from co-ordination of the administrative offices under the Treasury. The Cabinet co-ordinates policy or general purposes, the Treasury co-ordinates the parts of the machine for attaining those purposes.

It may seem at first sight regrettable that the administrative co-ordination should be in an office which is primarily concerned with finance. The theory of the State usually implies that the primary purpose of the State is justice and liberty ; and therefore at first sight it seems that the Ministry of Justice or the Home Office should be the co-ordinating office. The concern of the Treasury with finance seems to make the State an economic organization : and undoubtedly the earliest experience of the modern State by its citizens or subjects is of a taxing and spending organization. Great numbers of men even to-day do not think at all of the State until they have to pay their taxes ; and then, naturally, they think of it as their forefathers did of rulers who exacted tribute. Again, the popular conception of the highest function of the Treasury is that of a controlling as opposed to a

spending office. The co-ordination of offices undertaken by the Treasury is therefore thought of as restrictive. All other offices are conceived to desire to do what the Treasury desires to prevent them doing. They make demands and the Treasury refuses. If the public are in a generous mood, there is an inclination to complain against the meanness of the Treasury towards departments which should extend their services: but the public is not usually in a generous mood which might lead to increased taxation; and therefore the more usual complaint is that the Treasury is too weak, not that it is too mean. The purpose of the Treasury is popularly conceived to be to restrain the rapacity of the civil service; and co-ordination is therefore identified with control—with the action of a brake and not with that of a driving-rod. In the abstract it may be admitted that administrative co-ordination should be directive or at least should look towards a fuller and freer exercise of the functions of each part of the machine; but in actual life it is feared that the parts of the machine already have too great a tendency to develop<sup>1</sup>

The idea of administration in general, which is implied in this popular attitude and in the experience it embodies, is too large a subject for the purpose here in view. It is necessary to restrict the theory of administrative co-ordination, therefore, to that part of it which directly concerns industry: and in that regard what is most important is the principle involved in the practices of the public service when the Treasury co-ordinates. The Treasury is the central office because whatever the State does costs money. The amount which the State can do, disregarding for the present the kind of its service, is dependent upon the amount the citizens or subjects

<sup>1</sup> Cf. *Political Quarterly*, September 1914, "The Treasury and Financial Control"; and for the function of the Treasury see the *Report of the Committee on the Machinery of Government*, Cd. 9230, 1918, Part II, Section 14.

are willing or can be induced to pay. Frequently, of course, there are irreconcilable desires involved in what philosophers like to call the General Will ; for the people agree both that a public service should be increased and that less should be spent, which involves that public service should be restricted : but in the main it is understood that, if a service is to be performed, those who perform it must live and, therefore, must be paid. No one imagines that the Treasury, or the public through the Treasury, or the State, aims at making any profit upon the transaction. People speak of "the business of government," but every one knows that in this sense government is not a business. It does not pay. This, however, is a comparatively recent development ; and it is not in the nature of things nor is it even human nature. In its earliest forms government is a business in the strictest sense : for it is in the main a means of livelihood, a source of profit, and an opportunity for the private gain of those who exercise it. It has, however, been discovered that one gets better justice if the judge is not paid a piece-rate, and is not allowed to charge proportionally to the amount of justice he administers. It is now recognized that the police or other maintainers of order should not charge for their service by reference to the amount of order they maintain. In some countries still one can buy justice and one has to pay strictly in accordance with the amount of protection secured for one's person or property ; but we do not now in England, France or the United States, ordinarily pursue those practices.

The Treasury, then, in its financial co-ordination stands for an institution which provides services, not on the basis of profit for owners of privileges or private gain, for entrepreneurs and workers, but upon the basis of the needs of a community ; and the service of that community is the dominant motive. The State is, of course, not unique in being thus organized ; for the

Churches also provide public service, if not divine service, without the profit motive and without private enterprise. Again, although some educational institutions can be found which are organized for profit as private enterprises, the dominant tradition in education is like that of government. The Universities do not pay. On the whole, however, the predominant example of service not organized for profit, nor aiming directly or mainly at the livelihood of the servants, is to be found in the State : and this actual practice of the modern State has an immense influence, as will be shown later, when the State comes into close contact with the existing organization of industry.

It is now necessary to show how those State services have developed which are directly connected with industry. The earliest and, in a sense, still the fundamental service is the maintenance of order. The Home Secretary is still for many purposes His Majesty's chief Secretary of State ; and in so far as the State maintains the right of private property against thieves, the Home Office provides a basis for industry ; for industry as now organized is largely based upon private property. This, however, implies only a very general contact with the industrial system.

The closest contact of the Home Office with industry is in the Factory Department. The operations of this department go back almost to the very beginning of the industrial system, and it is very important for the present argument that modern industry should have been first regulated by the State through the Office whose chief concern traditionally has been with criminals. The first factory legislation was thus connected, perhaps unconsciously, with the idea of the State as the corrector or controller. The arguments used by the opponents of such legislation implied that it would restrict liberty ; and the arguments of the promoters implied that wrong was being done to certain persons whom the State ought

to protect. The State, through the Home Office, therefore, was conceived to be "interfering" in the sense that, although the making of woollen and cotton goods was no concern of the State, and although any man might make them as he chose, nevertheless the State "drew the line" somewhere. Limits were set to the conditions under which manufacture could be carried on; but within those limits neither the reformers nor the reactionaries seemed to doubt that every man was free to do as he pleased. This "drawing the line" in regard to certain practices was regarded as police action, and the early inspectors were apparently thought of as catchers of criminals. The State, then, appears in the early Factory Acts as a non-industrial corrector of certain unessential evils in the industrial system; for even the reformers seem to have thought that the system itself was good enough. The administration seemed to put limits upon enterprise, and even to-day it is seriously believed by many that government is fundamentally obstructive of industry.

Trade and commerce are much older than industry and incomparably more ancient than the present industrial system. In the very beginnings of government, therefore, a special activity has regard to commerce. Ancient history may be omitted; but it is important to remember that long after government ceased to be a private enterprise in regard to order and justice it remained a private enterprise in regard to foreign trade. Queen Elizabeth had shares as Queen of England in enterprises of trade and piracy: various courtiers of Charles II had shares in the trading of such ruffians as Captain Kidd; and the theory and practice known as Mercantilism were everywhere to be found until the eighteenth century. A Committee for Trade was formed in 1622; and in 1786 the present Board of Trade was established, with the status, still preserved in theory, of a Committee of the Privy Council.<sup>1</sup>

<sup>1</sup> The Board is constituted by Order in Council of August 23,



Here the State appears by no means as obstructive or restrictive to enterprise, for indeed the department is popularly conceived as ancillary to trade and industry. The Board of Trade and Ministries of Commerce generally are supposed to promote their national commerce. The State in this department seems, then, to be assisting traders to do what they desire to do : and it is not felt to be interfering when its officials suggest new markets or new sources of raw material. The assistance to industry and commerce is, first, by way of information, and various statistics are published ; secondly, registration and the preservation of trade property is carried out by the same office ; and thirdly, regulation of shipping is extended to those parts of a ship usually called seamen. Even when this step is taken and the State regulates by limiting the desires of traders through the action of the Board of Trade, the regulation is hardly felt to restrict the liberty of the subject. Until the beginning of the Free Trade period the Board of Trade regulated the supply of foodstuffs by restricting the import or export of corn ; and in the new period the Board was active in removing all restrictions on foreign trade, in the repeal of the Navigation Acts and in entering into Commercial Treaties. The Board of Trade still includes a Marine Department which, strangely, deals with seamen as well as ships, a Bankruptcy Department, a Patent Office, really a judicial body, a Companies Department and other sections.

All this is the material side of the industrial and commercial system ; and thus the Board of Trade and the Ministries of Commerce are offices through which government collects and provides statistical information for industry ; since quantities and money-values are the natural field for statistics. It became obvious, however,

1786. The Archbishop of Canterbury is one of the members of the Board. A small number of clerks were appointed in 1786 : and the Board advised on Commercial Treaties, Import and Export Duties, etc.

at the end of the nineteenth century that the industrial system involved some human elements. Unemployment was understood, after some false theories had been exploded, to be an industrial phenomenon; and the Board of Trade was commissioned to deal with labour together with the other commodities. The phrase "labour market" is an indication of the prevailing conception in the nineteenth century. The Board of Trade was to assist by regulating that as well as other markets: and therefore Trade Boards, for example, and the administration of Labour Exchanges were at first placed under the Board of Trade.

The important fact is that in all the activities of a Board of Trade or a Ministry of Commerce the State appears to be directly assisting or promoting the organization of the services rendered by industry and commerce. So far from representing the consumer, in this case the State actually stands for the producer.<sup>1</sup> It regulates the producer and, as it were, organizes production by publicity and a general supervision over trade which, in the Board of Trade, is entirely different in character and purpose from the supervision of the Home Office or Ministry of Justice. The State may, therefore, appear as a trade agent or a commercial traveller abroad: and many traders appear to believe that the State is defective if its consuls do not promote the sale of their products. Certainly some Ministries of Commerce have become simply offices for promoting foreign trade; but this will be discussed later. The point here must be that, whether or not the State is a trade agent, its agency is conceived to be for the common good of all its citizens and not for the private gain of a few enterprising persons. It is well known that theory is often irreconcilable with

<sup>1</sup> It may be thought that the regulation of patent medicines and the prevention of adulteration are for the sake of the consumer: but even these are protections of the genuine producer as well as defences of the public.

practice : and, of course, a private few may reap all the gain from the assistance of the State ; but the fundamental attitude of all men involves disapproval of this, when it has been generally grasped that government is not a trade run for profit. It is conceived, in fact, to be possible that trade and commerce should benefit all citizens, and the State in the Board of Trade aims at this benefit.

It will be shown in a later chapter that the majority of men have not yet grasped the fact that foreign trade is a benefit to both parties ; and Ministries of Commerce are not usually conceived to exist for the sake of the foreigner when they promote the trade of their nationals with a foreigner. That is too advanced a philosophy for the Ministries of Commerce : and still more advanced is the philosophy which implies that commerce is not a struggle for markets but that all nations gain when any nation supplies any market. Ordinarily it is assumed that " we " lose, if some other nation contrives to sell its goods. Political conceptions do not take us very much farther in this direction than the conceptions of traders : but even here the activity of the State implies a contrast with the normal belief and practices of commercial men, since a Board of Trade or Ministry of Commerce acts at least for the sake of all the citizens of one State.

The Board of Trade at first accumulated all the activities of government in regard to industry and commerce, but in 1857 its Department of Science and Art was transferred to the Committee on Education ; in 1872 Commercial Treaties were put under the Foreign Office ; in the same year Water Supply Acts administration was put under the Local Government Board ; in 1903 supervision of Fisheries was put under the Board of Agriculture ; in 1917 Labour Exchanges and Trade Boards were transferred to the new Ministry of Labour ; and in 1919, Railway and Canal supervision was transferred to the new Ministry of Transport. These changes indicate the growth in

the amount and complexity of the relations between governmental administration and industry.

There is a long interval between the establishment of such offices as the Home Office or the Board of Trade and the newer offices which have sprung up in every country in the early years of the twentieth century. The interval has been filled by additions to and modifications of the original activities of the older offices in regard to industry. The Factory and the Mines departments of the Home Office have come to express not so much the police attitude or that of the external supervisor over industry, but rather the effort to improve conditions positively. Inspectors are not merely correctors of bad habits, but suggestors of new and better habits. Again, to the older work of the Board of Trade was added, first, the work of promoting industrial arbitration or conciliation and, later, Trade Boards and the Labour Exchange system.<sup>1</sup> The Board of Trade, therefore, began to deal with the personal factors in industry and to supply not mere external assistance but actual operations within the industrial system: but in doing this it was compelled to act as though labour was not a commodity among other commodities.

Viewed as the expression of one tendency, all these changes imply that the State changed the character of its activities in regard to industry. Administration came more intimately into contact with normal industrial life and the problems of industry were more and more regarded by the State as fundamentally problems in the organization of human relations. But human relations were in this case the result of an organization for the production and distribution of commodities; and therefore the State in some of its activities became part of that organization.

The most definite indication of the new attitude in one

<sup>1</sup> Under the Arbitration Act of 1896, Labour Exchange Act, 1909, and Part II of the National Insurance Act, 1911.

of its most important aspects was the establishment of the Ministry of Labour in 1916 under the New Ministries and Secretaries Act. That was the indication in Great Britain, but the new attitude is universal. Ministries of Labour have been established in recent years in all industrial States; and in most cases they have sprung out of a labour department of a former Ministry of Commerce.<sup>1</sup> In some cases the Ministry of Labour has sprung from a department of the Interior, and therefore has been given the administration in regard to general health conditions: but everywhere the conception is prevalent that the State cannot be an external regulator nor even a mere promoter of the activities of other organizations, but must now become one with or be intimately related to these organizations.

To take evidence from the details of the British experience, it is noteworthy, first, that the only definition in the Act of the function of the new Ministry of Labour is to be found in the transference to it from the Board of Trade of three functions: (1) Arbitration and Conciliation, (2) the organization of Trade Boards, and (3) the treatment of unemployment in insurance and exchanges. All these functions are industrial and not political. They are positive contributions to the progress and smooth working of industry: but in that they are not distinguishable from other activities of the Board of Trade. They are distinguishable chiefly because they are functions relating to personal issues and relationships of persons and groups of persons in industry. They are as different from keeping statistics of imports as, in industry, the purchase of raw material is different from works management.

It is not an accident that, when the Ministry of Labour

<sup>1</sup> This is so in the case of Norway and Sweden. Preceding the departmental office there has in some cases been a committee or Social Board as in the case of Spain, where the Institute of Social Reform was a separate organization under the ægis of the State but carefully distinguished from the State departments.

was established, the Report proposing Joint Industrial Councils should have been just completed. The Ministry of Labour and the Whitley Report are similar in origin and tendency; and when the War Cabinet approved of the policy of the Report, the task of carrying forward its recommendations was naturally given to the Ministry of Labour. The policy involved the promotion by the State of voluntary Councils of representatives of employers and workers in the well-organized industries; and thus the Ministry of Labour appears as a third party, external to the actual organization established, but representing the general interest in the increase of amicable relations in industry. This is no revolution. It is simply the natural development of the new attitude of the State towards industry; for State action in this regard is economic rather than political; but it is not subsidiary to the interest of any one group in industry. The industrial action of the State in this matter is the action of a whole economic community, all of whose members gain from the production and distribution of goods.

A very peculiar type of State activity is to be found in the Ministry of Agriculture and Fisheries. Originally called a Board, this department belongs by origin to the time when government was conceived to be external to industry but to be also a regulator or a servant of those chiefly concerned in production and distribution. The department's function was defined by reference to a heterogeneous mass of Acts which it was supposed to administer when it was established in 1889: and its character is still best understood by reference to the heterogeneous Acts which it administers. The earlier history of governmental connection with agriculture is important for the argument here. A non-governmental society was founded in 1793 "for the encouragement of agriculture and internal improvement." A grant of public money was made to this Board, but it was eventually dissolved in 1822. The non-governmental

effort had failed, and it was not until 1889 that the present administration began; but now this administration has had attached to it a Council of persons who are supposed to be specially conversant with agriculture. By an accident of history the same department deals both with agriculture and with fisheries—two very different subjects; but a Food Production Department of the Ministry indicates the line of development, and clearly the State is here concerned not to restrict but to co-ordinate and encourage the production and distribution of foodstuffs. Under the Ministry of Agriculture and Fisheries Act, 1919, there are (1) County Agricultural Committees established by County Councils, (2) a Council of Agriculture for England, another for Wales, and (3) an Advisory Committee for England and Wales. The Councils, nominated as representatives of various interests, including that of the workers, hold public meetings for discussion; and the joint Committee “shall advise” the Minister.<sup>1</sup>

There are several smaller governmental organizations connected with the production and distribution of commodities—as, for example, the Development Commission, connected with the Ministry of Agriculture; the Department of Scientific and Industrial Research, under the Privy Council; and some offices performing economic functions, such as the Stationery Office and the Office of Works. In these offices, government comes more and more intimately into contact with the system for producing and distributing goods; and there is already a sign of further developments.

The Ministry of Transport stands half-way between the external control of the pre-war Board of Trade in regard to railways and canals, and, on the other hand, the non-British Ministries which actually operate industrial services. To stand half-way may well seem to

<sup>1</sup> The Councils are large bodies forming a type of “functional” legislature without powers. The Advisory Committee is a small body of sixteen drawn from the Councils.

be both to advance too far and to hesitate too much ; but into the controversy in regard to private enterprise and nationalization it is unnecessary to enter. The important fact for the argument here is that the Ministry of Transport is conceived to perform the obviously economic, if somewhat restricted, function of co-ordinating the organizations for transport. It provides the central point of view which might as well be provided by a trust or a combine ; but it provides it upon the basis of political organization, which basis is public service.<sup>1</sup> The Ministry of Transport thus stands, timidly but inevitably, for the economic community ; and like the Ministry of Agriculture, it has advisory bodies attached to it, representative of interests or functions. These are (1) a Rates Advisory Committee which must be consulted by the Minister, (2) a Roads Advisory Committee to report to the Minister, and (3) " a panel of experts " and " impartial persons," according to Sect. 23, from whom Committees must be appointed to which the Minister must refer before exercising his powers of control.

The system of Councils of experts or of representatives of functional bodies or " interests " is not entirely new ; but it has had a great development recently. It will be remembered that there are some sections of governmental administration which are controlled by Boards of experts or representatives of interests, as in the case of Art Galleries and Museums, and there are Lunacy Commissioners and Prisons Boards ; but in most cases where such groups have executive functions the policy they administer is fixed beforehand. The system of Advisory Councils to a responsible Minister is different in principle ; for here the policy is in theory dictated continuously by Parliament, and the expert or the non-elected representative of an " interest " can give only advice. It is, however, important for the argument

<sup>1</sup> Cmd. 787. Future Organization of Transport in the United Kingdom.



here that all the new Departments dealing with industry or economic life have Councils of advisers who represent organizations of an industrial or economic character. Even the Ministry of Labour, which formally has no such Council, has in practice made use of the Committee of the Joint Industrial Conference of 1919 for assistance in drafting legislation; and it is well understood that in regard to any industrial problem the Ministry of Labour can and does refer to non-governmental industrial organizations. Thus the experts and the representatives of an interest or an industrial function are given a place in administration affecting industry, without the destruction of the power of the elected Parliament. It remains to be seen whether these Advisory Councils, together with the quasi-legislative powers of the administration in Rules and Orders, will lead to the development of a new system of legislation for economic life. As government enters more intimately into relations with industry, the machine of government will undoubtedly be affected: but to go further in the argument here would be to interpret the tendency too soon.

So far the central organization of the State has been considered; but government now includes the action of many subordinate political bodies, which may be referred to generally under the English name of local authorities. Here also the day-to-day administration should be considered, rather than the legislatures which produce bye-laws; and here also the administrative action now common is new and is rapidly changing. The British system of local government allows of omitting from the present argument any treatment of purely political action such as that of the Justices of the Peace.<sup>1</sup> With them as political may be classed the Poor Law

<sup>1</sup> Licensing may be thought to be an economic function of the Justices, but even in this case probably the conception under which the power is exercised is that of "law and order" and not that of wealth.

Guardians, although their recent history has been a result of economic action in the past, in connection with vagrancy laws and the so-called "non-industrious" poor.<sup>1</sup> We may restrict attention here, however, to obviously economic activities of local authorities.

The local Councils of Counties, Rural and Urban Districts and Boroughs, and the London County Council, are, from the point of view of the argument here, subordinate executives. They have, connected with them, administrative staffs. Their functions and those of their staffs are broadly either (1) in regard to police, or (2) in regard to education, or (3) in regard to health, or (4) economic. These functions are performed generally by distinct Committees and staffs: but here only the economic section is of importance, and it is distinguished as the section which provides commodities or controls the provision of goods and industrial services. In the United Kingdom central government has most of the economic control and local government more of the actual provision of commodities; but the chief point of importance is that units of government do organize supply and distribution in spheres which are usually referred to as industrial, in addition to organizing police and education.

Roads and streets, tramways, electricity and gas, and drainage, are all now commonly supplied by the local authorities; and this supply is economic in the same sense as the supply of clothing and food is economic. Elected representatives in each locality form the executive boards of directors for these enterprises; the capital is provided by the consumers or users of the services; and the amount spent, as well as the character of the services, is ultimately controlled by them. The enterprises appear to provide satisfactory services, for their number and variety is increasing; but they are not established or developed for profit. The whole subject

<sup>1</sup> Cf. Toynbee, *Industrial Revolution*, for economic elements in the Poor Law system.

is dealt with more fully below.<sup>1</sup> Here it is sufficient to note that it is through governmental units of administration that the practice of organizing supply has begun to be based upon the principle of public service rather than that of private gain. Government entering here into the economic sphere has brought over, so to speak, into that sphere, the conception of public service now everywhere admitted to be necessary in the case of the administration of justice, defence and other "political" functions; for municipal trading does not anywhere mean earning a dividend, but does mean performing a service.<sup>2</sup>

There is only one department of the central government in the United Kingdom which actually operates an industrial service, that is the Post Office; and here the service may be regarded as essentially different from the administration of railways or coal-mines. Communication is a service in which government has been directly concerned from the very earliest times: and in all civilized States at present the conveyance of letters is in the hands of State officials. The situation will be discussed later; but here it is necessary to note that the central government does provide in one of its offices a service for which payment is made directly by the users, and which is not paid for out of taxes or rates.

Outside Great Britain the central government goes further in the direction here followed by local authorities—as, for example, in the ownership and management of railways, coal-mines and forests. There are commonly special administrative offices for such enterprises, and these offices are late developments: and in such cases government not only controls, not only assists, not only organizes, but also provides a substitute industrial organization. The

<sup>1</sup> See p. 180 *sq.*

<sup>2</sup> Local authorities have also some powers supplementary to that of the central government in regard to the regulation of hours and conditions under the Shops Acts, etc.: and there was a very important war-experiment in economic organization in fuel and food committees.

State or the public authority becomes an economic enterprise and performs a function which is obviously different from such functions as the administration of justice and the provision of education. Central government in Great Britain and the United States is peculiar among modern States in not being an economic enterprise except in so far as the Post Office may be regarded as economic: but government is local as well as central, and local government even in Great Britain does perform economic services.

All the offices so far mentioned are regarded as permanent; but there have been during the war administrative experiments in new Ministries which actually entered fields of industry and commerce not hitherto regarded anywhere as fields for State activity. The Ministries of Food and Shipping in Great Britain and in various other States are supposed to be transitory. They may, therefore, not much affect the fundamental and normal relations between the State and industry; but the experiments made in the control of food and transport and fuel are not likely to be forgotten; and it may be found that, when the War Ministries disappear, the need which produced them, some of which is normal, will compel other experiments of the same kind.

Finally, a new post has been created in connection with the Board of Trade, that of Economic Adviser to the Government. Economic, in this sense, appears to include (1) labour problems, (2) financial and commercial problems, and (3) problems of material; the word therefore covers the production and distribution of commodities or "wealth." The Economic Adviser may co-ordinate the actions or at least draw upon the knowledge of all the economic departments, and he becomes, therefore, the central point of the permanent secretariat for an economic section of the Cabinet. Thus the machinery of the State is actually performing an industrial function.

The important fact is that there is a popular consciousness

now that government can extend its activities much more widely than it was supposed in the nineteenth century ; and secondly, that industrial and commercial organization can be considerably improved. The public is much more open-minded in regard to the relations of the State and industry than it was in the nineteenth century. There is, on the one hand, no force in the cry that State action is socialistic and, on the other, there is no uncritical trust that State action is necessarily good. We are willing to try experiments ; for both the State and industrial organization are on their trial.

It is now necessary to survey as one whole the process by which government affects industry in its daily routine ; and in this matter the most important fact is the increase of the practice of Statutory Rules and Orders. All the departments referred to above exercise a form of subsidiary legislative activity which appears to be increasing. In 1912, to take a pre-war year as an example, there were about fifty-seven Orders in Council issued through administrative departments directly regulating industry, excluding Orders issued by the National Health Insurance Commission, the Post Office, and the Treasury. The Mines Department of the Home Office in that year issued Orders in regard to safety lamps, the searching of workmen before work, and the use and storage of explosives. The Labour Department of the Board of Trade issued elaborate regulations in regard to books, stamps and relations with trade unions under Section 91 of Part II of the National Health Insurance Act (Unemployment) : and similar quasi-legislative action was taken by the administrative staffs of most of the government departments dealing with industry. This, however, is clearly not mere interference but a direct entry into economic life and a central organization of production : it is therefore the performance of an economic function, and the sphere of administration in this matter is very wide and almost unexplored.

The action of all these offices above referred to is administrative, but even that word includes too large and varied a field of activity. There are at least two quite distinct kinds of action which may be classed as administrative ; one is the carrying out from day to day of an accepted routine, the other is the gradual development, in that routine, of a policy. The second kind of action may be more properly called executive, but it does not fall altogether to the politicians who form the Cabinet or the Ministry or the Executive in a State. This executive direction of policy is so intimately bound up with the daily routine of an office that we may trace in it the policy of the State as contrasted with the policy of this or that political party. The initiative, the original "push" given to administration is, no doubt, due to political groups, which have made their will effective through legislation and the control of the Executive, or through being "in power": but the very effectiveness of the will of the political group is dependent upon innumerable almost unnoticed acts of the administrators who are supposed to belong to no political party and to be equally unprejudiced servants of the popular will whatever party that will establishes in power. It is noticeable, indeed, that every political group takes credit for developments of administrative policy which occur when it is in power, even though those developments are in no way due to the political heads of the departments. It is very seldom that one political group abolishes the legislation established by their political opponents. Modifications, of course, occur: but by far the greatest part of State activity, once established in administration, is lasting, at least for a long period. Thus there is a tendency in the successive acts of administration which may be called the characteristic tendency of government.

Unfortunately the elements of administration which involve the making of policy have not been sufficiently considered. The tradition that administrators are un-

prejudiced agents of a changing popular will has been very strong in Great Britain; and even in the United States, with its practice of changing officials when the principals change, officials were supposed to be simply agents whose own will or mind has no effect on policy. Therefore in Great Britain certainly, and in France and Germany if not elsewhere, a peculiar type of civil servant was developed—men who wrote formal letters, who were embodiments of routine or what is called “red tape” and who attempted consciously to be passive instruments of the will of others. This had grave consequences for the prestige of the State and pernicious effects upon the sense of moral responsibility both in the agents and the principals; but that is another question. The important point for the purpose now in view is that such civil servants never considered, nor had they time and opportunity to consider, the policy which was being developed in the very routine which they attempted to divorce from the formation of policy. This lack of imagination and personal initiative, however, became impossible when government entered more closely into the organization of industrial or economic services; <sup>1</sup> and as a matter of fact ever since the practice of issuing Rules and Orders in regard to industry has become common, the consideration of industrial policy has developed among State officials.

Again, the general public do not understand how much of their own “policy” is discovered or developed in the actual carrying out of the law. A law is passed, for example, enacting that companies shall be registered or the unemployed insured: and the public loses interest when the controversy as to general principles is closed. An administrative office then has to apply the law, and can

<sup>1</sup> As Disraeli says in regard to political heads: “Having fulfilled during their lives the duties of administration, they were frightened because they were called upon for the first time to perform the functions of government.”—*Coningsby*, p. 57.

do so only by adjustments and interpretations, which may indeed be controverted, but most of which are developed in a day-to-day routine absolutely unperceived by the public. It is now an established practice, in regard especially to industrial legislation, to pass laws which are nothing but the expression of very general principles and which leave to an administrative office the task of applying these principles by Rules and Orders. Thus the closer the State comes into contact with industry, the greater the importance of the problems of administration. The character and function of administrative offices cannot any longer be assumed to be explained by the old theory of the passive agents obeying the will of the people, if "the people" leave the definition of their will to those agents. In the United Kingdom, however, the position is very different from that under European continental governments. The legislatures on the Continent appear to content themselves with passing laws which express a general approval for certain "principles," and no provision at all may be made for applying these to practice. The British laws, although general, are not of this type; for very direct indications are given to the administration to do certain acts and all such acts are controlled by the requirement that Orders shall be presented to Parliament before becoming operative. A French law, on the contrary, may have no effect at all upon industry; and in some countries the effect may be dependent upon the pressure of "interests" upon the administration. The whole situation obviously opens the door both to (1) control by private groups and also to (2) the passing of laws which have no effect at all, in order to create an impression that something has been done.

Passing, therefore, as it were, inwards from the administrative acts, it is necessary to consider the will which inspires them. Behind the administration is the Executive, the Cabinet, the Ministers of State and, in



the United States, the President and those whom he chooses. These again are supposed to express at least the general tendency desired by the mass of the citizens, and the laws which they promote are presumably their immediate terms of reference. They have to carry on the established policy in the existing administrative machine and to extend or modify that policy by new legislation.

The purely legislative functions of Parliament or Chambers or Congresses are not of primary importance to the argument here, although it could be shown that the character of the modifications of policy in new legislation in all modern States is the same. In all States a very great number of new laws deal with industry and commerce: in all States the laws on these matters tend, not to forbid or to command individual action, but to establish new functions for government in regard to industry; and in all States the Representative Chambers are supplemented in law-making by unofficial industrial organizations.

The more important function of Parliament and other quasi-legislative bodies for the present purpose is the day-to-day control or direction of the acts of government. This is secured by interpellations and questions: and it is noticeable that the importance of this function is growing with the growth of administration. An acute observer of political life says of the House of Commons: "Private members, like Governments, have all got legislation on the brain and think that the primary business of Parliament is to legislate, whereas in fact it is to look after the administration of existing laws so well that no new laws or very few are necessary."<sup>1</sup> But this continual supervision of the administration will obviously become more important, and it will demand a more specialized knowledge of industry as the administration enters more deeply into economic life. The greater the tendency to leave to the administration the application to industry

<sup>1</sup> A Student of Politics in *The Times*, April 17, 1920.

in detail of principles laid down in Statutes, the more necessary it will be that the Body ultimately controlling the Executive shall be industrially competent, and perhaps in the near future "Questions" will be more important than legislation.

The same movement is taking place in all legislatures. For example, in the French Chamber, of thirty-six sittings before April 5, 1920, nineteen were devoted wholly or partly to "interpellations" and only seventeen to legislation.<sup>1</sup> Clearly the control of administration was found in practice to be the most important function the Chamber could perform: and indeed the French habit of passing a law affirming a principle without making any provision for making that principle effective in practice may well cause a certain coolness with regard to legislation.

What, then, is the general tendency which has been developed in administration with regard to industry? First, a succession of offices has been established with distinctly industrial functions, functions which can be clearly distinguished from the political functions of administering justice, and the non-industrial functions such as organizing education. Thus the Factory Department of the Home Office, the Board of Trade, the Ministry of Labour, the Post Office, are united in a way in which none of these are united to the Lord Chancellor's Office or the Board of Education. One could imagine a Cabinet for industrial activities, excluding the Foreign Office, the War Office and the Education Office. The Ministers responsible for the industrial or economic departments would all be concerned with the better production and distribution of commodities either by (1) organizing the relations of the parties employed or by (2) organizing the material and financial conditions of industry. They would not be, in the old sense, political, and the administrative offices controlled by them would in fact form parts of industrial or economic organization.

<sup>1</sup> An analysis is given in the *Temps*, April 5, 1920.

Secondly, a single general tendency can be traced in the character of State action through the "industrial" offices. It is not, of course, the only tendency, nor is it necessarily the most powerful; for the State unites in its actions irreconcilable policies, and sometimes the State is a trade-agent, sometimes a corrector and controller of trade. But there is a tendency, first, to increase the amount of contact with non-governmental industrial units and, secondly, to modify its character. The State tends more and more not to control from the outside but to promote and to provide further industrial organization, perhaps on a new and communal basis, but at any rate in view of the common interests of all the members of an economic unit. The State, in fact, in its administration has clearly become an integral part of the productive and distributive system and acts within economic life: but it has, as it were, brought over from the political sphere two governing principles: (1) that of a community with common goods and (2) that of public service. This general statement is to be expanded and explained in what follows.

## CHAPTER III

### THE NON-GOVERNMENTAL ORGANIZATION OF INDUSTRY

**W**HILE government has been increasing its contact with industry and while the character of that contact has been changing, a change has occurred also in the status and activities of those directly employed in the production and distribution of commodities. The most obvious indication of that change may be found in the history of the trade unions in the same years during which the modern system of government has been developed. The government departments of most existing States, and especially those departments which deal with industry and trade, belong to the last hundred years: and the trade unions have secured their position during the same period. The employers also have a new position within economic society. The individual owner of capital, organizing his own workmen and competing with other such employers, was the rule a hundred years ago; but now such employers are disappearing. In their place are the paid agents of great joint-stock companies, the shares of which are held very largely by persons who have no responsibility and no capacity for organizing industry. The organizers of the greater part of modern economic life are thus not employers in the old sense and the shareholders are in no sense organizers.

It would be quite futile, therefore, to speak of the relation of organized industry and trade to the modern State as though it were the same as that which prevailed, or at any rate attracted most attention, when the classical

economists wrote. On the workers' side there is not, and there cannot be, free competition of individual wage-earners. On the organizers' or employers' side there is not individual enterprise of those who have capital to risk, for the individual enterprise is that of the salaried managers, while the risk is that of those who make an almost blind selection of possible investments.

The financial structure of modern industry will be referred to below. Here we are concerned chiefly with the workers in industry and with the employers as organizers of labour—both the labour of hand and of brains, because the two cannot be separated except by an unjustifiable abstraction, since the making and distribution of boots, for example, involves invention, imagination and a skill which is of the mind even when the hand seems chiefly to be at work. What is needed is a short indication of the structure of industry and trade as a whole in so far as it is independent of governmental action. Here again the example used will be British, but it must not be imagined that British industry is in every way typical. Especially in regard to the organization of labour it is probably more highly developed than the industry of other countries ; and, of course, British industrial organization is as different in character and policy from that of other nations as British governmental administration is different.

The general distinctions within British industry and trade in regard to the division of labour are sufficiently well known. Some indication of the distribution of employment will be found in the accompanying table ;<sup>1</sup> but here again it must be remembered that the economic life referred to is a process and not a stable situation. The character of law and administration in the United Kingdom is affected by and it affects the present structure of industrial or economic life ; but that structure is comparatively new and it is changing. At the beginning

<sup>1</sup> See next page.

ESTIMATED NUMBER OF PERSONS EMPLOYED IN  
JULY 1914.<sup>1</sup>

| Occupations.  | Males.           | Females.         |
|---|------------------|------------------|
| INDUSTRIES.   |                  |                  |
| Building .. .. .  | 920,000          | 7,000            |
| Mines and Quarries -.. ..   | 1,266,000        | 7,000            |
| Metal Industries .. .. .  | 1,634,000        | 170,000          |
| Chemical Industries .. .. .   | 159,000          | 40,000           |
| Textile Industries .. .. .  | 625,000          | 863,000          |
| Clothing Industries .. .. .   | 287,000          | 612,000          |
| Food and Drink and Tobacco Industries   | 260,000          | 196,000          |
| Paper and Printing Industries ..  | 261,000          | 147,500          |
| Wood Industries .. .. .   | 258,000          | 44,000           |
| Other Industries .. .. .  | 393,000          | 89,500           |
| <b>Total Industries (under private ownership).</b>                                    | <b>6,163,000</b> | <b>2,176,000</b> |
| Gas, Water and Electricity under Local Authorities.                                   | 63,000           | 600              |
| Government Establishments (Government Dockyards, Arsenals, National Factories, etc.). | 76,000           | 2,000            |
| <b>Total Industries and Municipal and Government Establishments.</b>                  | <b>6,302,000</b> | <b>2,178,600</b> |
| <b>Agriculture (Permanent Labour) in Great Britain.</b>                               | <b>800,000</b>   | <b>80,000</b>    |

<sup>1</sup> Excluding (1) domestic service; (2) mercantile marine; (3) Irish agriculture; and (4) some small workshops and professional occupations.

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ESTIMATED NUMBER OF PERSONS EMPLOYED IN JULY 1914 (*con.*).

| Occupations.  | Males.            | Females.         |
|---|-------------------|------------------|
| <b>TRANSPORT.</b>   |                   |                  |
| Railways .. .. .  | 660,000           | 12,000           |
| Docks and Wharves, etc. .. ..   | 100,000           | —                |
| Other Transport under private ownership.  | 344,000           | 5,000            |
| <b>Total Transport (excluding Municipal Tramways).</b>  | <b>1,104,000</b>  | <b>17,000</b>    |
| Tramways under Local Authorities ..   | 57,000            | 1,200            |
| <b>Total Transport .. .. .</b>  | <b>1,161,000</b>  | <b>18,200</b>    |
| <b>FINANCE AND COMMERCE.</b>  |                   |                  |
| Banking and Finance .. .. .   | 176,000           | 9,500            |
| Commerce .. .. .  | 1,225,000         | 496,000          |
| <b>Total Finance and Commerce ..</b>  | <b>1,401,000</b>  | <b>505,500</b>   |
| <b>Professional Occupations (employed persons, i.e. except in the case of hospitals, mainly clerks).</b>    | <b>127,000</b>    | <b>50,500</b>    |
| <b>Hotels, Public Houses, Cinemas, Theatres, etc.</b>   | <b>199,000</b>    | <b>181,000</b>   |
| <b>CIVIL SERVICE.</b>   |                   |                  |
| Post Office .. .. .   | 188,500           | 60,500           |
| Other Civil Service .. .. .   | 55,500            | 5,500            |
| <b>Total Civil Service.. .. .</b>   | <b>244,000</b>    | <b>66,000</b>    |
| <b>Local Government, including Education, but excluding Municipal Tramways, Gas, Water and Electricity.</b> | <b>376,000</b>    | <b>196,200</b>   |
| <b>Total for above Occupations .. ..</b>  | <b>10,610,000</b> | <b>3,276,000</b> |

of the industrial period in 1769 Arthur Young gave the following estimate of occupied persons in England<sup>1</sup>:—

|                                       |           |
|---------------------------------------|-----------|
| Farmers, servants and labourers .. .. | 2,800,000 |
| Manufacturers (i.e. industry) .. ..   | 3,000,000 |
| Landlords, fishermen and miners .. .. | 800,000   |
| Commerce .. ..                        | 700,000   |
| " Non-industrious poor " .. ..        | 500,000   |
| Clergy and lawyers .. ..              | 200,000   |
| Civil servants, army and navy .. ..   | 500,000   |
|                                       | <hr/>     |
|                                       | 8,500,000 |
|                                       | <hr/>     |

There is a different world now. The gross numbers, the proportions between workers and the very classification of society, have changed more completely perhaps than any organized revolution could change them: but the fundamental fact remains that those who are primarily concerned with the production and distribution of goods are divided into different classes by their occupations. The cross-division into social classes, or the distinctions based on comparative wealth or comparative education, are irrelevant here, except in so far as they reflect a distinction between occupations. The current distinction, however, between organizers and workers may be accepted for purposes of argument: and the structure of industrial organization will be considered first with regard to the workers and afterwards with regard to employers or organizers.

There is no more pernicious nonsense than is to be found in sentences containing the phrases "working class," "lower class" or "working men"; and the economists are not guiltless of the propagation of nonsense of this kind. In such phrases it seems to be implied that the persons referred to, nine-tenths if not ninety-nine hundredths of any civilized population, are a homogeneous mass of similar units. Nothing is more misleading. The

<sup>1</sup> *Northern Tour*, iv, 417. Cf. Toynbee, *Industrial Revolution*, p. 37.



carpenter, the railwayman and the agricultural worker differ more than the inhabitants of Yorkshire and Devonshire ; and further, they differ in elements which are more important for economic and political organization. Again, there is a very great distinction between the conscious member of any modern trade union and the unorganized remnant. Further, the trade union world itself is not homogeneous either in structure or in policy : and this of all facts is most important for the argument here. Trade unionism, indeed, is a very complex organization of very varied groups with many different and sometimes opposing policies. It should not be imagined that disagreement between unions is the rule ; but some instances may show how little trade unionism can be treated in one block. The official organ of the Railway Clerks' Association in February 1920 contained a violent attack on the National Union of Railwaymen, chiefly for " poaching " members. The official organ of the N.U.R. replied in March 1920 by a counter-attack on the ground that the R.C.A. " deliberately misled meetings." <sup>1</sup> There is a dispute between the N.U.R. and the engineering unions as to the workers in railway workshops, and this may involve fundamental principles. There is a further long-standing dispute between the N.U.R. and the A.S.L.E. and F., and there is the dispute of the engineering and the coal-mining unions in regard to the engineering workers at coal-pits. It is sufficiently obvious, then, that the world of the workers is not a homogeneous mass.

This variety of structure and policy does not in the least imply chaotic disorganization, as the rivalry between Bradford and Leeds or St. Paul and Minneapolis does not imply civil war : but it does show that in so far as the organization of industry is affected by or even if it is based upon trade unionism, that organization will be varied and complex ; <sup>2</sup> and further it indicates that the

<sup>1</sup> *Railway Service Journal* (R.C.A.) and *Railway Review* (N.U.R.).

<sup>2</sup> Certain writers among the Guild Socialists seem to imply

so-called "working class" includes very diverse interests and habits of mind, for these fundamental facts lie at the root of all dissension among unions. Thus in the industrial world organization has been affected by distinctions in occupations, giving rise to differences in the "group minds" of different workers.

Again, there is continual change in the character of trade unionism.<sup>1</sup> It is well known that the number of workers in trade unions varies in different industries. In some, such as coal-mining and railways, nearly all the workers are in unions: in others, such as clothing trades, very few are effectively organized. Again, some unions cut across the distinction between industries—as, for example the "Dockers'" Union; and some unions disregard in conscious policy the diversity of occupations—as, for example, the Workers' Union includes men and women in engineering shops as well as agricultural labourers. Further, the character of trade unionism varies. In homogeneous industries such as coal-mining, one organization includes most workers: in heterogeneous industries or industries scattered among many localities, there are still innumerable small unions, although even in these cases amalgamation and federation is increasing. A sign of the times is the recent formation of the Amalgamated Engineering Union out of the Amalgamated Society of Engineers and eleven other unions; and amalgamations are being established between General Labour unions and between certain unions of seafaring workers. The machinery of trade unionism is becoming more elaborate and the usual difficulties of officialism in

that a railway guild will be like a building guild. They may not intend that implication: but they have paid too little attention to the diversity of industrial services and the organizations based upon them.

<sup>1</sup> In 1905 there were under two million trade unionists in the United Kingdom, in 1910 about two and a half million, and in 1914 about four million. In 1920 there are about 6,500,000, i.e. about one-half of those employed in industry.

a large institution are being felt ; but trade union policy is taking on a larger and a more fundamental aspect.

It is obviously impossible here to give an adequate account of British Trade Unions and Federations. It is sufficient for the argument if it be recognized that there has been a very rapid and complex development of organizations among the workers, which was for a time opposed and is now used by government.

Without the trade unions the present governmental treatment of industry would be impossible, but the present position of trade unions has been attained only by a long struggle against (1) State absolutism and (2) the old theory of individual atomic competition as desirable. The first necessity was to grant the trade union a legal status, and this was done by Acts which reversed a series of judicial decisions based upon Common Law.<sup>1</sup> The Trade Union Act of 1871 recognized that a voluntary association even for "the restraint of trade" is lawful ; the Conspiracy and Protection of Property Act of 1875 permits an agreement to strike and "peaceful picketing." The Trade Disputes Act of 1906 followed on the Taff Vale Case of 1901, in which it was decided that a trade union could be sued ; but the new Act declared that acts done "in furtherance of a trade dispute" are not actionable. The Osborne Judgment of 1910 involved that trade union funds could not be legally used for political purposes ; but the Trade Union Act of 1913 allowed a political fund. Finally the Trade Union (Amalgamation) Act of 1917 facilitates the amalgamation of trade unions. The history is one of conflict between two social principles, and the present situation involves a legal and political status for voluntary or non-governmental associations.

At present, however, not only does the State recognize trade unions, but they actually form part of governmental organization. Trade unions are represented on Trade Boards, on Joint Industrial Councils—which, though not

<sup>1</sup> Cf. Slessor, *Trade Union Law*, and Tillyard, *Industrial Law*.

governmental, are intermediaries between government and industry—on the Railway Wages Board, the Agricultural Wages Board, local Employment Committees, and innumerable other governmental bodies as well as in Conferences and Commissions. Thus the separateness of different industries is reflected in administrative organization in regard to them by the connection with different "functional" groups, for the unions on the different Trade Boards differ; and the railway unions act with the Ministry of Transport and the Agricultural with the Ministry of Agriculture.

The most inclusive organization of the trade unions is the Trade Union Congress, which represents about 200 unions and about three-quarters of all the trade unionists in the United Kingdom. The General Federation of Trade Unions is not representative and the Triple Alliance does not attempt to include the whole of organized Labour. The Trade Unions Congress is theoretically in the industrial sphere what the Labour Party Conference is in the political sphere.<sup>1</sup> In the abstract one might suppose that the organization of industry is the concern of the Congress, while law and justice are the concerns of the Conference; but experience has shown the impossibility of making a clear distinction between economic and political activities. The Trade Union Congress has therefore had its Parliamentary Committee to watch political action and is now to have a General Council. The Trade Union Congress has made protests in regard to the Military Service Act, the release of political prisoners, the war with Russia; and deputations have interviewed Ministers in regard to subjects which seem at first sight to be purely political. On the other hand, the Labour Party Conference continually passes resolutions and advises action in regard to

<sup>1</sup> The persons present at these two gatherings are largely the same. One often hears a speaker at the Labour Party Conference speak of "this Congress," which may show how the industrial organizations dominate the imagination. No speaker at a T.U.C. ever refers to it as a "Conference."

the cost of living, nationalization of railways and coal-mines, profiteering, trusts and combines, and other subjects obviously economic. The distinction of functions is therefore not clear : but in the main it may be said that the Trade Union Congress stands for economic or industrial organization of the workers, and it is so accepted by governmental action. The Congress Committee deals with governmental organization on the basis that the Congress represents the non-governmental organization of the workers.

The general character of trade unionism, from the present point of view, is that it provides an organization for stabilizing the relations between the individual workers, between groups of workers, and between these groups and corresponding employers or groups of employers. Industry is therefore on its labour side by no means a chaos nor a mass of atomic individuals ; and the relation of government to industry on this side is not the relation of an organized society to separate individuals, but the relation of one kind of organization to another. It is sufficiently clear that the relation of these two types of organization is not one of opposition, but that each provides activities complementary to those of the other. Further, the policy of trade unionism, which has become much more consistent and definite in recent years, is now quite different from the policy of the early trade unions. The present policy does not aim only at amending the existing system ; it is an attempt to affect the fundamental structure of economic society. The attitude of the greater unions, not simply the attitude of the officials, but also that of the more intelligent among the rank and file, is not one of respectful submission to government as though to a superior : for it is increasingly assumed that government may be required to do the will of the trade union organization.

We may now consider the organization of those who direct or control labour. The employers properly so called, as contrasted with the shareholders, are organized

in groups which correspond roughly to the chief trade union groups. It is irrelevant for the present purpose that those who attend meetings of employers' associations are in the main representatives of shareholders; for what is important here is that they are organizers of labour, and therefore associations which exist for commercial and financial purposes only are not referred to. In the chief sections of British industry there are (1) the Mining Association of Great Britain, treated by the Government as representative of the employers of labour in coal-mines in 1912, 1915, 1919 and 1920, in spite of the fact that the Association was not originally intended to deal with labour matters; (2) the new Engineering and National Employers' Federation, in the engineering trade; (3) the Shipbuilding Employers' Federation; and (4) the Shipping Federation, which includes most of the local Shipowners' Associations and is supposed to deal with labour matters by contrast with the Chamber of Shipping, which deals with commerce and finance. These are only a few of the largest of such federations, for there are altogether in the United Kingdom about 2,000 employers' associations and federations dealing with labour matters. To these associations the State has looked when there has been any attempt to organize what are called "the relations of employer and employed"; and these are the associations which are parties to the many agreements which make up the greater part of the laws or rules according to which the "labour" side of industry is organized. As the Trade Union Congress and the Triple Alliance of miners, railwaymen and transport workers include many other organizations of workers, so there are inclusive employers' organizations. One of these is the National Confederation of Employers' Associations, formed to secure common policy on labour problems between all employers' organizations. Another is the National Union of Manufacturers, which includes representatives of many kinds of industry, and although

dealing with commerce and finance, also touches upon labour matters. Another inclusive association is the Federation of British Industries, which has issued pronouncements, some public, some confidential, in regard to the problem of organizing industry; but the F.B.I. has not itself become a party to agreements, for so complex a system as industry can hardly be represented by a single organization except in the most general issues.

As the T.U.C. has had a Parliamentary Committee, so there is an Employers' Parliamentary Council, of which the beginning may be traced to December 1911, as a result of the Insurance Act. This is another instance of the close connection of politics and economic life and of the need for special organizations in each sphere.

If one were to enquire what were the attitude and policy of employers' associations, it would be less easy to find an answer than in regard to the trade union attitude and policy: but perhaps the attitude is in the main one of watchfulness and the policy aims at keeping the existing system in working order. If that is so, then employers' associations have nothing to contribute to the problems of industry except methods, since the purpose for which all their methods are intended is the maintenance of the existing system. This does not imply that employers' associations are simply brakes upon the wheel of progress or that they stand for conservatism while the trade unions stand for change. The real contrast is not so crude. An employers' association, at least in the United Kingdom, is not a mere obstacle to the workers nor a mere opponent of trade unionism, for its main purpose is to keep the machine of industry working. That is a function of public importance, and indeed it is a function which must be performed within any economic community; for whatever changes are desirable, it is also desirable that, while the change is occurring, there should be a supply of boots and bread and transport. The employers' association represents the common experience of those

whose function it is to organize supply in many ways, and among others by organizing labour. Naturally, the organizer sees the difficulty of proposed changes involving changes in organization, for he will have to face the problems created by the change. Thus the ship-owner sees the difficulty of an eight-hour day on ships because he will have to provide the extra crew-space available: the factory manager sees the difficulty of a new Education Act because he may have to have goods made without the children's labour to which he has been accustomed. But it is, of course, no argument against a new form of organization that it makes a greater demand on the imagination and intellect of the organizer, as it is no argument against democratic government that it is more difficult to organize than tyranny.

On the other hand, the employers as organizers might possibly contribute new ideas and operate new policies in organizing industry. Perhaps the general public expect it of them: and perhaps the State for that reason calls the employers to conferences in regard to industry. But ideals and policies are of many kinds: they may imply a desire for the private gain of one group in the community or they may imply a desire for the better fulfilment of a function within the community; and in any case the ideals and policies so far contributed on the employers' side have been very crude and simple. Some men, especially among trade unionists, have suspected the employers of jesuitical subtlety and villainy in their suggestions of scientific management, copartnership, profit-sharing and works committees to deal with wash-basins; but although such plans show crudity of social philosophy, they are probably honest attempts at improving industry.

In addition to these organizations of workers and employers, and independently of the action of government, there are innumerable joint committees and boards or conferences of trade unions and employers' associations. In 1910 there were fourteen district boards, about 110



boards in the building trades, 25 in mining and quarrying, 10 in iron and steel, 16 in engineering and shipbuilding, 24 in the boot trade, conciliation boards on all the chief railway lines and in many other trades and industries.<sup>1</sup> Most of these boards arrange the rates of wages, avert stoppages in production through providing machinery for discussion ; and all are managed and developed without any governmental assistance or control. Upon the existence of organization of this kind, however, government could depend when the Conciliation and Arbitration Acts were passed, and when at a much later date joint industrial councils were promoted by the State.

The organizations referred to so far are those which deal with labour issues ; and these are the most important issues because industry is primarily a human relationship. Even commerce and finance are fundamentally human relationships, for the goods and services, the banks and the money, are all merely extensions of personality over material and contacts of personalities in material. In labour issues, however, which arise out of the organization of employment, the human relationship is more obvious and seems to be more direct than in commerce and finance, and therefore in regard to these organization shows best the new sense of an economic community.

Besides organizations dealing with labour issues, there are those of commerce and finance. The Association of British Chambers of Commerce represents about 118 local Chambers of Commerce. It was used by the Government for collecting evidence for the Commission on the Income Tax, and its representatives gave evidence before the Coal Commission. The local Chambers of Commerce express what may be called " political " views—as, for example, the Sheffield Chamber of Commerce protested on June 3, 1919, against the nationalization of coal-mines and demanded a referendum before Parliament

<sup>1</sup> Cd. 5346, 1910, *Voluntary Conciliation Boards*.

dealt with the matter. The associations for trade, commerce, price-fixing, etc., are too varied and numerous to be dealt with here; but that they exist is one of the most important facts of which the Government, and chiefly the Board of Trade, must take account. There is a continuous contact between these representative bodies and the departments of government which touch upon commerce and finance.

Finally, there are, besides the great joint-stock companies, themselves very complex organizations, certain conferences, trusts and combines, some of them international—as, for example, that of the steel-rail makers and the glass-bottle manufacturers. These are the machinery for production and distribution, which is sometimes used to obstruct as well as to promote economic life. The governing principles in the operations of all these bodies are difficult to discover. The action of their agents is based upon the same complex of motives as moves the ordinary man; but there is such a tissue of economic myth woven round the whole of their action that it is almost impossible to bring back the analysis to the simple distinction between private greed and public service.

For the present purpose, however, it is not necessary to carry the discussion any further. It is sufficiently clear from the examples referred to that industry is not a simple single unit over against government, and that it is not in any sense a chaos, unless that word means the intricate interrelations of a changing process.

As in the case of governmental administration affecting industry, so in the case of non-governmental organizations, it is well to note that the experience referred to is not peculiar to the United Kingdom. In all industrial States the trade unions and employers' associations are now not only recognized but are in contact, more or less close, with the machinery of government. This fact is acknowledged in the provisions of the Peace Treaties in regard to the representation of industrial "interests" in the

Labour Organization.<sup>1</sup> In the United States during the war the Government used the unions, and therefore improved their status. The Railroad Brotherhoods are examples both of the strength of the unions and of the tendency to adopt a wider and quasi-political programme. The most inclusive organization, the American Federation of Labour, originally devoted to purely industrial interests and opposed to political action, is being forced by current tendencies to adopt a political attitude. The employers, on their side, have been organized and are thus used by the Government for advice. Industrial Conferences, of the kind familiar in Great Britain, have met ; and thus the whole situation involves (1) a new status for non-governmental industrial organization and (2) a closer co-ordination of government in its economic functions with non-governmental bodies.

What is the meaning of the tendencies traced in this chapter ? It seems clear that the activities of government, legislation and administration, increasingly allow for the very large part in public life now played by unofficial industrial organizations. It is as bodies for organizing public services for production and distribution, and not as groups of interests, that the State now recognizes the trade unions. The trade unions are given by public opinion and by governmental action a new status and function in regard to factory laws, wages regulations, unemployment insurance and employment exchanges. They are, as it were, becoming part of the governmental machinery, both for devising legislation and for administering it. This situation is very fully established in Great Britain, but in other countries the situation is similar ; and even in the United States the trade unions are in close contact with governmental action. This does not mean, of course, that the State is taking over the functions of trade unions, any more than, when the State registers births, it takes over the

<sup>1</sup> See below p. 266 sq.

function of parents : but it does mean that the economic activities of governments are being moulded by contact with trade union organization into a new form of economic communal life. On the other hand, the trade unions themselves and trade union organization as a whole are not now regarded by their members as machinery for serving only their private or group interests. The trade unionism which is becoming part of public life is not the old unionism which aimed at higher wages and better conditions within the established system, but a new unionism which aims at changing the basis of the system itself and the status of the workers : and this new unionism thus aims at reorganization of industry not only in the interest of the workers but in that of the whole community. Whether the policy of fundamental change is right or wrong does not concern us here. The point is that the trade unions are conceived by their members and by an increasing section of the general public as bodies for promoting the better organization of economic life as a whole. Of course higher wages and shorter hours are still the objects most desired by the majority of the rank and file. It is still easier to organize a strike for these than to organize one for nationalization or the better status of workers ; but the reality cannot be obscured by these appearances. Wages and hours are the concrete terms in which the rank and file make their demand ; but even they do not conceive themselves any longer as poor slaves asking for benevolence. They ask for rights, not gifts. They say " wages," but they mean more by that word than he does who pays or refuses to pay the wages. Apart from the rank and file, however, at the gatherings of trade union leaders, it is very obvious that the new unionism aims at public service by reorganizing economic life. The most effective speeches at a Trade Union Congress are not those which deal with higher wages, but those which make high appeals for a new social order : and vaguely still, but with increasing defi-

nitensness, all the younger trade unionists feel their unions to hold an important place within the economic community.

The workers begin to be conscious of the need of the public for their services.

It was not any special revelation or new supply of God's grace which made the new unionism take the place of the old. The new conceptions of public service and a radical transformation of society are largely due to the increased ease of communication and the building up of larger out of many smaller units. Men in small groups in separate localities saw chiefly the immediate needs: but when many from many diverse parts came together it was easier to see fundamental similarities. Thus the larger new unions look to the causes of evil, not to merely incidental grievances. The wider view brought the larger policy. And whereas the evils complained of by the earlier trade unionists seemed to be local, personal or incidental to their work, when the same evils were perceived to be everywhere, it began to be concluded that they were the inevitable results of a system which therefore had to be changed.

The conception of responsibility for industrial services within an economic community is not, of course, confined to trade unionists. Even shareholders have been known to feel that they ought to be responsible for the efficiency of the service from which they derive their dividends:<sup>1</sup> but the position of shareholders is referred to below in the discussion of the financial aspect of industry and trade.<sup>2</sup> Employers also and organizers of labour are now aware of a public responsibility apart from strict legal obligations: for there is a tendency among a few employers to regard industry as

<sup>1</sup> In 1919 a circular was sent round which shareholders in railway companies were asked to sign, professing that they were willing to give up part of their dividends in order to raise wages. It was a sign of the times, although the actual suggestion was ludicrous. The fundamental issue is not faced by such benevolence.

<sup>2</sup> See p. 169.

a public service rather than a source of private gain. Thus during the war there were meetings of "good employers" at Penscot and elsewhere: and at these meetings the employers' position was discussed apparently on the assumption that industry was a public service. The contradiction between this principle and the actual practice was not faced; but at least an attempt was made to analyse the responsibility of the organizers of industrial services. There are some employers who seem to believe that the new principle can be practised in spite of the fact that the old economics of private enterprise and competition is still an obsession; but apart from the peculiarities of a few, the impression is spreading that the organizer of industry is a servant within an economic community.

Turning now from general policy to practices, we find the operations of labour organized by agreements and by trade union rules and customs. The rules are often not explicit, but the customs are very well understood, and although they vary considerably, as is natural, in different crafts and different districts, they affect the whole production and distribution of goods. These rules and customs are traditionally conceived as restrictions and more specifically as restrictions of output, exactly as factory laws were once conceived to limit or restrict the freedom of private enterprise. It will be shown later that this conception is obsolete, for organization is not restrictive; but whatever the dominant conception, the fact is that trade union rules and customs are methods by which "labour" is prevented from becoming a chaos of individual sellers of a commodity. That is to say, the producers are organized into groups and the purpose of their labour is defined and delimited by rule and custom. Thus demarcation of work, the carpenter being confined to one job, the engineer to another, one type of engineer to one job and one to another,—all this is an attempt to attain security for the craftsman. The apprenticeship system is an attempt to preserve a tradition as well

as to prevent the sudden flooding of an occupation at times of good trade. The rules of some unions against working with non-unionists are attempts to make a practical and concrete experience of the general belief that the craftsmen in a craft have a common interest and are not merely individual atoms, inimical each to the other. All such rules and customs, therefore, are part of the organization of industry ; and they aim indeed at the advantage of the several groups concerned, but they are beginnings of an organization which would imply that industry was a public service for a common good.

No effectual legislation or administration can be without a "sanction." If, therefore, industrial organization is to develop at least in part independently of political government, will it be possible for such organization to avoid appeals to a government for "force" to provide a sanction? Clearly if either an employers' association or a trade union or an industrial council is to rely for the operation of its agreements and rules upon the police, it will inevitably become a part of the machinery of political government. If agreements between trade unions and employers' associations are operative only by being statutory or enforceable at law, the agreements lose entirely their non-governmental character and the parties to such agreements are no longer autonomous. The State cannot enforce an agreement without some control of its terms : but there is no necessity that the State should enforce it. In actual fact another type of sanction exists. First, there is the power of exclusion from privileges. Any organization complete enough to include most of the members in a trade is strong enough to make the will of those members effective by driving out of the trade any one who resists that will. This is the old power of excommunication or ostracism or outlawry. Secondly, there is the sanction known as direct action. This involves the cessation of work either by the ordinary "strike" or by the "stay-in strike" or what is sometimes known

as "ca'-canny," "working to rule" on railways, or "going slow." This method is, at first sight, very crude: for it implies that the only way of organizing production is by ceasing to produce or threatening to do so. The method is like war in the organization of the relation of governments: it is an appeal to a balance of forces, when a decision cannot be reached by the only proper method for reaching a just decision—reasoning. But in the world as it is the method is in fact used; and it has been found in some ways beneficial. Its use can only be made unnecessary by the discovery of (1) general principles, agreed upon by all parties on which a dispute may be judged, and (2) a method of applying those principles. A more important point in regard to direct action is that it involves the administrative problem of the responsibility of agents. A strike may be not so much a method for enforcing claims of the strikers as a refusal to work for certain ends. This is the case with most "sympathetic" strikes, and with strikes for what are called "political" purposes. The philosophers have said that no man ought to be simply a means or passive instrument of the will of another; for no man ought to divest himself of all moral responsibility for the results of his actions. But a man in the course of earning his living may be called upon by "constituted authority" or by his employer to do some acts of which he morally disapproves. If, however, this occurs, on every ground of political and moral principle he should "strike"—that is to say, he should cease to do or refuse to do what he cannot do as a moral being. He cannot act morally as an animal or a non-moral machine.

Again, the whole problem of direct action for political purposes is recognized to involve the contrast and the close relation between economic and political life. In the abstract it may be argued that a lock-out or a strike should be used only for dealing with questions of prices, wages and conditions of labour, but not with questions of war and peace or criminal jurisdiction. So also it



may, in the abstract, be argued that voting for political representatives and questions and legislation in Parliament should be used only in regard to war and peace and not to support the private economic interests of farmers or traders. But in fact, first, it is felt that there are no purely economic questions ; and secondly, it is recognized that political action directly affects economic life, and that economic organization directly affects political life. In actual fact the ends, political and economic, are not clearly to be distinguished ; and the means, the strike or the vote, do not affect one section of life to the exclusion of the other. There is, then, no golden rule. The best method actually now used in achieving a good purpose is felt to be the right method to use : there is good and evil in the results of either method, and the choice is probably made after a calculation of probable results in the long run. But it is out of place here to go into the niceties of the problem of direct action. It is sufficient for the argument if it be seen that in regard to means and ends there is a distinction between economic and political, and yet that there is a close connection between them.

Enough has now been said to indicate the general features of the non-governmental organization of industry. It is this organization which comes into direct contact with the departments of the Central Government and with the local authorities ; and, of course, the old theories still survive in the attitudes often adopted by both parties in this contact. Government is still conceived to be " looking after naughty boys " ; industry is still conceived as enterprising and high-minded men obstructed by the State : but such conceptions are somewhat obsolescent. In actual fact the Board of Trade, the Ministry of Labour and the Factory Department of the Home Office, depend upon the assistance of trade unions and employers' associations. Not only are draft Bills on industrial matters devised by autonomous industrial organizations before they reach Parliament, but the administration of some

industrial functions is given to non-governmental organizations. The first point, therefore, to be noted is the close connection between the Departments of State which deal with industry and the unofficial industrial organizations. The Departments become as it were a centralizing force in regard to these organizations and the two parties in contact become a sort of economic community. Secondly, through the unofficial organizations the action of government in regard to industry is decentralized: and decentralization of this kind is not by locality but by function. That is to say, government in regard to railways is quite different from government in regard to coal-mining. The Ministry of Transport is quite distinct from the Mines Department; and although this may seem to imply only a division among bureaucrats, in actual fact the meaning of government will soon be different in the two departments. Thirdly, the specialized or functional departments now have Councils, drawn from the unofficial organizations of the producers; and these Councils include representatives of consumers. Government, exercising economic functions, is thereby affected at least slightly by the will and the knowledge of non-governmental organizations. The Minister of such departments is still responsible to Parliament, and therefore Parliament has in theory complete executive control, whereas a Council has only advice to give; but the giving of advice has an interesting political history. British Residents give "advice" to Rajahs in the Malay States. Parliament itself once only gave advice; and so perhaps the industrial organizations which now only give advice will one day have executive control. They may be the beginnings of an industrial legislature with executive functions, but in any case there seems to be a tendency for the State on its economic side to develop, either within or outside the Parliamentary system, a legislative and executive out of many different elements.

## CHAPTER IV

### HOURS AND CONDITIONS OF LABOUR

**T**HE operations of governmental and of voluntary organization in regard to industry may now be considered as affecting certain distinguishable aspects of the economic system; for although the regulation of hours, for example, affects wages and the wages system is the root of the unemployment problem, it is possible to consider each of these separately. Within the present industrial system one of the most fundamental controversies in regard to government and industry has resulted in legislation and administration for regulating the "conditions" of labour. Under that term reference is usually made to the hours of employment, the sanitation of workshops and factories and the prevention of industrial accidents; and it will be argued that the present situation in regard to all these implies the operation of a new principle as the basis for State action and for the relation of governmental to industrial organization. The history of the Factory Acts in Great Britain has been often told, and every one now knows that, first, the earlier pre-industrial regulations were abolished; secondly, the new industrial era was dominated by the conception that if economic forces were left to themselves, everything would work out well; and, thirdly, the incidental evils of industry in the early nineteenth century led to State regulation. This regulation of hours and conditions in industry by the State is now accepted as desirable; but it must be remembered that it has only been accepted in face of strenuous opposition. Those who opposed the

regulations believed that industry could not perform its functions if the State "interfered," and even those who supported State regulation believed it to be a form of interference.

The policy implied in the phrase "non-interference" had been tried; and it had been found unsatisfactory, because it led to the enslavement and premature death of women and children. Therefore, largely because of public sympathy for the sufferers in the industrial system, the State was induced or allowed to "interfere." It was from the point of view of the reformers a necessity, but a regrettable necessity. The State had, as they thought, no relation to industry but that of an external corrective force; and such a force necessarily limited liberty and restricted enterprise. Law was regarded as an obstacle to liberty; but one had to submit to it or to enforce it upon others, because without it we and they obstructed other people. The "interference" having occurred, however, it was found that it not only protected possible sufferers among the workers but also protected the "good" employer against the unscrupulous exploiter: and further it was found that the policy of the "good" employer was better in the general interest of the country than that of the unscrupulous. It was clearly better for competent citizenship that the workers should have some energy left for thought and action, after having been employed in industry; but that was a political ground for State interference. There was also an economic ground in the fact that if the unscrupulous employer were not allowed to exhaust in a short time the productive forces of the people, there would be more productive force available over a long period and more increase of such force.

The evidence is conclusive and world-wide that Factory Acts are good for industry; but apparently new generations need to be reminded of it, since there is a continual recrudescence of the ideas (1) that private appetites for personal wealth do work out in the end for the common

good and (2) that any regulation by the State restricts the effectiveness of industry. With regard to the first, private wealth is obviously gained by unscrupulous exploitation of resources, natural or human; but an exploitation which exhausts the supply of resources and may even prevent the growth of new resources is clearly not in the common interest. It begins dimly to be felt, therefore, that the common interest can be distinguished from a mere congeries of atomic private interests; and what has begun as a gesture of sympathy for the oppressed becomes a policy in pursuit of the common interest. That is to say, Factory Acts are seen to be to the advantage not only of the workers protected by them but to a whole community, dimly conceived to gain from the economic system.

Again, in regard to the restriction of the effectiveness of industry, it was argued in 1802 that if the labour of children were regulated by law, British industry would be ruined.<sup>1</sup> The number of times this and many a similar prophecy has been made is remarkable. British industry was to have been ruined by the early Factory Acts, and again by the Education Act of 1918, and it will apparently continue to be in danger of ruin at every step which involves a change in managerial bad habits. The same argument is used in all countries: but whereas once there were children of five working in British mills, that is now forbidden, and yet British industry has mysteriously survived. The survival has also been accompanied with greater efficiency, finer products and more effective organization, in spite of the fact that it is more difficult to command adults than children.

The regulation by the State, then, so far from restricting the effectiveness of enterprise, has actually made industrial organization more efficient; either because it has

<sup>1</sup> Cf. Hammond, *Town Labourer*, for full details of the labour of children by which the British cotton trade earned its first supremacy.

eliminated incompetent employers or because it has made a communal service take precedence in practice of the desire for immediate private gains. But if, for one reason or another, State regulation has made industry more efficient, the action of the State can hardly be regarded as interference. The business men were clearly wrong when they said that regulation by government would injure economic life.

It is easy enough to condemn the *laissez-faire* school because they allowed "natural" forces to control and subdue the principles of justice. To do nothing when men are starving to death, because the law of supply and demand shows that it will all come right in the end, may be a revolting and barbaric policy: but the *laissez-faire* school did not say that a select group should be given freedom. They did not say, "The State must leave *us* uncontrolled but control all other men": they advocated abstention in the name of all, and they held that in regard to industry the State should interfere with no one. They appealed to the natural feeling of every man against being controlled; and they envisaged a world in which no man was limited except by the necessities of nature.

The real trouble was, however, that the *laissez-faire* policy did *not* leave men alone. The policy which was advocated as an abstention from State interference was really a policy of State interference of so brutal and so extensive a character that nothing but the dumbness of those who suffered from it can have hidden the truth. The State, it was said, should not interfere; but the State forbade and suppressed the "natural" tendency of workers to combine; and was not that interference? State power was deliberately and consciously used to maintain, against all "natural" and even economic laws, the isolation of the individual worker: and this the *laissez-faire* school approved on the ground that it was "the natural system of liberty." They interfered

with forces which were actually operative, in the name of a nature of which no one has had any experience. Secondly, if *laissez-faire* had really meant that each man should be free to work as he chose and under what conditions he chose, why was it not possible for him to choose to work with the tools or on the land possessed by others? To prevent him doing so was to "interfere": but if State power was used to maintain the right of property against the desire of a man to work in a particular way, it could not be justly argued that the State should not "interfere" with other men.

It is not intended to enter again here into the ancient controversy: all that is necessary for the present argument is to show that, even when in the eyes of *laissez-faire* the State did not "interfere," it was the State which maintained the system in regard to which they said the State was an external force. Its action had industrial effects. Its action provided the conditions of economic life; and not nature, therefore, but the State, was responsible for the distribution of property and the weakness of the workers in face of the owners of property. It may, of course, be believed that the existing economic distribution of property is good for the production of commodities, and that therefore the maintenance of the system by the State is economically advantageous; but if this is maintained, it is all the more obvious that government, so far from being external to industry, is at the very heart of the whole of economic life.

The action of the State in factory regulation, therefore, is not a regrettable, if inevitable, departure from the normal rule that the State should not interfere. It is the legitimate and only too limited application in another sphere of the system of protection which in the sphere of property is elaborate and extreme. It is the timid and trivial claim to the performance of duty which the community is theoretically supposed to make when it gives any rights: and after one hundred years of industrial

reform, no candid critic would say that the duties of those who own property are yet as extensive as their rights. The power conferred by the maintenance of the system carries no commensurate responsibility: but a beginning has been made in factory legislation of the expression of the right of the economic community as against those on whom it confers the right to control its service. The State is now recognized to stand not simply for the protection of the weak but for the whole community; and the community in this case is not simply one of voters or local residents but one of producers and users of goods, united in an industrial system. Indeed, it is clear that from the very beginnings of the industrial system governmental action has been an integral part of economic life.

The existing regulations of working conditions in the United Kingdom are administered by the Factory Department of the Home Office; and it has been pointed out above that this obscures the issue. It seems to show that the relation of government to the organizers of industry is the relation of a policeman to the ordinary citizen. The policeman, indeed, has many diverse functions. He directs the traffic, protects the community and catches criminals: but the more primitive conception of police is still dominant and was certainly dominant when the Factory Acts were first given to the Home Office to administer; and this conception implies that the policeman is the forceful arm of the State as "power," preventing certain persons from doing what they are criminally inclined to do.

The factory inspectors from the very beginning have done something much more important than catching criminals: for they have provided information for the public as to prevailing conditions; and it was from the early reports of factory inspectors that Marx drew his most damning evidence against the wastefulness and incompetence of the organizers of industry. Thus the inspectors gave more evidence as a ground for that



public sympathy out of which the earliest Factory Acts arose. We can hardly imagine the police giving evidence as to the conditions out of which crime arises: for we still appear to believe that crime is in the nature of things. The factory inspector, however, departing of necessity from the police tradition, still remained part of the Home Office organization, perhaps because the Home Office combined the functions of a Ministry of the Interior and Social Welfare with that of a Ministry of Justice.<sup>1</sup> In any case, the Factory Department began soon to show a new tendency in regard to industry. The introduction of sanitary appliances, the fencing of machinery, the control of steam boilers and, in coal-mines, the introduction of safety lamps and special winding machinery, were more than mere corrections. Here was "interference" in a new form.<sup>2</sup> The State not only said what not to do, but also said what additional work must be done by organizers of industry. That is to say, the State was providing part of the organization of industry; and the factory inspectors were not policemen but agents of a form of industrial management. The community, represented by the State, took a share in the industrial function of organizing production. At first, indeed, this was done because of horror at industrial casualties: for the number of dead and wounded in the service of producing goods weighed upon the public conscience, and all, whether producers or consumers, made their sense of responsibility effectual.<sup>3</sup> Certain processes were forbidden for certain classes of persons because of lead poisoning; but in the main the purpose of State action was

<sup>1</sup> The unfortunate connection between police and factory inspection is continued in the Police, Factories, etc., Act, 1916.

<sup>2</sup> The references are, of course, to the Factory Act of 1901 and the Coal-Mines Act, 1911.

<sup>3</sup> The monthly returns are given in the *Labour Gazette*, and detailed annual returns in the Reports of the Ministry of Transport for Railways, the Reports of the Home Office for Industrial Disease and Accidents in Factories, and the Reports of the Marine Depart-

the limitation of dangers while the prevailing processes were continued. The saving of life and limb, however, is not

ment for Seamen. The following figures for the United Kingdom are taken from the *Labour Year Book*, 1916:—

INDUSTRIAL CASUALTIES IN THE UNITED KINGDOM, DEATHS ONLY.

| Year.   | Accident. | Disease. | Year.   | Accident. | Disease. |
|---------|-----------|----------|---------|-----------|----------|
| 1900 .. | 4,753     | 86       | 1907 .. | 4,453     | 79       |
| 1901 .. | 4,622     | 86       | 1908 .. | 4,154     | 84       |
| 1902 .. | 4,516     | 57       | 1909 .. | 4,133     | 89       |
| 1903 .. | 4,154     | 70       | 1910 .. | 4,704     | 83       |
| 1904 .. | 3,985     | 66       | 1911 .. | 4,307     | 97       |
| 1905 .. | 4,268     | 70       | 1912 .. | 5,252     | 97       |
| 1906 .. | 4,369     | 90       | 1913 .. | 4,863     | 71       |

INDUSTRIAL ACCIDENTS IN THE UNITED STATES IN 1913.

|                               | Number Employed. | Fatal Accidents. | Rate per 1,000. |
|-------------------------------|------------------|------------------|-----------------|
| <i>Males</i>                  |                  |                  |                 |
| Metal mining .. .. .          | 170,000          | 680              | 4·20            |
| Coal-mines .. .. .            | 750,000          | 2,625            | 3·50            |
| Fisheries .. .. .             | 150,000          | 450              | 3               |
| Navigation .. .. .            | 150,000          | 450              | 3               |
| Railway employees .. ..       | 1,750,000        | 4,200            | 2·40            |
| Electricity .. .. .           | 68,000           | 153              | 2·25            |
| Navigation and Marine ..      | 62,000           | 115              | 1·85            |
| Quarrying .. .. .             | 150,000          | 255              | 1·70            |
| Lumber .. .. .                | 531,000          | 797              | 1·50            |
| Soldiers .. .. .              | 73,000           | 109              | 1·49            |
| Building and Construction ..  | 1,500,000        | 1,875            | 1·25            |
| Draymen, etc. .. .. .         | 686,000          | 686              | 1·00            |
| Street railway employees ..   | 320,000          | 320              | 1·00            |
| Watchmen, firemen, etc. ..    | 200,000          | 150              | ·75             |
| Telephone (linesmen, etc.) .. | 245,000          | 123              | ·50             |
| Agriculture .. .. .           | 12,000,000       | 4,200            | ·35             |
| Manufacture (general) .. ..   | 7,277,000        | 1,819            | ·23             |
| All other occupied .. .. .    | 4,768,000        | 3,508            | ·75             |
| All occupied males .. .. .    | 30,760,000       | 22,515           | ·75             |
| <i>Females</i>                |                  |                  |                 |
| All occupied females .. .. .  | 7,200,000        | 540              | ·075            |

simply kindness to those who are in danger of losing them, as the saving of soldiers in action is not simply a kindness to the army or to the particular soldiers and their dependents. It is a saving of "costs" to the community: it is a prevention of industrial wastage, and therefore an increase in productive power and industrial efficiency. The State positively contributes to the better utilization of the "man-power" available for the production and distribution of goods.

The State inspectorate thus comes to be part of industrial administration in the system of industrial organization; but a great part of this organization is obviously not a part of the State, and with this non-governmental organization the State inspectorate necessarily becomes connected. In France this is very clearly shown by a circular addressed to factory inspectors on January 19, 1900, part of which runs as follows:—

"The system of inspection cannot well secure the full application of labour legislation except with the help of the workers for whom that legislation has been passed. This help can be obtained by approaching the trade unions. What the inspector cannot discover in the workshop from the individual worker, he will easily discover at the trade union office from the secretary, who is told by the workers of his organization of the abuses which they have observed. . . . Every inspector ought in the first place to enter into communication with the secretaries of *bourses du travail* and of local unions. . . . The divisional

Approximately there are 25,000 fatal industrial accidents every year in the United States and 300,000 serious injuries.

The United States Steel Corporation says that "each year there now escape serious or fatal injuries over 2,300 employees who would have been injured under conditions existing in 1906." The number employed is 200,000, and therefore before 1906 one per cent. of the workers were killed or seriously injured. In June 1912 to June 1913, on railways 10,964 were killed and 200,308 injured. The Steel Corporation has a museum of safety appliances in New York and gives drawings and a pamphlet gratuitously.—Ida Tarbell, *New Ideals*, p. 54.

inspector every year must state in his general report . . . particularly the number of visits made as results of communications from groups of workers and the number of these groups with which he has been in contact during the year.”<sup>1</sup>

In Great Britain a similar situation is revealed by what took place at the beginning of the war, when the pre-war controlling customs in industry had to be set aside. Various agreements were entered into between employers' associations and trade unions in regard particularly to the substitution of female for male labour: and many of these agreements were entered into “at the instance of the Home Office” and “under the presidency of the superintending inspector of factories” at Conferences of the two parties. The words here used are drawn from the actual texts of the agreements;<sup>2</sup> and it is therefore clear that the inspectors work in close touch with trade unions and employers' associations, and are not simply protectors of the weak or restrainers of the strong. It is not, of course, pretended that enforcement of State regulations by law is unnecessary. There are still too many instances of evasion of the law—bad fencing of machinery, bad sanitation and the rest; but the inspector is now recognized to be promoting the general efficiency and not to be restricting enterprise. The change, indeed, is normal in all spheres of social life, for it is the result of a clearer sense of common good and a more subtle organization of the relations of men. For example, inspectors of schools were once generally regarded as catchers of criminals or obstacles to the freedom of teachers. They were supposed to prevent teachers doing what they otherwise would do. But now the school inspector promotes and encourages and offers suggestion and direction to assist teachers in doing more efficiently what they desire to do. That is the position of the factory inspector in

<sup>1</sup> Paul Boncour, *Fed. Econ., Second Ed.*, p. xvi.

<sup>2</sup> Home Office, *Report on Substitution*, 1919.

regard to the trade unionist and the employer. Thus overtime was worked while the Factory Act was suspended, under Section 150 of that Act, in the early days of the war: but it was often found that it would be impossible to maintain output if overtime were continued; and the Chief Inspector reports in 1919 on "the appreciation large numbers of employers have already shown of the benefits of improved conditions," some of which are due to the action of the Factory Department.<sup>1</sup>

Finally, the Factory Department comes even more intimately into contact with the everyday conditions in industry or economic life by the issue and enforcement of Orders in regard to Welfare under Section 7 of the Police, Factories, etc., Act of 1916.<sup>2</sup> These Orders command the provision of washing appliances, messrooms, first-aid appliances in blast furnaces, copper mills, foundries, etc., drinking water, and other "welfare" conditions, which are not simply the minimum of sanitation and safety. These provisions, again, do not imply a mere benevolence for workers but a real addition to the efficiency of labour; and therefore the State may be said to be directly promoting the organization of production. This movement, however, for more than minimum conditions is expressed as much in non-governmental as in governmental action. Safety committees of persons employed in various works have been formed, and the Home Office has given publicity to their methods. Again, there are works committees and, in coal-mines, pithead committees either with or without managerial representation. Some such committees are concerned only with "welfare";

<sup>1</sup> *Annual Report*, Cmd. 340, 1919. Cf. for the disadvantage to industrial efficiency of the abrogation of Factory Act restrictions, the *Reports on Industrial Fatigue*, Cd. 8056 and Cd. 8335; and *Industrial Efficiency and Fatigue*, Cd. 8511.

<sup>2</sup> The Act gives power to issue Orders "where it appears to the Secretary of State that conditions . . . in any factory . . . require provision for securing the *welfare* of the workers." The penalties are as for infringement of the Factory Act of 1901.

but others actually deal with and effectively control all matters in the works relating to health and safety.<sup>1</sup> Thus the improvement of conditions and the regulation of hours is now no longer affected by governmental administration only. The State still provides one element in organizing industry, but other systems have grown up also.

The two prevailing interests in all this legislation and administration are (1) the hours of labour and (2) the conditions of health and safety under which labour is carried on. But in both these matters a very great change has taken place since the early days of the industrial system. In addition to governmental action purely industrial organization has secured fixed hours and improved conditions. Entirely outside the sphere affected by the Factory Department a new system of regulations with appropriate "sanctions" has been developed and, still more significant, a new system of quasi-legislation by agreement of the parties intimately concerned has been established. In regard to the hours of labour, the law in the United Kingdom fixes the hours only in regard to (a) women and children in certain industries and (b) persons employed in coal-mines,<sup>2</sup> but quite outside the operation of the law, the hours of labour of over 4,000,000 persons, out of an industrial population of about 12,000,000, have been reduced to forty-eight or less per week by voluntary agreement.<sup>3</sup> The operations of the State machinery for industrial regulation have been far surpassed and the effectiveness of the new regulation is even greater than that which depends for its effectiveness upon an inspectorate and legal sanctions. We are in fact in a new world. Industrial organization is, as it were, going forward to meet and to extend the

<sup>1</sup> Ministry of Labour, *Report on Works Committees*, p. 26.

<sup>2</sup> Seven hours per day under the Act of 1919.

<sup>3</sup> *Report for Washington Conference, 1919*, p. 58. Cf. also figures on the *Labour Gazette* for January 1920.

first timid beginnings of organizing economic life which were made by the State, and the new situation is acknowledged by governmental action; for when in 1919 there was a question as to what should be done in regard to the regulation of hours of employment, representatives of employers' associations and trade unions were called into conference (February 1919) by the State, and this Conference, through a Joint Committee, suggested legislation to secure for workers not already protected by agreement the eight-hour day and forty-eight-hour week. An "Hours of Labour" Bill was then drafted with the direct assistance of the Joint Committee of the Industrial Conference, and therefore these representatives became in fact a part of the legislative machine.

The question naturally arises whether the State is being entirely displaced in regard to this kind of industrial regulation. In the making of laws government tends to make use of specialist or functional bodies, while legislation in the form of industrial agreements far outstrips the older method: and in administration the activities of a government department touch only the fringe of industry, while the main part of it is regulated by industrial bodies. It is true that the State seems still to be the necessary instrument for the protection of those who are unable to organize for themselves; but it is now recognized that even these may soon be strong enough to form their own organizations, and their protection is more rapidly secured by the action of the trade unions in promoting legislation or agreements than it was in the old days by the action of sympathetic and benevolent individuals. What, then, remains for the State to do?

Clearly the political activities of the State would continue untouched by any advance of industrial organization: for the State would still maintain social justice and the conditions of personal liberty. The only question is as to what may be called its economic functions. If

the industrial organizations increase the amount and the effectiveness of their agreements or regulations of industry, will government be no longer concerned at all with the organization of the production and distribution of commodities? The situation must be further examined with this possibility in view.

Whatever may happen in the millennium, it is important that there is at present no central administration acting in the name of the whole industrial community. The hours of labour are fixed industry by industry; the agreed hours are maintained by separate action in each industry: but the hours worked in each industry make a difference to every other industry; and there is at present no industrial organization for considering this or acting for the common good. Again, the hours worked and the conditions required in industry affect the cost of production, and thus affect also the consumers and the whole community: but these have no industrial organization to represent their point of view. What is needed is an organization of an economic character making up for the deficiencies and lacunæ in industrial organization and thus forming with it a whole economic community.

But here in government is a machine already operative. It is at present part of the machinery of political life, and its action is called State action; but in regard to industry its most important effects are economic and in character it is becoming more and more intimately connected with voluntary industrial organizations. The tendency points, then, not to the destruction of the existing machine of government and the building of another on a purely industrial basis, but to the transference of the existing machine to a place in a new system under which industry might be viewed and organized as the public service of the economic community. The tendency to the formation of this, the operation of this still ill-defined conception of industry as a public service, may



be traced in the purposes of State action in regard to hours of employment and conditions.

What is the State aiming at in labour legislation, so far as it promotes the organization of industry? The reform of labour conditions may be explained in a purely industrial sense, as though it were the promotion of the system for making private profits. The argument of many manufacturers has been that it actually pays to improve conditions. Thus it is said that one can obtain larger profits if more goods are produced ; for there is more to sell and, therefore, more of the profit on sales ; incidentally there is more to buy and, therefore, the workers are supposed to benefit by increased production. This argument, however, is used only in regard to commodities for which the demand is so great that no increase of production will put down the price in the near future : and in regard to these the amount of goods produced can be increased by increasing the energy put into their production ; and better conditions and wages may increase energy. Therefore, it is said, one should improve conditions in order to increase profits.

A somewhat more subtle reason for improved conditions is used more commonly in the United States. It is an open secret there that profits can be increased by *restricting* the amount of goods produced. It may seem, therefore, if the former argument holds good, that one need not improve conditions if one does not desire to increase supplies : but the gospel of " efficiency " then appears. It is said that quite apart from the amount of goods produced we should improve conditions and wages in order to increase, not production in the mass, but the productivity of each worker. We reduce labour cost by increasing the amount done by each worker, and we can increase that amount by improved conditions. The reform of labour conditions is thus supported in the name of (1) greater production for greater profits, or for (2) greater productivity on small production for greater

profits. These are the policies sometimes suggested by those who direct industry and organize the system of production and distribution. The State assists that organization: but for what purpose? Does the State act for the purpose of increasing profits?

In answer it must be shown that the State assists in the organization of industry, not for the sake of the profits which accrue to the owners of capital in the industry, but for the sake of the service rendered to the general public by the industry. This can be shown, for example, in regard to the improvement of conditions of the workers on railways. Obviously in the case of guards, signalmen and drivers, long hours and bad working conditions actually endanger the lives of travellers. Clearly, if railway travelling is made safer, it becomes more popular and thereby adds to the profits of the shareholders; but it would be fantastic to suppose that the improved organization introduced by the State aims at the increase of those profits. Obviously the regulation in this case is aimed at the greater efficiency of the service for the sake of those who use the service and for the sake of those who perform the service; and the advantage gained by those who provide or control the instrument is, from the point of view of the State, merely incidental.

In the same way it can be shown, although not so incontrovertibly, that the reform of organization in textile mills, apart from securing development of citizenship among the workers, aims at the better service of the public. Now that it is regarded as proved that regulation does not restrict but actually increases efficiency, it may easily be concluded that the advantage of the efficiency so increased is not intended by the public operating through the State to accrue only to the owners of capital. It can be proved that State action was originally based upon sympathy, and the development of that action can hardly be explained as exploitation: but further it is clear that if the workers' productivity is maintained and

increased over a longer period, the efficiency of the service for the general economic community is developed ; and this is the purpose for which State action in these matters is dimly conceived by the public to exist.

Another theory, however, is offered as an explanation of the principle upon which factory regulation is based. It is evidently thought by reputable economists that the action of the State is benevolent, but that it is dictated by power or the threat of power exercised by the victims of charity. Labour conditions, on this hypothesis, are improved in order to keep the working classes quiet : but it is granted that they are kept quiet for their own good, for it is presupposed that the main purpose of government is to keep the established system going, since this system is in " the nature of things " or in accordance with the laws of economics. This attitude, however, and these conclusions do not solve the more fundamental problem as to the basis on which the whole system of production and distribution rests. If anyone is not satisfied with analysis of the mere process and seeks for the human motives which dictate the elements of the process, if further he finds among those motives the desire for private wealth and personal or group domination, he may conclude that neither the process nor its motives are worth maintaining. He may at least believe that government, so far from maintaining the system, should be an instrument for improving it. His reason, then, for State action in regard to labour conditions will not be charity, but justice : he will seek, not to keep labour quiet, but to give it opportunity to express its own will even at the cost of " unrest."

The truth is that factory legislation, like the regulation of working conditions by agreements, implies a conception of economic activities which is not based either upon private gain or public charity. This legislation is supported by the representatives of labour who cannot be regarded as merely asking for charity : nor apparently do they think that improved conditions will cause greater

enslavement or more complete subservience to the existing system. Better conditions and shorter hours do not make men more complacent, but more restless. If men were all cowlike, as some of them are, a fatter pasture would cure labour unrest for ever; but men do not remain satisfied when one evil has been removed. Better conditions cause more vitality, and vitality makes for change, not for stability in social customs and institutions. The evidence, therefore, does not prove the truth of either theory—either that the State organizes industry and preserves labour-supply in order that profits may be greater or that the State is the instrument in the hands of “labour unrest.” A much more conceivable explanation is that the State is acting in this economic sphere as the representative of that principle of public service within a community which is operative in the political sphere of law and justice. It is not argued that there is a conscious generally felt desire for the improvement of the public services of industry operating in labour legislation and its administration; but it is maintained that this is one of many obscure motives in the public mind. It is legitimate, among a tangle or confusion of motives for an action, to select one which is weak or insignificant as compared with the others and to say that it is in importance the greatest. Such a motive may grow in contrast to the others and may become, not only morally the most important, but also actually dominant. It is not, then, maintained that the conception of the workers in industry as public servants in an economic community is very clear or very widespread; but it is only that conception which can explain the development of State action and its results.

The tendency which has produced Factory Acts, Coal-Mines Acts, and Shop Acts is the same as that which produced the regulation of industry by agreements between industrial bodies; and it is by no means at an end of its development. Indeed, in the *rapprochement* between

the State and non-governmental organizations, the same tendency may have a new life. There is much still to be done in the same field. The casualties of industrial service are still very great. The conditions in factories and workshops are still very far from making productive work something better than a prison task :<sup>1</sup> and there is still little enough of the free choice of the worker or the responsibility of the consumer for the methods by which the goods he enjoys are produced. But governmental action has produced, over a limited section of industry, the sense that an organized and regulated production is better even in the economic sense ; and the non-governmental organization of industry has secured this regulation without any hypothesis as to interference. The conditions of work, therefore, are gradually coming to be based, not upon contending economic interests, but upon a sense of an economic community within which all industrial work is a public service.

<sup>1</sup> The methods used by government for one end may obstruct methods for another end : for example, " The English system of raising rates on assessment is a direct discouragement to rebuilding, which operates very strongly in just those places where rebuilding is required. . . Sheffield is a very old manufacturing town, full of cramped and antiquated premises ; but I found the rates were 8s. 6d. in the pound and owners unwilling to rebuild because of the heavy tax on new premises."—Shadwell, *Industrial Efficiency*, vol. ii, p. 52, ed. 1906.

## CHAPTER V

### THE STATE AND THE WAGES SYSTEM

**T**HE wages system is one of the most obvious elements in the present organization of industry, and it is perhaps purely economic in its origin and purpose. It is, from the economic point of view, the method by which capital secures labour and labour the use of capital ; but it has its political aspects. It involves, for example, a very clear distinction of social classes, since those who work for wages depend for future security entirely on the will of others, have no reserves of wealth, and have nothing but the labour of each day to give for the maintenance of daily life.

The State maintains and government affects the wages system at least in so far as the payment and receipt of wages is secured by the law of contract. There is, among other contracts, a wages contract ; and, so far as the law goes, the State makes no fundamental distinction between the wages contract and others. Thus the system of government prevailing in most civilized countries gives direct support to the economic organization by which some men get profits and most get wages. In a similar sense the State once maintained slavery and serfdom, which were two earlier systems by which capital and labour were organized into a single productive force : and although it was seriously believed by all classes when slavery was maintained that it was good for the slaves, there seems to be a suspicion among modern historians that the State maintenance of the system is a proof that the State or political government was the instrument used

by a small economic group, the owners, for securing their predominance. Similarly some have argued that the State is in fact to-day simply an instrument for securing the predominance of capital, although the vast majority even among the wage-earners believe sincerely that the State exists for the good of all.

Ancient history is not relevant here, but the State is the same institution in England which in 1360 by the Statute of Labourers attempted to prevent the demand for high wages when labour was scarce ; which for centuries resisted the effort of wage-earners to secure collective bargaining in order to raise wages. In France the State forbade trade unionism until 1884, and still limits its effectiveness.<sup>1</sup> In Japan the State forbids trade unionism ; and in U.S.A. it limits its effectiveness. But all this involves the prevention of collective bargaining and therefore the support of the pressure to reduce wages.

It is not to be wondered at that the State is regarded by many as a device of the property-owners or that it is regarded by educated wage-earners as an enemy of the people. No philosophy of the General Will, no ecstatic argument to prove that wage-earners have self-government because they acquiesce, can destroy the inherited suspicion of government and its officials in the minds of the majority in every State, which arises from bitter memories or contemporary experience of the effect of State action upon the rates of wages.

The accepted activities of government in maintaining the wages system under some form have not led to any large political controversy in regard to the fundamental question of the validity of the system. There is no indication in the administrative action of any government that the wages system itself may be changed because of the political need for justice and liberty. The evils which result from the system, however, are various, and some

<sup>1</sup> Cf. Paul Boncour, *Le Federalisme Economique*, p. 21 seq. For the Law of 1884, cf. *ibidem*, p. 111.

of them have attracted attention enough to be the grounds for administrative action. For the purpose of the present argument it does not matter whether these evils are accidental results and merely incidental occurrences in an otherwise admirable order, or essential to the wages system itself. In any case, they are dealt with as though they were separable from the wages system itself ; and administration, therefore, while it maintains the system, corrects or modifies some of its results. The evils to which attention has been drawn are (*a*) the payment of such low wages that the wage-earner cannot live a human life ; (*b*) the obstacle to the organization of workers for collective bargaining when their wages are low ; and (*c*) the insecurity of those who are paid only enough to live while they are at work. Those who thus suffer fall into distress and disease and the whole of society is therefore affected. A government which maintains the wages system is in some way responsible for these evils, whether they are accidental or not : and therefore, because of the suffering of the sweated workers, the State may be driven to limit or modify its general attitude towards the contract of service for wages.

The State, however, is not only committed to affecting the wages system on the ground of social distress. In so far as the State is the whole of a group of persons organized politically, it is also related to the wages system because of the advantages which accrue to the whole people from the use of the system. Undeniably the citizens or subjects of the State derive some of the advantage they have in the supply of food and clothing from the wages system which makes that supply possible. In the same way they would derive advantage from slave labour, if that were the method by which goods were produced. But if all derive advantage from the system, all are in some way responsible for the evils in the system. If, for example, travel is cheap because certain workers are paid only eighteen shillings a week, the public which



travels is in some way responsible for the distress of the underpaid workers: and the State, representing the public, should take action in regard to that responsibility. Thus State action aims not simply at curing an incidental social disease of under-payment but at expressing the responsibility of a community for the conditions from which all derive advantage.

Nothing is more fantastic than the journalistic cliché that the unfortunate public, consumer, citizen or community, suffers in a strike for higher wages in a quarrel which is not its own. Whether or not the citizens at large are an immediate party to the dispute, whether or not the strikers are paid by the State, the citizens or the general public are parties to the dispute and may justly suffer because they gain from the system against which the strikers protest. This, of course, does not imply that the strikers are right to injure the public, for in any particular case they may be wrong; but the public has no more ground of complaint against them if "the community suffers" than it has a ground to complain if the social institutions it maintains promote venereal disease. A strike affecting public services is a protest against the public use of sweated labour, and the public cannot be assumed to be innocent. A strike for higher wages in any industrial service whatever is a protest, justified or not as the case may be, against the public use of that service; and therefore the community can never be neutral in an industrial dispute.

Further, in a democratic State it is supposed that the great body of citizens have power to alter the conditions governing their lives. If, then, citizens claim that power, they must abide by its consequences. Democracy should be, not the mere assertion of a right, but the acceptance of a burden; and if the laws which maintain the wages system are such as to allow grave evils to result from the system, the citizens in a democratic State are responsible for changing them. Such are the general principles

which seem to underlie the action of modern States in regard to wages. It will now be necessary to describe the actual administrative action which has been taken.

The first State action in regard to minimum rates of wages was taken in New Zealand, where by a law of 1894 district conciliation boards have power to fix minimum wages. In 1896 the State of Victoria passed a law by which boards, representative of the trades in which sweating occurred, were to fix minimum rates of wages. The boards were appointed by the Government, after consultation with the parties concerned. Violent opposition from manufacturers was not sufficient to resist the public pressure, which had been growing since a Royal Commission in 1884 had showed what the conditions were among home workers: and the opposition from manufacturers again failed in 1900 when the law of 1896 was extended, and in 1904 when it was made permanent. The present system is much wider than a mere regulation where conditions amount to "sweating"; for Wage Boards have now established minimum rates in all the chief occupations. Similar laws were passed in South Australia in 1900, in Queensland in 1908, and in Tasmania in 1910. The Commonwealth of Australia in 1904 passed an Act establishing a Court which decides the minimum rates of wages; but this Court affects only a very small section of industry, namely, that which is involved in disputes affecting more than one State. The Commonwealth Court is a purely governmental institution aiming at the maintenance of a living wage.<sup>1</sup>

In the United States the older method has been used in the enactment by territorial State legislatures of laws defining a minimum rate for women and children in regard to the cost of living. Such laws existed in eleven States

<sup>1</sup> The Court consists of one judge, who for some time was Mr. Justice Higgins. His pamphlet gives some details. The rate of wages regarded as a minimum has been supposed to be based upon the cost of living.

in 1916. The two principles involved are (1) the fixing of a rate by a non-industrial authority and (2) the adoption of a standard cost of living based upon a hypothetical average man's requirements. In the United States an industrial fixing of the rate was hardly possible, as the Unions opposed any minimum wage action and the division between employers' and workers' organizations was very extreme.

At the beginning of this century attention was called in the United Kingdom to great numbers of persons, chiefly women, who worked in what were called "sweated" trades, in which the earnings were not enough to maintain vitality. These persons made goods on the sale of which profits were secured by others: and the public took every advantage of the cheapness of these goods. On the old hypothesis of the free contract, the exploiter of the ill-paid labour was not responsible if the worker chose or was willing to work for a low wage; and the public at large could not very well discover which of the goods offered for sale were the products of women dying of starvation. An exhibition, however, was held in 1906 showing labour conditions in sweated trades: and in the same year the Board of Trade published a report on Earnings and Hours of Employment, which showed in the case of thirty-two textile and clothing trades the semi-starvation of the workers by whose labour the employers got profits and the public cheap goods.

This led to the first Trade Boards Act of 1909, which introduced in Great Britain a new method in State action with regard to industry. The most important feature of the Act, from the present point of view, was that the decision as to what should be the rate of wages in a trade was to be made by a Board representing that trade. The members of the Board were to be (1) representatives of employers, (2) representatives of workers in the trade, and (3) persons nominated to represent the State or the public. Thus the State called into its administrative

organization a body which was in essence industrial or "functional"; and in so far as this is a part of State organization, the State itself becomes industrial, its action being directly affected by the quasi-legislative activities of a body based upon functional representation. Again, the territorial Parliament, instead of leaving it to the political Executive to decide what the Orders of the Executive should contain, established a sort of subsidiary legislative power to define the terms of the Executive Order; for the Minister responsible can fix the rate only as the Trade Board may determine. Thus, in principle, a Trade Board rate is an instance of self-government in industry and in a sense the administration of the Trade Boards section of the Ministry of Labour is industrial administration under a very limited form of industrial legislature. There are many Trade Boards, and therefore many legislatures; but the situation may be not unfairly paralleled by imagining that in the territorial sphere one might have local governments without a central government. Industrially we are at the mediæval stage, when local lords or folk-moots make laws and there is no co-ordination or centralized law-making. But as the Trade Boards grow in number, a general principle is seen to be used in the determining of all minimum rates; and there is undoubtedly a co-ordination arrived at through the administration involved.

The same principle as in the case of Trade Boards has been used in the Agricultural Wages Board under the Corn Production Act of 1917: but here the Wages Board was introduced as part of a bargain. The Act fixes a price for corn as well as providing machinery for fixing a rate of wages, and therefore seems to imply a vague conception of a relation between profits and wages. The condition for establishing a minimum rate of wages in agriculture seems to be the maintenance of a certain rate of profit, as though the practice of corn-growing cannot be preserved without preserving the existing relationship between the

employers and their workers. The Agricultural Wages Board is, again, an instance of industrial or economic administration, and if the defining of rates is legislation, then the Board is a kind of economic legislature. The Central Board, which meets every two weeks in London, consists of sixteen representatives of agricultural workers and sixteen representatives of employers, as well as of seven persons appointed by the Minister of Agriculture. There are thirty-nine district Wages Committees formed in the same manner, for advising the Wages Board ; and there is a staff of inspectors. Prosecution for non-payment of the prescribed rates takes place in the ordinary Courts.

The next step was an extension of the original Trade Board policy ; for in 1918 a new Trade Board Act was passed making it possible greatly to increase the speed in setting up Boards and in fixing wage-rates and also extending the powers of such Boards beyond the wages system. No new principle is involved in the increased speed of operation ; but it is something new that a Trade Board can deal with conditions in workshops, for thus the Trade Board system connects with the system already noted in regard to factory legislation. A body representing those engaged in an industry, together with the State, legislates and partly controls the administration of a part of economic life.

A slightly different principle is embodied in the Coal-Mines (Minimum Wage) Act of 1912. This Act was due, not to public sympathy for unorganized and "sweated" workers, but to the protest of organized members of the industry concerned. Its origin may thus be taken as an instance of functional legislation at the will of the persons directly concerned, although in form it was the free act of a territorial State Parliament. On March 1, 1912, there was a general strike of coal-miners for securing a minimum wage. The result was a stoppage, more or less complete, in all the other industries of the country. By March 9th two-thirds of the blast furnaces had

closed down ; and at the end of March only 13 per cent. of them were operating. In the iron and steel industry, by March 23rd about 60 per cent. of the workers were unemployed. In the pottery trade, by March 9th 50 per cent. of the workers were unemployed and 80 per cent. by March 23rd. Other industries also were affected and British exports decreased. The pressure was exerted by an industrial organization, and it does not appear to have been resented by the people as a whole. On March 15th the Government promised to introduce a Minimum Wage Bill, and in fact the second reading of the Bill took place on March 22nd. The Coal-Mines (Minimum Wage) Act became law some days after, being enacted according to the usual preamble "by the King, by and with the advice of Parliament."<sup>1</sup> The coal-miners were not mentioned as sources of legislation ; for in fact they had "persuaded" the requisite majority in the State Parliament ; but a candid review of the facts indicates that, at least in regard to industrial legislation, the will of industrial organizations can sometimes be expressed through the older forms.

Again, the Act sets up industrial administration. In twenty-two districts joint Boards were established representing owners and workers, with independent chairmen. The Boards are to determine district rules and minimum rates of wages for underground workers in coal-mines ; and provision is made for revising the rules and the rates. Thus the industry itself provides the regulation of minimum rates, with the assistance of the State acting industrially.

Outside the area of *minimum* rates the action of the State has not limited or modified the wages system : but some slight effect upon rates of wages has been due to the "Fair Wages Clause" in Government contracts. The House of Commons, on March 8, 1909, passed a resolu-

<sup>1</sup> The Act was passed for three years, but has been continued under the Expiring Laws Continuation Act.

tion that in all work for the public authorities the contractor should be obliged to pay rates not less favourable than those paid by "good" employers in the district. This implies that whatever may be thought of the cost of living as a basis for wages, the State should not, even indirectly, use the merely economic circumstances of the supply and demand for labour in determining the payment for the workers it needs. Not only must the wage allow of a human life, but it must be "fair" or "reasonable." Of course, no one means anything definite by these words: but the important point is that the words do not refer to money value, but to certain communal standards. It may be said, therefore, that the Fair Wages Clause implies a dim perception that the "iron law of wages" is not, in an organized community, a basis for policy: it is similar to the iron law that any man who is strong enough can kill another. And if the iron law be not the mere conflict of supply and demand but the existence of a wages-fund which cannot be increased, State action has proved that such a law need not control policy. Undeniably the Fair Wages Clause does hamper the Government contractor and does increase the cost of Government contracts. If any payment, however low, were allowed to workers for the Government, the taxpayer might be saved some expense: but apparently public opinion hesitates to adopt in the name of the community a practice of beating down the price of labour which is condoned, if not actually applauded, by economists and by the public at large when practised by private enterprise.

The State, in hiring labour even indirectly, is acting industrially and in the economic sphere: but even in that sphere it is not acting in accordance with what is the usual practice. It is not getting as much as it can for as little as it need give. That is to say, some other principle than that of the separate interests of the parties to the wages contract is at work; and although the sphere of operation of that principle is small, the

principle itself is important ; for it seems that the community, when it hires labour, cannot bring itself to practise the prevailing economic custom. It pays, not in accordance with the condition of the labour market, but by reference to a vague estimate of the value of the service performed. It has indeed no means of estimating that value except comparison with prevailing rates, which are in fact due to economic causes : but the effort to arrive at some new practice which is " fair " or " reasonable " is nevertheless important, for it means that, if the community were organized industrially over a large area of services, the principle of payment for services would be, not the condition of the labour market, but the value of the service.

This may seem to be the right place to speak of the State as employer of wage-earners, for a new principle is involved in the actual system of payment practised by the State. Some wage-earners who are employed directly by the State are put " on the establishment," as is the case in Admiralty dockyards, and this position involves pension and other rights ; but this is not different in principle from the practice of the better class of employers. The rate paid is still the market rate for that type of labour ; but because a greater permanence of tenure is allowed to all State employees, even those not " on the establishment," the State may be said to practise a new system of payment instead of wages.

Government affects the wages system not only in regard to rates paid but by correcting other " incidental " evils of the system. Charges borne by the wage-earner are in fact diminutions of wages, and the power to place those charges upon wage-earners is therefore restricted by governmental action. This is the principle operative in regard to risks of industrial accident and in regard to " truck " or under-payment by substitution of less valuable goods for coin.

The Workmen's Compensation Act of 1906 provides



that the employer is liable to make payments to dependents or to the workers, in compensation for death or disablement "by accident arising out of and in course of the employment." Disputed points may be settled by a committee, where such committee exists, representative of the employer and his workmen, but otherwise by a judge of the County Court or an arbitrator appointed by him. In the former case the machinery is industrial, in the latter political; and the latter case has been made an argument for those who desire to see Industrial Courts on the foreign model established in England. Contracting out by establishment of a special scheme of compensation is allowed under Section 3 of the Act, and on December 31, 1913, there were 105 schemes covering 65,072 workers in England and Wales.<sup>1</sup> Since the Workmen's Compensation Act came into full operation, the use of the Employers' Liability Act has decreased.<sup>2</sup> The actions under the Employers' Liability Act in 1898 were 879, in 1904 were 759, in 1907 were 604; in 1910 they were 217 and only 171 in 1913, of which 124 were in the Metropolitan area. In the case of the Workmen's Compensation Act the number of cases and the amounts paid up to 1913 were as follows:—

|            | Fatal. |               | Non-fatal. |               |
|------------|--------|---------------|------------|---------------|
|            | No.    | Compensation. | No.        | Compensation. |
| 1908 .. .. | 3,473  | £ 536,123     | 325,484    | £ 1,544,549   |
| 1912 .. .. | 3,599  | 567,107       | 424,406    | 2,606,994     |
| 1913 .. .. | 3,748  | 595,012       | 476,920    | 2,766,638     |

The following figures show the extent to which the

<sup>1</sup> Cd. 7669 (1914), in addition to one Government scheme.

<sup>2</sup> The average amount of solicitor's costs was £20 9s. 3d. under the Employers' Liability Act, and £10 18s. 8d. under the Workmen's Compensation Act. P. 13, Cd. 7669 (1914).

Workmen's Compensation Act provided assistance in 1913 (according to Cd. 7,669, 1914):—

## COMPENSATION FOR INDUSTRIAL CASUALTIES.

| Industry.                   | Number Employed. | Accident. |              | Disease.        |              |
|-----------------------------|------------------|-----------|--------------|-----------------|--------------|
|                             |                  | Fatal.    | Disablement. | Fatal.          | Disablement. |
| Shipping .. ..              | 258,272          | 479       | 8,191        | —               | —            |
| Factories:                  |                  |           |              |                 |              |
| Cotton .. ..                | 591,753          | 36        | 13,863       | —               | 5            |
| Wool, etc. ..               | 280,602          | 22        | 3,659        | 1               | 34           |
| Other textiles ..           | 186,499          | 10        | 3,481        | —               | —            |
| Wood .. ..                  | 140,708          | 41        | 5,969        | 1               | 9            |
| Metals (extraction)         | 436,370          | 199       | 39,273       | 5               | 71           |
| Engine and Ship building .. | 309,966          | 216       | 32,486       | 1               | 40           |
| Other metals ..             | 885,800          | 181       | 49,667       | 2               | 120          |
| Paper and printing          | 318,187          | 23        | 4,927        | —               | 16           |
| China, etc. ..              | 69,556           | 10        | 1,428        | 9               | 143          |
| Miscellaneous ..            | 2,123,184        | 353       | 54,196       | 6               | 271          |
| Total Factories ..          | 5,342,625        | 1,091     | 208,949      | 25              | 700          |
| Docks .. ..                 | 140,820          | 207       | 17,147       | —               | 9            |
| Mines .. ..                 | 1,114,210        | 1,312     | 195,387      | —               | 7,478        |
| Quarries .. ..              | 87,541           | 66        | 6,001        | —               | 5            |
| Construction ..             | 97,954           | 96        | 6,568        | 1               | 7            |
| Railways:                   |                  |           |              |                 |              |
| Clerical staff ..           | 76,553           | 2         | 74           | —               | 2            |
| Others on Railways          | 391,378          | 450       | 26,370       | 1               | 23           |
| Total Railways ..           | 467,931          | 452       | 26,444       | 1               | 25           |
| Grand Total ..              | 7,509,353        | 3,721     | 468,687      | 27 <sup>1</sup> | 8,233        |
| Total for 1912 ..           | 7,411,005        | 3,544     | 417,694      | 55              | 6,712        |

<sup>1</sup> Twenty-five of lead poisoning and two of anthrax.

The function here performed by government is mainly industrial. Of course it is politically necessary that some security of expectation should be given to the dependents of a worker, for otherwise a certain number would, as the result of accident, sink into starvation and disease and a much greater number would always be living with the dread of such a fate. The political reason, however, for State action is quite general and not confined to the risks of industrial accident. It is the ground for a State insurance against sickness. It is the ground in regard to industry for action by the State in order to secure that any form of industry shall be such as not to increase unduly the risk of starvation and disease: but this means that the State may in principle make it obligatory that the method of producing and distributing goods shall not destroy or corrode the basis of civilized political life.

The actual method by which industry is prevented from thus destroying or corroding is a problem for industry itself. It is a part of the organization by which goods are produced and distributed: for that organization may be of many kinds, and it should in principle be of such a kind that life is not degraded by it. That is not merely the entry of a political or moral principle to govern industrial practice: it is a genuine economic principle, since the organization of industry is not in fact effective for its own purposes if life is degraded by it. The actual production of goods is diminished, and productivity is decreased. If the criterion of successful industrial organization be the amount of human wear-and-tear needed for the amount of human happiness produced, it is still more truly an economic principle which compels workmen's compensation for industrial accident; but even on the grounds of "wealth" this compensation is industrially necessary. Government has in fact enforced upon industry some measure of protection for the dependents of a worker against the risk of accident; and since

industry is not an organized public service, with true representation of the communal elements in it, the State will continue and will develop the present method; but this means that the State is an economic organization representing the economic community.<sup>1</sup>

We may now consider the second example of the correction of incidental evils in the wages system by governmental action. Under the Truck Acts now in force, those of 1831-1887 and 1896, the principle that wages must be paid in coin and not in kind is established.<sup>2</sup> The Act of 1831 excluded agricultural labourers from protection as they were "servants in husbandry," but provision for giving some protection to them was made in the Act of 1887. It is still legal, however, under Section 4 of the 1887 Act to allow a servant in husbandry a cottage, food or drink; but it is not legal to pay him in part or whole with commodities like bacon or potatoes. The Act of 1887 makes it possible for a worker to receive "subs" or advances on wages without interest or other deduction (Section 3): and the Act of 1896 forbids fines or deductions unless under a contract or terms to which publicity has been given.<sup>3</sup> Thus the State adjusts the

<sup>1</sup> It is important here that not the text of a law but an effective administrative system should exist. In New York State, for example, there is a Workmen's Compensation Act, and on that Act a report by a Commissioner was issued on November 17, 1919. It was found that since 1915 injured workmen in New York State had been defrauded out of at least £1,000,000, by under-payments. Settlements of claims by giving a lump sum were shown to have involved serious under-payment, and the financial advantage has gone not only to the employers concerned, but to insurance companies. A special class of lawyers has grown up known as "runners," who assist claimants, sometimes fraudulently, on condition of getting a large part of the compensation.—Summary of Report in U.S.A. *Monthly Labor Review*, February, 1920.

<sup>2</sup> A statute of 1464 forbids truck for clothworkers: but the word only appears on the statute book in the Act of 1725, which forbids combinations of workers. Cf. Cd. 4442 (1908), *Report of Truck Committee*.

<sup>3</sup> The employer may retain contributions under the Coal-Mines Act, 1887, and Sect. 77 Coal-Mines Act, 1911, National Insurance

“ natural ” law that the power of the employer to withhold wages should cheapen the cost of production ; and this covers the whole of industry. A special Truck Act for the Hosiery Trade is the Hosiery Manufacture (Wages) Act, 1874, which attempts to stop deductions on frames and machinery let out to workers. All these activities of government may be, in the main, political, aiming at the equalizing of parties to a contract : but clearly their industrial effect is to organize the system of payment, and it may be that they are simply preliminary efforts of government surviving from a time when unofficial industrial organization was inadequate.

A similar method of correcting industrial evils may be found in such Acts as the Industrial Assurance Companies Act, 1896, the Assurance Companies Act, 1909, and the Friendly Societies Act. The intention is apparently to protect the wage-earners ; but this is only a very indirect entry of the State into the industrial sphere. Advantage is taken of those who, with a weekly wage, pay a weekly premium, for they pay much and receive little ; and even under the existing system the income from premiums is distributed to the extent of 44 per cent. in expenses and dividends, about £14,000,000 being spent every year in this way, while many wage-earners are unable to continue the payment of premiums, and therefore the numbers eligible for insurance are comparatively small.<sup>1</sup> The Acts provide some safeguards, and if amended would provide more ; but they are mainly political and not economic in their purpose, although if protection of the wage-earners were more effective, some of the insecurity of the wages system would be removed. In all these

Act, 1911, Sect. 4, Sect. 85. In the Act of 1896, Section 9 (1) permits the Secretary of State to grant exemptions from the Act in certain areas or trades, thus placing the responsibility upon the administration for the application of the principle in details.

<sup>1</sup> The abuses of the system are exposed in Cmd. 614 (1920). *Report of Board of Trade Committee on Industrial Assurance Companies and Collecting Societies.*

cases of adjustment of the wages system, a new and dimly conceived ideal of an economic community is operative ; but the form which that community is taking is not so clearly seen in Compensation, Truck and Assurance Acts, as in the administrative organization directly affecting wages.

During the war the State was deeply committed to the wages system because it became itself a large employer of labour and the chief consumer. The situation will be discussed later. It is referred to here because it explains action taken at the end of the war. The maintenance of war rates of wages under the Wages (Temporary Regulation) Acts of 1918 and 1919 involves no new principle of importance to the discussion here, although it affects the situation in regard to war employments. When the State has been the direct cause of the wages situation over a large part of industry, it is natural that the State should undertake the responsibility for maintaining rates during a period of readjustment. The period was at first defined at six months from November 25, 1918 ; but the Act was extended in May 1919 for another six months ; and again under the Industrial Courts Act the period of readjustment was extended until September 30, 1920. But in all this the State acts because of war circumstances, and in the main because its own action had so seriously affected the wages situation at the cessation of hostilities.

Apart from the fixing of rates of wages, by whatever method it may be done, the State has attempted to deal with the wages system by standing as a third party or independent arbitrator or conciliator in regard to disputes. Acts providing for State arbitration in case of industrial disputes were passed in 1824 and 1837, which excluded disputes on general rates of wages. Further Acts of the same kind were passed in 1867, 1872, and 1889 : but in 1894 the Royal Commission on Labour found that the opportunities provided by these Acts had not been used, although voluntary organization for arranging disputes had progressed greatly. It is interesting to note that one

cause of the uselessness of the Acts was that no administrative machine was created for carrying them into operation, thereby showing how futile legislation is without administration. But still more interesting is the fact that the State had for this long time been offering its services to industry and that it had been absolutely disregarded. A new Conciliation Act was passed in 1896, and under this Act the Board of Trade was given power to take action to promote an amicable settlement of an industrial dispute, and if both parties agreed it could appoint an arbitrator. This machinery was used in some cases before the war; but although the Act has not been repealed, the powers have been made obsolete by a new and more recent Act.

The new Industrial Courts Act of 1919 marks the latest stage in the development of this function. Under this Act two types of Court are possible. In the first place, there is a system of Industrial Courts, the personnel of which are permanent officers; and these Courts may sit in any part of the United Kingdom. Apart from the possible settlement of a dispute which has been referred to the Minister of Labour, he may refer the matter in dispute to an Industrial Court, if both parties to the dispute consent to such reference: but there is an express provision that if any agreed arrangement already exists in an industry for dealing with disputes, the Minister of Labour shall not refer to an Industrial Court.<sup>1</sup> Thus the new organization is viewed as the completion of already existing industrial arrangements and, further, as a part of industrial rather than political administration.

Another type of Court established under the same Act is the Court of Inquiry (Section 4 (1)). In this case the Minister of Labour may refer to a specially appointed Court of Inquiry any matters relevant to a dispute which exists or is apprehended. The purpose of the Court of Inquiry is publicity: it is not to give an enforce-

<sup>1</sup> Section 2 (4).

able decision and, since no penalties are assigned in the Act, the Court cannot compel persons to furnish evidence : but the mere existence of a public inquiry into an industrial problem is probably enough to induce interested parties to appear. The first actual effect of the new scheme was the inquiry into the wages and conditions of employment of dock labour, the report of which has been published.<sup>1</sup>

In this case the State is providing machinery for publicity and open discussion of industrial problems. There is no reason in the abstract why persons employed in industry, whether as employers or workers, should not have organized for themselves a system of industrial inquiries : but the fact is that they have preferred, or perhaps have been driven by circumstances, to use secrecy, and indeed in this very Act in regard to Courts of Inquiry there is a proviso (Section 5 (3) ) which forbids publication by the Court or the Minister of information " as to any trade union or as to any individual business " except with " the express consent " of representatives of each. There is even here an effort to secure secrecy ; and that policy must be maintained so long as the voluntary organizations within the industrial system are organized for conflict or trade competition rather than for public service. Therefore the State has provided an obvious industrial need in its Courts of Inquiry ; and by its action represents the whole industrial community or the common interests of all members of the economic unit of producers and consumers. In regard to the wages system particularly, it has always been very difficult for the general public or even the workers in industry to know what payments were made ; but the State has now provided administrative machinery by which such facts may be made public, and this confessedly in order that the industrial system may work more smoothly.

The State has therefore developed in regard to wages not only an industrial legislature and administration but

<sup>1</sup> H. C. No. 55, 1920.



an industrial judicature, distinct in method and purpose from the judicature in the political sphere. The system of Courts of Law is very ancient, extensive and elaborate : that of Courts of Industrial Custom or Rule is very new and simple. But it is well to remember that there has been experience in the past of more than one system of Courts. The Courts of the Church in the Middle Ages were quite independent of the Civil Courts ; but these may not be parallel to the industrial Courts. There is a closer parallel in the Courts of the Guilds, and there are many examples of judicial or quasi-judicial bodies in small functional groups. The general principle governing the operations of the State in regard to the wages system seems, therefore, to be to correct its most evident evils and to adjust the differences to which it gives rise : but this is a principle of action in the economic sphere. It is the expression of the need for a comprehensive organization covering the whole of an economic community.

It would be altogether misleading to discuss the action of the State in regard to wages without reference to the action of organized voluntary groups in industry which have developed machinery of a similar kind independently of the State. In the cases of sweated trades and unorganized workers the rates of wages have been determined either by the so-called law of supply and demand or by direct action on the part of the State : but it must be remembered that action of a similar kind had already been taken by trade unions in the organized industries. Trade unions had effectively "interfered" with the economic law which was supposed to govern the rate of wages, when wages were the result of an individual contract ; and rates of wages were fixed by agreements between trade unions and employers' associations.<sup>1</sup> Such wages agreements

<sup>1</sup> The 12th Report on the Conciliation Act (No. 185 of 1919) gives the number of voluntary boards as 410 at the end of 1918. Cd. 5346, 1910, gives the Rules of Voluntary Conciliation Boards. In such publications the State assists the co-ordination of industrial organizations : it acts as an intelligence office for industry.

have for some time covered a large part of British industry. Again, the industrial organizations, many trade unions and employers' associations, have long had their own machinery for conciliation in case of disputes, and the promotion of Joint Industrial Councils by the State indicates a general approval of voluntary methods for arranging the relations between employers and employed. The Joint Industrial Councils, which already number about fifty but are chiefly in small trades, are in no sense governmental, but the State "recognizes" them in the sense of looking to them for the expression of opinion in the trades they represent and of communicating to them any governmental policy which may affect those trades. The functions of the Councils are not confined to the fixing of wage-rates by agreements; but in practice this has been their most important activity, thus rendering unnecessary appeals to the Industrial Court.

The truth is that the industrial services performed by the State, in fixing or assisting to fix the rates of wages, are services *supplementary* to those already performed for themselves by industrial organizations. The State administration in regard to wages, therefore, forms one organization with the voluntary organization in industry; but the relation between the two is of importance. They are both attempts to organize the chaos of the individual bargain of the wage-earner for his wage. The State came late into the field so far as raising wages is concerned; but it had often acted in the past to assist in depressing wages; and in some countries, by forbidding or discountenancing organization of the wage-earners, the State is still active in depressing the rates of wages. Now, however, in several industrial countries the State not only establishes a minimum but assists attempts to establish rates on another basis, by countenancing or even providing for arbitration of wages disputes. Again, the State action in regard to wages represents not merely the organized part of industry, but the whole of the producers,

and by nominating members for Wages Boards the State seems to represent the community, but clearly an economic as contrasted with a political community.

The action of the State in regard to wages is, first, a maintenance of the contract of service. This is a purely political action. It does not refer to the equity of the rate of payment, but only to the supposed agreement upon which the payment is based. It is, therefore, to be connected with all the other instances of the maintenance of contracts by the State; and that maintenance is one of the aspects of State action for the sake of order. That one man should be able to rely upon the carrying out of the terms of his agreement with another is essential to the security of expectation and the stability of relations in society, on which civilization is based. But the hypothesis on which the State support of contracts rests is the freedom of the parties to the contract, and the conception of freedom changes. Clearly if one party is compelled by force to enter an agreement, the State cannot enforce the terms of the agreement against him.

A very different principle is involved in State action which affects the *rate* of wages. This action is not primarily political but industrial; for it is action taken in the sphere, not of justice, but of the production and distribution of commodities. At first sight, the securing of a minimum rate may seem to be political, since it aims at making the citizenship and human development of the "sweated" worker possible. Undoubtedly the State acts in the matter because of the public opinion that payment of wages below a certain level degrades the workers and through them the whole of society. There is a vague feeling that a minimum rate is the necessary basis for bare existence or for human life: but no State at present does in fact enforce minimum rates solely or mainly because of the type of life that such a rate can maintain. In actual fact the rates enforced through Trade Boards are not based upon the cost of living, but upon an industrial

adjustment of the prevailing forces or "pulls" in industry. That is to say, the Trade Board rate is much more likely to be the rate "which the trade can bear" than the rate which will allow the wage-earners an agreed minimum of commodities.<sup>1</sup>

Again, the State assists as a third party, representing, as it were, an impartial point of view, in the adjustment arranged by purely voluntary bodies. The assistance is merely the provision of opportunity for discussion and agreement: but it is assistance in the industrial sphere, and the State appears to enter in largely because no entirely impartial or purely communal point of view can be attained within the industrial system as at present organized. In Great Britain the State has never been accepted as an arbitrator giving enforceable decisions, largely because even the State itself would not be regarded as impartial, since it is so closely allied with the existing order against which protests are made which take the form of "disputes."

The State administration in this matter is part of the organization of industry, but not merely an addition to the existing industrial organization; for by the entry of the State into this field the basis of organization is changed. The State acts industrially, but not on the principle of private or of group interests. It acts industrially, but in such action it represents the community; and thus in actual experience we have a hint of the nature of the economic community, and of the possible organization of production and distribution as public services; for the economic community in this sense is not the "producers," the owners or the workers by hand and brain in industry, but all those who form one economic unit of production and consumption.

<sup>1</sup> Under the Australian system an attempt has been made to fix rates, not on the basis of what "the trade will bear," but of what a person in a certain position in life may reasonably expect to have. This principle underlies some of the decisions of the British Industrial Courts under the New Act.

In regard to the rates of wages this economic community appears as a shadowy and unsubstantial spectre at the feast of profits; and its presence may gradually affect the whole wages system.<sup>1</sup> That is a matter for the future to decide. Wages are generally thought to be payment for services, and the services are dimly conceived as, at least indirectly, public services or services to the community: but the criterion for estimating the economic value of those services is not yet generally agreed.

<sup>1</sup> The State fixed rates which were not merely Trade Board rates through the National Maritime Board of the Ministry of Shipping. This Board was representative of the industry in regard to labour; but the position of the State was, of course, exceptional in this war-time arrangement because almost the whole mercantile marine was a State service through requisition.

## CHAPTER VI

### UNEMPLOYMENT

**U**NEMPLOYMENT is a normal phenomenon of modern industry. Its character has often been analysed and its general causes and effects are now very well known. For the purpose here in view the unemployed person may be defined as one who is seeking work for wages, but is unable to find any suited to his capacities and under conditions which are reasonable, judged by local standards. The unemployment, therefore, to which reference is made is not that due to old age, illness or physical defect, nor to mere unwillingness to work. By excluding all persons thus affected the problem of unemployment is given a definite and distinguishing character ; and it is clear that a person unwillingly unemployed, who needs work in order to live and who is not industrially useless, is in a situation which, from the social point of view, is very different from that of anyone unemployed through illness or because he does not need or does not wish to work.

It is now generally agreed that unemployment is of three kinds : (1) cyclical, that is to say, greater and less in certain periods of some years each ; (2) seasonal, or variable in accordance with changes of natural seasons, social habits and fashions ; or (3) casual and of a character which involves permanent under-employment. The causes of unemployment are therefore seen to be, not the incompetence of the unemployed, but (*a*) fluctuations of trade, due to cyclical or seasonal changes, and (*b*) the organization or defects of organization of industry. It is quite

clear, then, that unemployment is an industrial problem, and is indeed part of the general problem of the organization for production and consumption : it cannot be understood apart from financial and commercial phenomena, and more than other "labour" problems it goes to the root of the whole industrial system.

Again, the results of unemployment are known to be of two kinds : (1) those due to the fact that the unemployed, being wage-earners, have no resources when not at work : these results are distress, disease, social incompetence, etc. ; and, (2) on the other hand, results due to the fact that the unemployed are "standing by" or waiting for the increased demand for labour. The second group of results are industrial, and they are not evil. It is good that workers should "stand off" when there is no demand for commodities, and it is good that they are there to be called upon when demand increases. Unemployment, therefore, is in one sense only another name for the existence of a reserve of labour. The fact that the unemployed suffer distress is due, not to the fluctuations of trade, but to the wage system by which they are paid only enough to maintain them while actually at work.

The State and public authorities were first concerned with the problem because of the distress suffered by the unemployed. Public sympathy was excited by the processions of unemployed in the later years of the nineteenth century in the large towns and cities of Great Britain ; and in every industrial country at about the same date attention was drawn to the sufferings of the unemployed. The first impulse was to relieve unmerited distress. Voluntary subscriptions were made to various funds for the unemployed, and the public authorities began to supply more funds for relief. Relief of distress was, therefore, the basis of State and municipal action in this first period of treatment of the problem of unemployment. Secondly, the unemployed were before the eyes of the

public in different cities, and relief was already connected by tradition with local government: and hence the relief of the unemployed was largely in the hands of local public authorities. When the State in Great Britain entered the field, the department put in control was the Local Government Board, which was connected with the Poor Law and co-ordinated the local authorities.

On the Continent of Europe the treatment of unemployment began, as in England, in different localities; and abroad it is still much more local in its organization than it now is in Great Britain. The Ghent system of insurance against unemployment, which has been imitated outside Belgium, is local in character, and did not, at any rate in its first form, provide administrative organization for what is now agreed to be a non-local problem. The character of unemployment varies in different countries: for example, in Sweden and Canada the severe winters make some work impossible which can continue even in the winter in England, and in some countries where there is alternative local work, such as on small holdings, the treatment of unemployment will naturally be more local than in England. But in general the causes and effects of unemployment are similar in all countries, and the treatment of unemployment by the State or local government has passed through stages similar to those of Great Britain. The principles embodied in the prevalent relation of government to this problem of industry are, therefore, the same all over the world.

The first stage in governmental action was the co-ordination of charity and the organization of "relief." Local and central government was acting upon principles identical with those involved in the maintenance of the diseased or the incompetent, and government, therefore, was in no sense economic in its functions. In the United Kingdom the Unemployed Workmen Act of 1905 marks the culmination of this period.<sup>1</sup> The Act aimed at co-

<sup>1</sup> Beveridge, *Unemployment*, chap. viii. The Act came into



ordinating under State authority all the existing funds and accepted methods of dealing with the unemployed. This, however, implied merely an administration of charity during periods of exceptional distress. Distress Committees were to be established in every municipal borough and urban district of not less than 50,000 inhabitants. These Committees consist of representatives of the local authorities, the Poor Law Guardians, and "persons experienced in the relief of distress." They were to promote migration or to provide relief work—the latter to be paid for from special funds. "The Act itself was founded upon an incomplete diagnosis of the problem. . . . Its authors took no account of the irregularity of employment which in good times and bad times alike is a normal feature throughout a large part of industry. Yet this is the one fact which by itself makes the whole policy of the Act unworkable."† Administration was in fact based upon the false conception that what was most important in regard to unemployment was the distress it caused, and there was a further false conception commonly accepted that unemployment was an accident or was merely incidental to economic life.

Further, the administration was local. The first section of the Act deals entirely with the London area, and in the second section the committees under the Local Government Board Orders are described as "similar in constitution" to those of London. Thus the problem is made to appear as primarily one for London, and secondarily one for the rest of England in so far as it is like London. This is an absurdity of highly centralized government: but there is the further mistake of supposing that the problem is local in character, which results from attention to the distress rather than to the causes of unemployment. Hence the department which represented the State in the matter

operation in the autumn of 1905. Committees under the Act number 119.

† Beveridge, *op. cit.*, p. 189.

was the Local Government Board, a department connected with the Poor Law and with territorial registration of voters, but having no connection with industry or trade.

The organization of relief led to interesting developments. It soon became obvious that the distress caused by unemployment should not be confused with distress from other causes: and the conception arose that giving work and not money was the best kind of relief for the particular kind of distress which followed unemployment. This was the first beginning of the perception that the distress was not the only important fact on which to base the treatment of unemployment; and it would have naturally followed that the idea of relief was also irrelevant, except for the fact that no work was to be found. A mysterious economic entity, almost an economic non-entity, was discovered, called "relief work," that is to say, work that no one wanted to do, which produced what no one wanted to consume or use. It was a mere excuse for pretending that a donation was a wage. There were, indeed, cases in which works were undertaken which were useful, although they would not in the normal course have been undertaken at the time; but in most cases relief work was felt to be an artificial invention for keeping wage-earners from the receipt of unearned incomes. It was next discovered that many of those in distress through unemployment were unwilling to work or incapable of working. An unlovely element in the appetite for being benevolent then showed itself. It was argued that the conditions for the receipt of relief should be "deterrent," in order to prevent "unworthy" or dishonest persons from taking advantage of almsgiving. The cynic may be amused to observe how careful the charitable were lest their gifts should be bestowed upon those of whom they morally disapproved; and public charity was thus made into an instrument for enforcing a certain social code. Great numbers of unemployed

were treated as criminals or as criminally inclined. Labour colonies were founded to turn them in the way they should go ; and this was naturally connected with the old conceptions of vagrancy. In Germany the confusion of the man seeking for work with the congenital tramp was embodied in very elaborately organized labour colonies ; and everywhere the settled population regarded with a certain mistrust the survival in their midst of representatives of their nomadic ancestors.

A further discovery was made that some unemployed were unemployable, and training began to be regarded as the basis for policy : but no one knew for what to train men for whom no work was available, and great numbers of the unemployed were proved to be incapable of being trained. It began to be perceived that labour could be made more mobile, and the important fact was noticed that places might be open while workers were out of work because the employers did not know where to find workers and workers did not know where to find places. The actual methods of searching for work and looking for workers were studied ; and it was perceived that one of the causes of industrial disorganization was ignorance of the facts. There is nothing here, of course, which proves *a priori* that the State should act in the matter : for in the abstract there is no reason why industry as a whole or industrial organizations should not be organized on a national scale for giving information to all concerned, and for bringing together those who want workers and those who want work. But there was in fact no such organization : for industry had produced contending groups, but nothing which could be called a community ; and it was unpractical to delay dealing with unemployment until industrial organization was competent. Therefore, even when the days of charitable relief and of deterrent labour were over, and when unemployment was understood to be, both in its causes and in its chief effects, industrial, the State was felt to be the

only organization representing any communal organization which could deal with the problem.

The whole situation in England was changed by the 1909 Act, establishing Labour Exchanges under the Board of Trade, and by the second part of the 1911 National Insurance Act. These two measures imply a new attitude towards unemployment on the part of the State; and since in the main that attitude is still maintained, it is worth while to analyse in greater detail the activities resulting from the two Acts. The administration of Labour Exchanges was put under the Board of Trade, and thus unemployment was recognized as (1) non-local and as (2) an industrial phenomenon. The local administration under the Unemployed Workmen Act was thus superseded, although the Act was not repealed.<sup>1</sup> A single system for giving information and organizing the supply and demand for labour was set up to cover the whole of the United Kingdom; and a similarly national system of a more tentative and restricted kind was set up for maintaining by insurance some of the unemployed for whom no work could be found.

The experience of ten years has not proved the Labour Exchanges Act to have been mistaken, in spite of much adverse criticism of the Exchanges: but obviously a change has occurred during the ten years. There are two definite signs of the change. In the first place the offices originally named Labour Exchanges are now called Employment Exchanges. The official reason given for the change was that "labour" was too narrow a word, since the offices dealt with any form of employment, and there are at present cases of managerial posts being filled by persons who have applied to the Exchanges.<sup>2</sup> Employment may also be held to imply that the offices were as much for

<sup>1</sup> The power of Distress Committees to establish Exchanges was practically taken away by the new Act, Section 1 (4).

<sup>2</sup> *Month's Work* (official paper of Ministry of Labour), March 1920, p. 173, gives examples of placings of a builder's manager at £450 a year, a salesman at £800 a year, etc.

the sake of the employer as for the sake of the worker : but it is still more important that the new term is positive and indicates the direct promotion of industrial organization. Labour Exchange might mean any kind of treatment of unemployed persons, while Employment Exchange obviously means an office for organizing occupations. There is, however, a further idea underlying the change from the word " Labour " to the word " Employment." For some time it has been a popular phrase among the organized workers that " labour is not a commodity " ; and any indications that labour was regarded as a commodity were regarded as signs of hostility to the organized workers. Karl Marx makes a point in regard to the inhumanity of the capitalist system by describing the transfer of " labour " from the fields of Dorset to the mills of Lancashire ; and he uses the words of a member of the House of Commons to condemn the system. Undoubtedly the common use of the word " labour " by the early economists and their teachers, the mill-owners and financiers, implies a view which discounts the human element in the workers, for " labour " is not ordinarily conceived in economics as men and women and children. The whole development of the industrial system has been in the direction of depersonalizing the relation between the employer and the workers ; and although this has had certain advantages, it has resulted in an assimilation of labour to raw material or machinery.

Undoubtedly the phrase " Labour Exchange " seemed to imply this commodity view. We know of a Stock Exchange and a Corn Exchange, and to these a Labour Exchange was assimilated. Foreign countries avoid the unpleasant association of ideas by using the words *Bureau de Placement*, or Employment Office ; but our system appeared to commit the State itself to making a market for cheap labour. The Labour Exchange seemed, therefore, to be a slave market, though one of the parties to the exchange is the person who is " labour " and, therefore, sells him-

self. No one, of course, can believe that any such ideas were consciously present to those who first used the word "Exchange": but when the phrase "Labour Exchange" was changed to "Employment Exchange" it was hoped by the officials that the offices would escape the attack on the commodity view of labour. It was, indeed, the word "Exchange" and not the word "Labour" which gave the unpleasant association; but the officials probably thought that they would avoid the appearance of treating labour as a commodity if they avoided the use of the word "Labour." The effort was well intended, and is significant of a new attitude to the problem of unemployment.

For the argument here the most important point is that the function of the State has obviously been thought of in a new way during the ten years since 1910. The Employment Exchanges are not now conceived to be dealing with an impersonal labour force or man-power. They are not merely supplying the necessary energy for industry; nor are they simply finding abstract and undefined "work" for the unemployed. The officials of the Exchanges have developed a technique, a view of the situation, and a general policy. Through them the State now deals with employment as a personal question: the varieties of craft and industry are studied, the circumstances in the shops or mills are noted, and some effort is made to discover the personal capacities of the individual applicant. The problem of a modern Exchange is not regarded as the mere dispatch of indistinguishable units of labour power to entirely undifferentiated "work." The old statistical view of unemployment seems, indeed, still to be embodied in the publication of the unemployment percentage, and some truth is to be found in these figures; but certainly the number of places filled is no test of the value of the Exchanges to industry, both because the more ill-fitted the first man sent to a job, the sooner the place will be empty again, and because one difficult job filled may be worth ten casuals placed.

The same change in the activity of the State has been indicated by the transfer of the Exchanges from the Board of Trade to the Ministry of Labour. It has already been shown that the attitudes implied in the two departments are distinguishable: but so long as the Exchanges were under the Board of Trade they were connected with State activities in regard to the commercial and financial problems of trade and industry. It was no small matter that the Board of Trade, which dealt with the statistics of commerce and the materials of industry, also dealt with "labour." Here again the commodity view was implied. The tradition of the Board of Trade implied the promotion of trade, and therefore "labour problems" tended to be looked at as merely obstacles to the growth of British industry. Again, when information was wanted in regard to "labour," the Board of Trade view of information was embodied in the Department of Labour Statistics, the very name of which showed how little the personalities of the men and women called "labour" were regarded. A valuable but very narrow range of information began to be collected and published, in which chiefly those problems of labour were dealt with which could be reduced to figures or those which avoided the subtleties of policy and controversy: but the Board of Trade itself in its labour sections was gradually developing a new conception.

When the Exchanges were transferred in 1917 to the new Ministry of Labour, the change in the attitude of the State towards labour problems had already been accomplished, and the new attitude was expressed in the new Ministry. In regard to the Exchanges, the new attitude is to be seen embodied in the institution of what were at first called Local Advisory Committees and are now called Local Employment Committees. These are groups of local employers and trade union representatives who sit jointly and advise the officials of the Exchanges: and thus the machinery of government was definitely con-

nected with non-governmental industrial organization. We must therefore consider the action taken in regard to finding workers or work by the non-governmental industrial organizations.

The Employment Exchange is one very generalized section of the administrative organization of the workers in industry ; and it is recognized that the system can be effective only if it is completed in the works themselves. What is needed is the development of employment managers. The traditional system has been called " hiring and firing," because it is a blind choosing of employees among untried applicants and an almost reckless dismissal of operatives at slack periods. A large " labour turn-over " is the result, and much waste and inefficiency. The problem is clearly industrial, and the solution is clearly to be found in a systematization of the management of works ;<sup>1</sup> but any such detailed and specialized systematization must be completed by an Employment Exchange system giving a first selection and a wide range for the discovery of possible workers. The success of this " works management " is dependent upon the efficiency of the workers so organized, and is not to be judged simply by reference to profits earned, which may depend on many other factors. Therefore in assisting labour organization the State is promoting the efficiency of industry as a public service.<sup>2</sup>

The relation of this industrial administration to the workers' organizations or trade unions is another point of importance. In the terms of the Act of 1909 the

<sup>1</sup> It is well stated in an article on Problems of Employment, in *Cassier's Engineering Monthly*, January 1918. A suggestion on p. 51 is, " The supervisor in the works should keep in touch with Employment Exchanges." The transfer of workers within a works is obviously outside the range of the centralized Exchange system, but that, as well as the discovery of special skill or indefinable unfitness, is a completion of the same industrial function as that performed by Exchanges.

<sup>2</sup> Cf. Webb, *Works Manager of To-day*, p. 11, where the test of success in management is described.



Board of Trade was not only to establish governmental exchanges, but also "to assist any labour exchanges maintained by other authorities and persons." It is well known that trade unionists have an informal arrangement by which they assist fellow-members of their unions to find work, and, in actual fact, the governmental exchanges have been developed in close contact with this informal non-governmental system. Thus the activities of the State in this regard are only a part of a very much wider organization of employment.

The Employment Exchange and a more skilful organization of works may reduce the time during which a man or woman is unemployed, and may also reduce the number of those unemployed; but no such systems can smooth the fluctuations of trade, and therefore a certain amount of unemployment will always occur. This unemployment is dealt with by insurance or by funds raised to provide maintenance for wage-earners while no suitable work is to be found; and these funds must now be considered.

Before the general public had recognized that there was a problem of unemployment, the workers had had bitter experience of it; and nearly all the trade unions had provided, from funds accumulated by subscriptions from their members, maintenance of unemployed members. The fluctuations of trade were in fact marked by the greater or less expenditure from the unemployment funds; and the workers learnt to understand that their interests were common, because only by pooling the risk could any worker hope to receive maintenance when his wages ceased. Workers thus maintained by their unions were kept more fit for taking on work when it was offered than they would have been if they had had no maintenance fund; and therefore the trade unions have been contributing directly to the better organization of industry and the sustained productivity of the workers. Trade union unemployment funds, however, only maintained, even meagrely, the skilled engineer and the better paid

workers : there were no funds at all for the docker and the builder's labourer, for their wages hardly allowed of subscriptions to a union. Further, their wages did not allow of it for the very reason that made the need of a fund more imperative—because they suffered from much unemployment. The very workers, then, who suffered most from unemployment were those who could not afford to raise a fund for maintenance while they were unemployed : but men who were starved when unemployed were thereby made more unfit for being employed again. The productivity and the output of the less skilled labourers was being gradually diminished, while their dependents were being degraded. Just here in the industrial system trade unionism was weak or absent : and the only possible conclusion is that in regard to unemployment trade unionism has been for many years the only, and still is the greatest, security for increasing output, while in the absence of trade unionism the organizers of industry have so misused their reserve as to diminish output and decrease the productivity of the nation.

In these circumstances once again men looked to the State, not because the maintenance of the unemployed is necessarily a function of government, nor even because it is a political necessity, but because, although the task is economic, there is no industrial organization capable or willing to undertake it. The State began tentatively with the Insurance Act of 1911, which provided for contributions from wage-earners, employers, and the State to form a fund for unemployment insurance for about 2,400,000 workers in seven trades. A special arrangement was made, under Section 106 of the Act, for co-ordination of the State system of unemployment insurance with those of the trade unions ; and this, therefore, is another example of the interlocking of governmental and unofficial organization of economic life. It is noteworthy that, in regard to the maintenance of the reserve, there was no

employers' organization with which government could co-operate, and therefore trade unions alone stood for the organization of industry as a public service.

For a year after the Armistice of November 1918 the governmental unemployment insurance system was in abeyance, and a donation was given by the State for maintenance of all unemployed workers. As a transitory measure this does not concern the argument here : but it is important as an indication that the old insurance system covering only 2,400,000 out of a possible 13,000,000 workers was inadequate, and as a further proof that governmental action is economic in some of its phases. In 1920 a new Unemployment Insurance Act was passed, under which insurance funds are to be raised on a contributory basis over the whole of industry, thus showing the experiment of 1911 to have been successful ; and the new Act introduces "special schemes" under which an industry may obtain exclusion from the governmental system by providing its own unemployment fund. Thus the State scheme will be placed in a more definite position in regard to the schemes voluntarily adopted by industrial organizations, and these latter will form part of a system covering the whole economic life of the community. But this, in the complex of governmental and unofficial action, is nothing else than the formation of an economic community.

The principles upon which all this governmental action is based are of the first importance for the argument here. These principles may not have been consciously present to the minds of those who devised unemployment insurance ; they were certainly not understood by the general public ; but they were dimly present in the formation and development of the present administrative policy. It has been shown that funds for the use of the unemployed were at first conceived to be for the relief of distress, but that it began to be perceived that the industrial consequences of unemployment were more

important than the distress suffered, so far as unemployment was an inevitable result of contemporary industrial life. The wage-earner who cannot maintain himself during unemployment naturally fears to be unemployed ; and he makes efforts to avoid being out of work. But he believes, rightly or wrongly, that, especially on contract work, the less he does every day the longer he will be at work : and therefore the fear of unemployment causes a restriction of output. If he were fully maintained in health while waiting for a new job, he would not " go slow " in order to avoid being dismissed. Secondly, periods of unemployment without adequate maintenance diminish the vitality and the industrial competence or skill of the worker ; and unemployment, involving semi-starvation, therefore lessens economic productivity.

On the other hand, if trade fluctuates it is an advantage to employers and to the public at large to be able to " call up " workers when trade is brisk and to let them stand off when trade is dull. The tastes and habits of the public, just as much as the practices of employers, are responsible for the standing off and calling up ; and the unemployed are in fact a *reserve* for public service in industry. This reserve, however, deteriorates if it is not maintained as soldiers are maintained while they are not actually employed ; and therefore the fund for maintenance must be regarded, not as a relief for distress, but as a necessary expenditure for an industrial reserve. The expenditure on maintenance of the unemployed is properly regarded as part of the cost of production, exactly as the expenditure on an army and navy in times of peace is properly regarded as costs of national defence.

Industrially, therefore, funds for maintenance are necessary both (1) to prevent reduction of productivity and (2) to secure a reserve without diminishing the competence of those in reserve. But if the unemployed are in fact a reserve, several important conclusions can be drawn both with regard to the source and with regard

to the distribution of the unemployment insurance fund. These conclusions are now in the minds of a few administrators, but they can hardly be said to be operative in actual practice. They do, however, indicate the tendency with which this book is concerned, for they involve a conception of the economic community and of the position of existing government in regard to it. First, the sources of the fund for maintenance of a reserve must clearly be the proceeds of the industry which needs and uses a reserve. Whether wages are to be treated as part of those proceeds may be very doubtful; and therefore it may be doubtful whether the wage-earners themselves should contribute to the maintenance of a reserve for the use of the employers and the general public. But in any case the fund must come from (1) profits in the trade and (2) State subventions representing the responsibility of the consumer's part in economic fluctuations.

Secondly, the distribution of the fund should be such as to secure full maintenance of vitality and industrial competence, and therefore the benefits should probably (1) vary in different trades, and (2) bear a close relation to wage-rates. The plan of keeping the unemployed just barely alive is ludicrous: and the idea of "labour" as a homogeneous mass is nonsense. Of the industrial reserve it may be truly said that "they also serve who only stand and wait." Clearly, as in the case of soldiers in reserve, or of clerks who do not work equally hard every day, the payment of the worker for maintenance while unemployed might be exactly the same as his wage when at work; but this would destroy one of the characteristics of the wages system. The owner of slaves would naturally have to pay the cost of keeping his slaves when they were not at work; the owner of machinery has to pay standing charges even when orders do not come in: but the wages system allows the employer to pay nothing at all to his workers when they are not actually at work. The hypothesis that the wage covers the unemployment

period as well seems to underlie the maintenance of the workers by their own trade union fund ; but in the very trades in which unemployment is most frequent the wages are low, and in any case wages do not in fact vary in proportion to the amount of unemployment a man may have to endure.

The real force, indeed, of the argument against a full maintenance of the unemployed worker is in the statement that he would not work if he were paid so much. Clearly it is not a valid argument, since the maintenance benefit is in fact never given under the existing system unless there is absolutely no suitable work to be found ; and conditions would naturally be attached under any system to maintenance while in reserve. But the sting of the argument is in its implications : for it means that fear is the driving force of labour in the present industrial system : it means that the experience of starvation and the fear of the starvation which the worker sees his fellows endure are the motive power by which labour is obtained when it is required. Here, however, is an *impasse*. To make that fear effective there must be either no maintenance or the maintenance must be very small : but in either case the vitality and productivity of the worker will suffer. Therefore, either we must cease to maintain the unemployed in order to keep the workers submissive, and thus we ruin industry, or we must maintain the unemployed adequately to preserve industry, and thus we lose the stimulus of fear, the goad of necessity. There is no escape from this *impasse* in the present industrial system ; and therefore public policy hesitates between two irreconcilable opposites. The State assists to maintain the unemployed, and it also keeps the benefits low enough to be terrifying : it maintains the reserve and will not maintain the competence of the reserve, lest it would not go into the trenches when its turn comes.

It should not be imagined from all that has been said so far that the problem of unemployment is entirely

industrial, for it has political aspects also. The State is primarily concerned with the problem because certainty of expectation is one of the bases of civilized life. The whole of what is called Law and Order is the embodiment of that principle ; and the State is pre-eminently the source of Law and Order. It is true that the need for fixity or stability in social relations is often used as an excuse for refusing reform and suppressing necessary revolutions : but the misuse of the idea of stability should not displace the conception of stability altogether. It is good that men should know where they stand, and that they should feel confident as to their position in society in the future : but not all men in an industrial society have this security. The tenure of great numbers is precarious. Many do in fact fall into unemployment more or less continuous, during which they have not enough to support themselves and their families. They suffer physical deterioration, and their dependents also : but further, their minds and imaginations are confined to the brute necessity of obtaining enough food and clothing for a bare existence. Such men and women cannot be fully citizens, and their children are incapacitated for full citizenship. This is the insecurity of those who actually do fall into unemployment and may rise out of it ; but unemployment affects also those normally in employment. They too have no security of tenure. They live with the danger of dismissal before their eyes ; and dismissal may involve all those evils which they perceive to be suffered by the less fortunate of their own class. The State, therefore, even if it had no economic functions to perform, would have to deal with unemployment, because it makes the full citizenship of great numbers impossible : and the connection here between the political and economic is significant.

It is a genuinely political activity to maintain security by organization, and in this respect the action of the State affecting employment is political : but obviously the persons

dealt with by Exchanges and Unemployment Insurance, both employers and workers, are dealt with, not as citizens, but as persons occupied in industry. It is not merely the need for security which is operative in the action of the State ; it is also the need for labour organization in industrial production and services. Not the common citizenship of employers and workers is most important here, but the distinction between their functions and indeed the distinctions of craft and industry within each of the two classes. Not justice and liberty, but the supply and distribution of commodities, depend upon an efficient organization of employment : and therefore the State seems to be here providing a service which is economic.

In Employment Exchanges the State is organizing the supply of workers and organizing for the workers the demand of employers : or, from an opposite point of view, it may be conceived to answer the demand of the workers for an opportunity of using their services and to make effective the supply of opportunities which are normally in the hands of employers. Of course it is preventing unemployment in so far as the system of the Exchanges shortens the period of search for work or for workers : but the system is much more of an employment system than a preventive of unemployment.<sup>1</sup> It should be thought of as a positive contribution to the administration of industry on a national scale and as an organization of the reserve of labour for the service of the economic community. In Unemployment Insurance, again, the State is performing an industrial function. It is organizing the maintenance of the reserve for industrial services, and it is preserving the competence and productive force within the economic community.

Here again, however, the activities of government are in a field already partially occupied. It has been noted

<sup>1</sup> Cf. *Stabilizing Industrial Employment*, American Academy of Political Science, May 1917, No. 160. This volume is wholly devoted to industrial management and the administration of workers in industry.



above that trade unions have informal methods of giving to their members a knowledge of positions which are vacant : indeed, employers or foremen who need more workers often approach the trade union official or allow it to be known to the members of a union in their works. Again, employers themselves have a sort of organization for finding workers, not indeed on a large scale, but individually ; and ultimately, of course, the employer or his agent offers the post and accepts or rejects the candidate for it. Thus there is, in the United Kingdom, a non-governmental system for fitting men and jobs : and in France the *Bourses du Travail*, which are partially governmental, and some employers' *Offices de Placement* perform similar functions.

In unemployment insurance also there is an elaborate trade union machinery for collecting and distributing funds ; and, of course, it is because the unemployment benefit is paid by trade union officials that they get to know who is out of work and what work there is. It pays a trade union, or at least saves its expenses, to act as an employment agency. The trade union insurance fund is dealt with, as it has been shown above, as part of the same organization as that of the State unemployment insurance ; and therefore, both in regard to Exchanges and in regard to insurance, there is besides the State machine a non-governmental organization.

For this reason, and also because it is generally perceived now that unemployment is an industrial problem, to be dealt with as part of the general problem of industrial organization, it is often said that the State should transfer its functions in this matter to the trade unions or to joint bodies of employers and employed. This, however, is not only in practice impossible but in principle mistaken. In practice there are no organizations even in the several districts representing all the trades : the rivalries of trade unions are well known, and local trades councils can hardly be said to have power enough for an administrative function. But unemployment cannot be dealt with

union by union, or even trade by trade. Again, it cannot be dealt with by joint bodies; for there are none with power or sufficiently representative; and employers have their own rivalries as well as trade unionists. Further, in practice there is no national organization, either of trade unions or of joint bodies, capable of taking over the Exchanges and a national system of insurance. There is, of course, no saying whether, if a better industrial organization existed, it *could* perform such functions; but now appears the problem of principle. Do the tendencies so far discussed point to a displacement of governmental activity in regard to employment in industry?

The answer will depend upon the conception of the economic community. The functions referred to are economic, and are therefore essentially parts of the life of an economic community; but it is falsely assumed by those who desire a transference to trade unions or joint bodies that an association of these forms an economic community. It does not. They are the producers and not the whole unit of economic life; and although it may be true that production ought to be organized by the producers, the maintenance of the reserve of labour and its organization as a reserve is now being done by an organization representing the consumers as well as the producers. The reason is like the reason why, although the money paid for production may be divided among the producers, the amount to be divided should be decided not by the producers alone. The amount of the reserve of labour and the extent of its maintenance in the same way depend upon the demands of the consumers or users. Fashion and taste fluctuate and necessitate a reserve of labour; but fashion and taste are at least partly due to the consumers. When, therefore, it is said that the consumers as well as the producers should take the responsibility for unemployment, it is as a burden and not as a privilege that the responsibility is conceived. The State, therefore, cannot put off entirely upon the producers

the treatment of unemployment ; but if the State machine can represent both the producers and the consumers, then it can rightly deal with unemployment, because then it, and nothing else, is the economic community. But this in fact is the present tendency. The administration of government is being brought into organic relations with trade unions and the associations of industrial organizers : and if these are taken up into the same machine, the treatment of unemployment will be industrial and at the same time a function of government.<sup>1</sup>

The State, however, in performing this economic service, acts in the name of the whole organized community. It does not become a mere substitute for a combination of trade unions and employers' associations, nor even a substitute for all "producers" ; nor can it be said in this matter to represent "consumers." We have, therefore, an example here of the whole community acting administratively in the performance of a task in the organization of the supply and distribution of commodities. The character of the activities involved has developed : there is an approach towards the association of government with producers' organizations ; but the State still retains its aloofness from the controversies of the economic world and carries into that world the conceptions of common good and public service which already operate in the world of law and justice.

<sup>1</sup> An instance of non-governmental organization (legislative and administrative) of employment is in the Agreement, July 1914, between the Bradford Dyers Association and the Amalgamated Society of Dyers, the National Society of Dyers and Finishers and the National Union of Gas-workers, etc., Clause I. "The Association shall on the engagement of employees first make application to the Unions to supply the employees required. The Unions shall supply employees with the least possible delay, and if the Unions do not supply employees satisfactory to the Association within twenty-four hours of receipt of a requisition in writing from the Association, the latter shall be free to engage persons who are not members of the Unions, but such persons shall be required by the Association forthwith to become members of one or other of the Unions."

## CHAPTER VII

### COMMERCE AND FINANCE

**S**O far the purposes of administrative action and of the action of industrial bodies have been considered to be largely personal, touching men and women, and not so much the objects they produce and consume or the services they render. What is commonly called labour legislation or social reform may be distinguished from the regulation of banking, trade marks, or commercial transactions: but the State affects industry also in this second class of interests and activities. These, therefore, must now be considered. Here also the position of government is the result of a long development, but is now new and strange; and here also the conception of government as an external correcting and restricting force will not explain the situation, for government departments have entered deeply into the commercial and financial world. This is less obvious in Great Britain, where the State does not own or operate railways and coal-mines, but elsewhere the State appears to be almost a commercial enterprise; and even in Great Britain the Post Office is a "business" and local authorities are owners and managers of industrial services. In this sphere also, however, the distinction between political and economic action is becoming clear, and divisions are being made between the government departments of the two types.

The organizations corresponding in the commercial and financial sphere to the trade unions in the sphere of labour conditions are the companies of shareholders, the boards

of directors, or the groups of "business" men. With these the State deals, and these affect or are affected by governmental action in regard to commerce and finance. There are also some consumers' organizations and composite capitalist-consumer organizations, such as the co-operative societies and the Co-operative Wholesale Societies. The principle at work in co-operative societies certainly involves an almost revolutionary change in the profit system, since the financial advantages of the services rendered accrue in this case not only to the owners of the capital employed, but also to the persons served: but it is not necessary here to discuss the principle, since it is not operative in the connection between government and finance or commerce.

All commercial and financial organizations provide goods and services or control their provision; and therefore economic life, from this point of view as from the point of view of "labour," is a very highly developed system, not a chaos of private individual efforts. That is obvious platitude: but it must be repeated, lest government as contrasted with finance and commerce seem to be order as contrasted with chaos. The economic order is not, indeed, governmental, but it is perhaps even more intricate and delicate in its adjustments than is political order; and further, it must be remembered that whatever the evils of the existing economic system, a certain amount of goods are in fact produced and distributed: although there might be a better system, there might be a worse—or, worst of all, no system at all.

Government affects industry in the commercial and financial sphere, first, by taxation. This is the normal source of income for government, although in some countries State enterprises and concessions are used for income. Taxation is historically a regularized form of exacting tribute, and to the great majority of citizens even to-day it appears as an exaction which they would willingly avoid, for the State to many is realized only as

a taxing organization, which seems to get without giving anything in return. That, however, is an atavistic attitude which hardly concerns the argument here, except in so far as industrial organizers and workers ignore the utility of order and the administration of law as a basis for all industry: but clearly, although these advantages cannot be estimated in terms of money, industry could well afford more for the sake of government.

It should be noted that for the purpose of the argument here no distinction need be made between taxation by a central government and the collection of rates by local authorities; but it will be easier to concentrate attention upon the operations of the central government, and no difference in principle exists in regard to the bearing of rates or local taxation upon economic life.

All types of taxation in the United Kingdom affect industry and economic life; but it is worth noting that, if taxation be crudely distinguished as direct or indirect, there has been in recent times a decrease of indirect and an increase of direct taxes. This was probably due to an economic opinion as to the taxation which would be least obstructive of economic activity.

DIRECT AND INDIRECT TAXES.  
Estimates in Mallet's *British Budgets*.

|                       | 1887-8.    | 1898-9.    | 1912-13.   |
|-----------------------|------------|------------|------------|
| Taxes on consumption— | £          | £          | £          |
| Food .. .. .          | 5,545,926  | 4,912,252  | 10,294,514 |
| Drink and tobacco ..  | 35,833,286 | 46,904,285 | 54,191,200 |
| Total .. .. .         | 41,379,212 | 51,816,537 | 64,485,714 |
| Direct taxes .. .. .  | 28,541,451 | 39,587,541 | 78,447,635 |

Having in view the increase of population from about

36,670,000 in 1887 to 40,479,000 in 1898 and 45,736,000 in 1912, of whom about 31,300,000 were above fifteen years of age, the taxation bore thus upon individuals:—

|                     | 1887-8.          | 1898-9.          | 1912-13.         |
|---------------------|------------------|------------------|------------------|
| Taxes on food .. .. | £ s. d.<br>0 3 0 | £ s. d.<br>0 2 5 | £ s. d.<br>0 4 6 |
| Drink .. ..         | 0 14 9           | 0 17 9           | 0 16 2           |
| Tobacco .. ..       | 0 4 9            | 0 5 5            | 0 7 6            |
| Total .. ..         | 1 2 6            | 1 5 7            | 1 8 2            |
| Direct taxes .. ..  | 0 15 7           | 0 19 7           | 1 14 4           |

So far it might seem that taxation is simply an attempt to raise income for government with the least possible disturbance of normal economic tendencies: but taxation may be used for correcting or directing those tendencies. Thus a tax may be an attempt to restrict the production or use of luxuries, either with a view to avoiding social contrasts which might lead to social unrest, or with a view to remodelling the prevailing structure of society. Difficulties, however, invariably arise when taxation is aimed at industrial reorganization, as may be understood from a reference to the principles upon which the distinction of necessities from luxuries may be supposed to rest. What is now a necessity was once a luxury; and every luxury may be a first experiment in social progress, although many luxuries perhaps in fact would side-track human development. A luxury is a commodity in which taste predominates over utility, and, in that regard, it is a valuable social asset, for it is an instance of the consumer's activity. A necessity is an object which one must have and, therefore, cannot freely choose to have or not; whereas a luxury is an opportunity for

the exercise of free choice ; but a society in which everything was a luxury would be freer than one in which everything was a necessity. It would be, therefore, a crude social ideal which would attempt by taxation to restrict luxuries.

Again, attempts have been made to increase one industry and decrease another by a form of taxation. The customs duties which aim at keeping out certain goods, or the drawbacks which aim at inducing the import of other goods, are instances of raising money for government by a means which is intended also to adjust or correct the structure of economic life : but this will be spoken of in dealing with foreign trade. The general social policy which is embodied in death duties or a graduated income tax do not directly affect industry and, therefore, need not be considered here : but obviously the principles of adjusting social differences by differential taxation can be used also for remodelling the industrial and economic life of a nation, and there is no reason against such remodelling, since economic life, as it now is, is not necessarily good and is largely the effect of the desires of past generations. It would, however, still remain doubtful whether taxation is the best way to remodel according to our own ideas of what economic life ought to be.<sup>1</sup>

It is now necessary to consider the expenditure on government so far as it affects industrial life. Whatever the province of the State, it will in the exercise of its office expend money and, therefore, will need money. From the earliest days, governing groups have demanded tribute ; and while some have regarded government as a source of income, others have regarded the tribute as their due reward for keeping order. Government, as it has been shown above, was at one time everywhere, and is now in some countries, a private enterprise run for

<sup>1</sup> The method of accepting the social structure was embodied in Mr. Gladstone's budgets, but since the 1910 Finance Act remodelling that structure has been aimed at.



profit; and consequently decisions in law were made and enforced which "paid" the judge and the administrator. It is now, however, more usual to suppose that the amount of money paid to administrators is not based upon what they could make out of administration, but upon their needs in the exercise of their functions. The expenditure of the State is thus justified in the eyes of those who need government and derive benefits from administration. This expenditure naturally affects industry, especially if it is used outside what would strictly be called administration and the immediate needs of administration. For example, if the State gives large contracts for works, roads, drainage of districts, etc., the State may become the most important "consumer" in a country. The character of the economic life of a country can thus be affected by the expenditure of State funds.

Even in the normal expansion of government the expenditure directly connected with industry is increasingly important. For example, following the division of function among departments noted above, it may be noticed that the departments with "economic" functions to perform are now by far the most expensive.

## ESTIMATES FOR 1919-20.

|                                      | £                      |
|--------------------------------------|------------------------|
| Board of Trade .. .. .               | 3,413,254              |
| Department of Overseas Trade .. .. . | 290,000                |
| Ministry of Transport .. .. .        | 181,061                |
| Ministry of Agriculture .. .. .      | 1,878,095              |
| Ministry of Labour .. .. .           | 3,435,053 <sup>1</sup> |

The expenditure of the State in the United Kingdom on what may be called economic services has increased owing to "social reforms." This increase may be marked in the following figures:—

<sup>1</sup> That is including some war expenditure. Figures from Finance Accounts, 1919-20.

|               | Old Age Pensions. | Labour Exchange and Unemployment Insurance. |           |
|---------------|-------------------|---|-----------|
|               |                   | Buildings.                                  | Salaries. |
|               | £                 | £   | £         |
| 1908-9 .. ..  | 2,070,000         | —   | —         |
| 1909-10 .. .. | 8,496,395         | 70,000                                      | 16,155    |
| 1910-11 .. .. | 9,797,679         | 75,621                                      | 108,926   |
| 1911-12 .. .. | 11,727,597        | 107,390                                     | 162,423   |
| 1912-13 .. .. | 12,210,611        | 292,617                                     | 684,037   |

In addition to the cost of "economic" or quasi-industrial administrative offices, the Board of Trade, the Ministry of Labour, etc., there are many State grants in recent years which are in fact expenditures on economic services.<sup>1</sup>

#### GRANTS AND SUBSIDIES.

##### *Services existing before the War.*

###### Grants:—

|                              | 1914-15. | 1920-21.  | Increase. |
|------------------------------|----------|-----------|-----------|
| Agriculture .. ..            | £425,000 | 1,685,000 | 1,260,000 |
| Harbours and Transport .. .. | 68,000   | 1,232,000 | 1,164,000 |
| Development Fund .. ..       | —        | 1,000,000 | 1,000,000 |
| Scientific research .. ..    | 106,000  | 697,000   | 591,000   |

##### *New services since 1914.*

|  |   |            |   |
|--|---|------------|---|
| Railway agreements .. ..                               | — | 23,000,000 | — |
| Canals and coastwise transport subsidies .. ..         | — | 2,378,000  | — |
| Bread subsidy .. ..                                    | — | 45,000,000 | — |
| Housing subsidy .. ..                                  | — | 15,000,000 | — |
| Ministry of Shipping .. ..                             | — | 16,280,000 | — |
| Ministry of Food .. ..                                 | — | 1,243,000  | — |
| Advances:—   |   |            |   |
| Coal-mines deficiency .. ..                            | — | 15,000,000 | — |
| Export credits .. ..                                   | — | 2,000,000  | — |
| Other advances (housing materials, dyes, nickel) .. .. | — | 2,870,000  | — |

It is perhaps necessary also to mention here the loans and the interest of loans both of central government

<sup>1</sup> Figures from *Cmd. 802 (1920), Memorandum on Present and Pre-war Expenditure.*

and of local authorities. They are the "costs of production" for government, and they certainly affect industry. Adam Smith was very much alarmed at a State debt in his day of £130,000,000; but the British central government unfunded debt on March 31, 1918, was £5,532,000,000 and that of local authorities in the United Kingdom £664,819,229.

These debts are owed to particular persons who can under the present system transfer their claims to descendants; and the descendants of those who have no such claims will therefore find that the "cost of production" for government in their day is increased because we could not pay the full cost of government in our day. This may have peculiar effects upon the status and function of government.

But even with all the quasi-economic expenditure of government and the burden of governmental loans on future industrial development, the State costs less than other services. The total amounts paid by the population of the United Kingdom for their various needs indicate the proportion of economic life which is filled by government, so far as money value is concerned. The expenditure in the United Kingdom in 1907 was approximately as follows<sup>1</sup> :—

|  | Million Pounds. | Percentage. |
|--|-----------------|-------------|
| Food, drink and tobacco .. ..          | 483·2           | 22·4        |
| Dress .. ..                            | 248·2           | 11·5        |
| Houses .. ..                           | 246·0           | 11·4        |
| Professional and domestic services ..  | 100·0           | 4·6         |
| Cost of distribution .. ..             | 200·0           | 9·3         |
| Miscellaneous .. ..                    | 186·0           | 8·6         |
| Governmental services .. ..            | 184·0           | 8·5         |
|  | <hr/>           |             |
|  | 1,647·7         |             |
| Depreciation and wastage of capital .. | 180             | 8·3         |
| New investments at home .. ..          | 150             | 7·4         |
| New investments abroad .. ..           | 176             | 8           |
|  | <hr/>           |             |
|  | 2,153·7         | 100         |

<sup>1</sup> Crammond, in *The Times* for June 10, 1920: based upon the Census of Production.

In 1920 the expenditure on government is said to be about 30 per cent. of the whole ; but this may be an exaggeration, and it takes no account, naturally, of the new functions performed by government since 1907. The important point is not the cost of government, but what advantage the people derive from it. So far, then, it appears that government is intimately connected with economic life.

The State further "interferes" in the provision of a currency.<sup>1</sup> Coinage is now regarded as a normal function of governments ; and it first began to be so regarded because the action of a central government was the only means for standardizing the symbols of wealth and only a government could punish debasement or tampering with the coinage. Even in early days, however, governments sometimes did what they forbade any one else to do and debased the coinage themselves. Now, however, the coinage is standardized in most countries and forgeries are prevented. This no doubt assists industry, especially in so far as small amounts are transferred from person to person. But coinage or currency are not so important to industry and commerce as is credit.

The actual provision of financial machinery for industry and commerce is not regarded as a State function. It is in the hands of the banks of the world, and although (1) State banks exist and (2) the State has a very intimate relation in most countries with the banks, the organization of currency and credit is usually and in the main not a governmental function.

The Bank of England was established by Act of Parliament in 1694, and its charter was periodically renewed. Its relation to the Government is now fixed by the Act of 1844. The Bank is a peculiar instance of the relation of government to non-governmental organization : for the governor, deputy-governor, and the twenty-four directors are chosen from among non-banking City firms by the

<sup>1</sup> Under the Coinage Act, 1870, amended in 1896.

court of directors itself; but the Bank is the agent of the State, is bound to receive gold and pass it on to the Mint, and holds the reserves upon which the State depends financially.

The general relation of the British Government to British banks is at present regulated by the Bank Act of 1844, the purpose of which was to prevent reckless speculation and to provide some stability for the credit system. The State in fact has now centralized the issue of notes in the Bank of England, although some other banks still have the legal power to issue notes.

The Bank Act of 1844 divides the Bank into an Issue Department for issuing and paying notes and a Banking Department for creating or transferring banking credits. The Issue Department may issue in notes only to the amount of its holding of gold and securities. Normally it does not issue so much: but when a crisis arises, as in July 1914, it may be called upon to issue more. In 1847, 1857, and 1866 the Governments of the day authorized the Bank to break the law of 1844 if necessary; but only in 1857 was the limit actually exceeded. In 1914 an Act was passed giving the Chancellor of the Exchequer power to permit the Bank to exceed the limit—an indication of the new position of the Executive. The State, therefore, in the economic sphere is the regulator of note issue; and it was at first intended that the Act of 1844 should *prevent* an expansion of credit: but in fact, whenever that expansion has proved necessary, the Act to prevent it has been set aside. The Act, however, has had an unintended result; for it has caused the formation of a reserve which can be used in a time of crisis: that is to say, the utility of the Act is shown at the very moment when its operation is suspended.<sup>1</sup>

The State, being responsible for the currency, is also responsible for action when currency is deficient. The banks may not be able to supply enough, and the State,

<sup>1</sup> Cf. Hawtrey, p. 80, *Currency and Credit*.

therefore, must provide new methods of payment by the issue of tokens. "So long as the power of exacting what shall be the lawful means of payment resides in the State, the State has the responsibility for using that power. If it decides, for good reasons or bad, not to help the banks, there is likely to be a universal suspension of payments, such as has occurred more than once in the United States." <sup>1</sup>

The Banking Department of the Bank of England holds the reserves of the other banks in the United Kingdom, and the Bank of England has to find the cash for circulation and the gold for export. It charges a rate for its services. No special principle in regard to the activities of government is involved in the relation of the Bank to the other banks except in so far as the State stands behind the operations of the Bank of England: but of course in different countries the relation of the State to the banks is still more intimate, especially where the State becomes almost a trading enterprise. For example, the Japanese Government, in the early days of the new regime, for the purpose of raising money for its own use and for improving the foreign exchange, compelled the payment for Japanese exports to be made to the Yokohama Specie Bank in gold, while the Japanese exporter was compelled to receive payment from that bank in paper, the Government taking the profits on the transaction.

The relation of government to banking in every country is largely consequent upon the provision of currency by government. The banks, however, provided a currency of their own—the cheque. In 1913 the cheques passing through the London Clearing House amounted to £16,436,000,000, while the Bank of England notes in circulation amounted to £29,000,000, or about '2 per cent. of the cheques; <sup>2</sup> and thus the financial machinery for industry and

<sup>1</sup> Hawtrey, *Currency and Credit*, p. 202.

<sup>2</sup> Holden, *Statist, Supplement*, 2.2, 18.

commerce is largely independent of governmental action.

The most important fact, however, for government in regard to banking is the tendency to the amalgamation of banks. In 1913 in England and Wales there were about nineteen private banks and forty-four joint-stock banks. In June 1920, after many amalgamations, there were five outstanding great joint-stock banks which provided for most of the finance in trade and commerce :<sup>1</sup> and this tendency was regarded as so important as to warrant a special investigation by an official committee.

It is important for several reasons. First, the tendency to a financial monopoly means that the credit obtainable for industry is given at a rate which can be dictated by a group, if that group has no rivals. Loans can be given on such terms and to such persons as the directors of the bank choose, if there is only one source or very few sources for obtaining any loans. Such power would completely control the industry of a country : and therefore it is argued that it is a power which should be held only by the State. Amalgamation can hardly be prevented, and the attempt to prevent it might lead only to secret agreements : and amalgamation in itself has advantages. Larger sums are accumulated and manipulated more cheaply

| 1 Accounts for June 30, 1920 :—       | Million Pounds. |           |
|---------------------------------------|-----------------|-----------|
|                                       | Deposits.       | Advances. |
| Barclay's .. .. .                     | 281,945         | 94,496    |
| Lloyds .. .. .                        | 309,329         | 92,785    |
| London County, Westminster and Parr's | 308,396         | 97,756    |
| London Joint City and Midlands .. ..  | 371,055         | 129,123   |
| National Provincial and Union .. ..   | 232,992         | 92,785    |

and expeditiously ; but the danger is that the advantage may accrue, not to the public, but to the bankers.

Apart from its special relation to banks, government affects industry by the administration of company law. The Companies Department of the Board of Trade was established in 1904, although the registration of companies began in 1844. The offices of the registrars are in Somerset House, London, in Edinburgh and in Dublin ; and the Board of Trade has power to grant changes of name and other applications from companies. Liquidations and bankruptcy proceedings are also regulated by the Board of Trade in its Bankruptcy Department, under the Bankruptcy Act of 1883 : and it is an additional indication of the growth of the sense of an economic community that Mr. Chamberlain, speaking on the Bill in the House of Commons, should say that its object was " to do something to improve the general tone of commercial morality, to promote honest trading, and to lessen the number of failures." Even a strenuous opponent of all State interference, Mr. Cowen, in the same debate confessed that " the principle which lay at the base of the proposal was that the community as well as the creditors were interested in a debtor's affairs." Various other commercial or quasi-commercial registrations are administered by the Board of Trade, as under the Limited Partnership Act, 1907, the Money Lenders Act, 1900, and the Newspaper (Proprietors) Act, 1881.

The Companies (Consolidation) Act of 1908 makes it necessary to register most companies with the Board of Trade, makes regulations as to shares, annual general meetings, powers of directors, the presentation of accounts, etc. It is, in short, an elaborate statement of the conditions upon which the economic method of joint-stock or share trading is to be conducted. A great part of the Act is obviously intended to prevent fraud and to protect shareholders, and there is very little indication of the responsibility of the shareholders to the rest of the economic



community: but obviously government is here not restricting but directly promoting economic activities, and is in fact providing what is essential to the growth of enterprise.

The number of companies on the registers in the United Kingdom on December 31, 1918, was about 67,000. The new companies registered in 1917 were 3,963, and in 1918 the number was 3,504; there were fewer new companies in 1918, but their nominal capital was £127,879,495, as compared with £67,813,926, and the average amount increased from £17,111 to £36,495, which indicates the increase in the size of the units of organization.<sup>1</sup>

This increase in the size of commercial units is, of course, universal: for example, in the Netherlands in 1862 there were 284 companies with capital of 319 million francs, and in 1912 there were 7,660 companies with 3,781 million francs capital. In Germany in 1887 there were 2,143 companies with 6,095 million marks capital, and in 1913 there were 5,487 with 21,921 million marks. In Switzerland in 1901 there were 2,056 with 1,881 million francs capital, and in 1917 there were 5,850 with 3,884 million, besides foreign companies in Switzerland numbering 91 in 1901 with 1,093 million and 139 in 1917 with 1,642 million francs capital. This was notwithstanding the fact that between 1902 and 1909 Switzerland nationalized railways representing a capital of 1,200 million francs.<sup>2</sup>

The increase in the size of financial units of organization has led in some cases to the formation of trusts and combines, and this movement has resulted in governmental action outside the United Kingdom. When a trust or combine so controls the supply and price of a commodity or service as to have power to obstruct economic life, there is clearly a ground for State action: when a trust

<sup>1</sup> *Report on Companies*. Parliamentary paper No. 182 (1919), 28th Annual Report by Board of Trade.

<sup>2</sup> Milhaud, *Marche au Socialisme*, p. 115.

not only has the power but actually uses its power for the sole benefit of its shareholders, there is all the more clearly a ground for State action. But the action, although in one aspect simply an effort to maintain political justice, is in another aspect an effort to reorganize industry and finance on the general principle that they should be services for public needs.

The methods used for dealing with trusts and combines are well known. In the United States, under the Sherman Act, supplemented by the Clayton Anti-Trust Act, 1914, and the operation of the Federal Trade Commission, 1914, attempts have been made to stop any combination for reducing competition.<sup>1</sup> Several of the States have their own anti-trust laws: and yet it is notorious that trade is increasingly subject there to combines and amalgamations. In Canada there is the Combines Investigation Act of 1910, and in New Zealand the Monopoly Prevention Act of 1908 and the Commercial Trusts Act of 1910.

In the United Kingdom an official committee reported that "there is in every important branch of industry an increasing tendency to the formation of Trade Associations and Combinations, having for their purpose the

<sup>1</sup> The principle of equity relief was used by the Supreme Court as the ground for not applying the Sherman Act to the Steel Trust. This means that the Court decided that the public interest was not furthered by applying the Act; and therefore the economic convenience of having a large organization operative as the Steel Trust was, actually was allowed to override the political purposes of the Sherman Act. On such a ground any legislation limiting or restricting the effectiveness of economic organization would be invalidated: and therefore Mr. Day, a dissenting Justice of the Supreme Court, expressed himself as follows: "I know of no public policy which sanctions a violation of the law, nor of any inconvenience to trade, domestic or foreign, which should have the effect of placing combinations, which have been able thus to organize one of the greatest industries of the country in defiance of law, in an impregnable position above the control of the law forbidding such combinations." Thus it may be regarded as public policy rather to maintain a law which is destructive of trade than to make all law insecure by repudiating one in the interests of trade.—*New Republic*, April 21, 1920, p. 237.

restriction of competition and the control of prices." <sup>1</sup> The majority of the committee, however, recommended nothing more than a greater publicity; but a minority recommended State ownership without State management where monopoly existed, and a control of prices where combination gives private groups an opportunity to fix their own prices. The problem of combination and the actual disappearance of the simpler forms of competition in trade are engaging public attention; but no action has yet been taken by government in the United Kingdom. It is, meantime, apparently recognized to be futile to attempt to compel persons to compete who have discovered the advantage of agreeing not to compete.

The conception of the use of publicity gave rise to action under the Profiteering Act, 1919, and government under that Act has thus become a means of revealing some of the trade processes by which profits are obtained and prices raised. The reports of various committees under the Act have been most valuable; but prosecutions under the Act have been generally recognized to have been useless.<sup>2</sup>

The action of government in regard to companies includes a still more interesting phenomenon, for a government sometimes actually becomes a shareholder in an industrial concern. The chief instances of shareholding

<sup>1</sup> *Committee on Trusts*, Cd. 9236, 1919.

<sup>2</sup> The Act (1919) uses the words "unreasonable profit" to express the ground on which the enactment is made. A Statutory Order (No. 1516, 1919) established a Central Committee with standing Committees for (1) Investigation of Prices, (2) Receiving Complaints, (3) Investigation of reported Trusts. Reports have now been issued (August 1920) on the following: Aspirin (Cmd. 633), Clogs (Cmd. 541), Electric Lamps (Cmd. 622), Farriery (Cmd. 540), Fish (Cmd. 514), Metal Bedsteads (Cmd. 607), Motor Fuel (Cmd. 597), Road Transport Rates (Cmd. 549), Standard Boots (Cmd. 592), Tobacco (Cmd. 558), Worsted Yarns (Cmd. 550), Wool Tops and Yarns (Cmd. 535). Many other trades and commodities are being investigated. The Amending Act of 1920 allows the Board of Trade to approve schemes for limiting profit which shall thereupon be deemed "not unreasonable."

by the State in the United Kingdom are the Suez Canal Company and the Anglo-Persian Oil Company, and certain new industrial enterprises such as British Dyestuffs Ltd. and British Cellulose Ltd. There are also examples of close connection between the government and the controlling group in the case of Australian spelter and Canadian nickel.

In none of these British instances is the purpose of government supposed to be the raising of revenue. The State holds shares, not in order to make money by profit, but in order to secure a political advantage. The Suez Canal shares were originally bought in order to secure the trade-route to India; the Anglo-Persian Oil shares were bought in order to secure a supply of oil for the navy. The method is peculiar, but the purpose is genuinely political. The position is somewhat different in the case of British Dyestuffs, because, although one reason for State partnership may be the need of chemical products in future wars for which preparations are now far advanced, another reason is economic or industrial. It is apparently believed that the industrial structure of the United Kingdom should be made more self-sufficing by the governmental insertion of a dye industry into that structure.

In order to understand the character of the contact between government and finance, it is necessary to refer at least cursorily to the large sphere of financial and commercial operations in which governmental action finds no place. The true position of governmental action in this section of social life is to be estimated by noting the operation of certain forces, certain habits and customs, which taxation and banking and commercial law hardly affect.

The study of the actual practice in the distribution of the proceeds of industry shows at least one very interesting phenomenon. The meetings of public companies, in accordance with the law, provide a statement of

accounts and decisions of the shareholders as to the moneys involved. The chairman of the company, usually accompanied by some directors, addresses the small minority of shareholders present ; questions are sometimes asked ; but the audience does not usually hold as many votes as the proxies in the hands of the directors. The vote being taken naturally confirms the decision which the chairman, in the name of the directors, advises ; and on that vote the remuneration of the directors depends. The distribution of the proceeds of a public company is usually decided in fact by the directors, and thus the directors decide what their own services are worth. Happy men ! The rest of the world has to take for its services what other people think their services are worth ; but directors can secure the price at which they value themselves. When coal-miners use their strategic position in the industrial system to exact wages which they think their services are worth, there is a general outcry ; but directors do this daily. The economists, indeed, will say that they cannot ask too much, or their company will fail ; but the point is that there is no telling in practice how much is too much. The economists, indeed, would have us believe that the high price for directors is the result of the rarity of the article ; but economists are too credulous. There is nothing in all this to show that directors are wicked ; but it does show that the present system of company practice and company law gives a unique power without any corresponding responsibility. To cite one definite instance, there is a company which paid the same dividend to shareholders in 1914 and in 1919 ; but whereas in 1914 the directors received £10,000 each, in 1919 they received £70,000 each.<sup>1</sup> This may

<sup>1</sup> The name obviously cannot be given, as it would perhaps affect injuriously this particular company, which is not unique in the matter. The figures are from the accounts, not published. The sum for the directors was, of course, hidden in the cost of production, which, it was complained, had risen because of higher wages !

be called self-government in industry, and it certainly is the cost of production. Secondly, the profits in every company are earned, at least in part, by the exertions of persons usually referred to as "labour"; and it may seem reasonable to suppose that those who receive the profits should bear the responsibility for the conditions, the hours and wages of the labour they employ. There is, however, no provision in law to enforce this responsibility, nor even to make it possible for the shareholders to know what the wages and conditions of labour are in their own company. The accounts do not show the wages paid by rubber companies, nor is there any description of conditions under which services are rendered in England itself, not to speak of India, Java, or South America. The economic structure, therefore, involves power and certain advantages for shareholders and their representatives without any corresponding responsibility or even any knowledge on which the sense of responsibility could rest. There is, therefore, in this sphere hardly any sense of an economic community, or of the interdependence of the units of commerce and finance, or of the interrelation of the individuals whose activities make those units possible.

Again, the accumulation of financial and commercial power in the hands of a few or of small groups is an important fact in the economic system. According to the *Directory of Directors*, Lord Inchcape is director of twenty-three companies and chairman or vice-chairman of seven; Lord Balfour of Burleigh is governor of the Bank of Scotland, chairman of seven companies, and a director in five others. Sir Owen Philipps is chairman of twenty-three companies and director of three others. Sir John Esplen is on the board of thirty-five companies. Mr. John Cory is director of forty-one companies; and the son of Mr. John Cory, Sir J. H. Cory, is director of thirty-four. This indicates an important feature of the organization of commerce and finance; and the connection with govern-

ment is indicated by the fact that Lord Inchcape represents the British Government on the board of the Anglo-Persian Oil Company, and Lord Balfour, the chairman of the Government Committee to advise on industry after the war, is also chairman of the company from which the State bought the Nauru Island phosphates.

In the United States two persons are said to sit on the boards of seventy companies each. Two groups of financiers, the Rockefeller and the Morgan groups, control 36 per cent. of the wealth of the United States. Under the supreme heads there are 320 millionaires on different boards of directors, controlling a capital of 24,686,328,675 dollars. Of this the distribution is as follows :—

|                                |         | Dollars.       |
|--------------------------------|---------|----------------|
| Public services and industries | ..      | 15,636,853,815 |
| Railways                       | .. .. . | 1,725,000,000  |
| Banks                          | .. .. . | 4,500,911,930  |
| Mines and oil-wells            | .. .. . | 1,500,949,930  |
| Miscellaneous                  | .. .. . | 1,322,615,000  |

Far be it from a book not written by a citizen of the United States to include any examination of the connection between such persons or groups and the machinery of government; but the connection is notoriously close.

The *Frankfurter Zeitung* calculated in 1907 (July 16th) that in German industry and finance there was one man with 41 directorships, another with 37, another with 36, three with 30, and altogether 186 holding more than 10 directorships each and 449 directorships altogether. There was one man who was chairman or president of 18 companies, one of 14, one of 13, and altogether 70 chairmen who together controlled 117 companies.<sup>1</sup> Herr Hugo Stinnes, who before the war promoted the development of the French iron and steel industry, in 1920 owned a great part of the German coal resources and spoke at the Spa Conference in the name of the German Government.

<sup>1</sup> Milhaud, *Marche au Socialisme*, p. 121.

It will be obvious from the character of the evidence and from the obscurity in which the controlling forces of commerce and finance normally act that no general principle can be discovered in the operations of financial groups for influencing or for assisting government. This, indeed, is a suitable subject for further investigation of a scientific and non-controversial character; but in the present state of the evidence there is nothing to add in this matter to the argument of this book except the obvious facts that whether or not government affects financial groups, these groups do affect government.

To turn now to a less obscure region of facts, government affects industry and commerce very intimately in regard to patents and trade marks, the regulations in regard to which have been administered since 1883 by a department of the Board of Trade. This office keeps records of patents, and under the Patents Act of 1902 searches the records before issuing a new patent. Further work was given under the Patents and Designs Act of 1907. There are now about 70,000 patents in force, and about 30,000 applications every year. Designs as well as patents are registered under the Act of 1907; and trade marks are registered under the Trade Marks Act of 1905, with special provisions for marks of "the master, wardens, searchers, assistants and commonalty of the Company of Cutlers in Hallamshire," the Sheffield Cutlers' Company, and for the cotton marks which are registered by a Keeper of Cotton Marks in Manchester.<sup>1</sup> Thus there is an indication of a non-governmental organization of the registration of standard marks. The Board of Trade department issues various publications on patents and trade marks for the use of those employed in commerce.

With regard to the Merchandise Marks Act of 1891,

<sup>1</sup> Sections 63, 64, Trade Marks Act, 1905. The same Act provides for the use of the Royal Arms in trade. The amending Acts of 1919 do not appear to introduce any new principles, except those which embody the passions of war and the division of trade by nationalities.



the purpose seems to be to prevent fraudulent indications as to the place of origin of goods for sale. A committee has reported since the war on its defects, and it will probably be amended ; but in any case the State seems here to be acting for the prevention of fraud, and not directly for the promotion of trade.<sup>1</sup>

The supervision of weights and measures and of the non-adulteration of commodities is one of the functions anciently performed by small groups of producers or traders ; but it is now normally a function of government, although it remains in essence a part of the general organization of economic life rather than a mere application of the principles of political justice. The situation, however, in the United Kingdom indicates some characteristics of the formation of an organized economic community. The most commonly used weights and measures are, of course, fixed, and their use is regulated by the Government ; but nearly every industry has in addition certain special measures or tests of commodities. These special measures are usually fixed by some voluntary association representing the trade—as, for example, in the case of a “ load ” in the building trade. In the electrical trade, again, for example, the sizes of wires are in practice fixed by statements officially made by a voluntary association in the trade. So also in the engineering trades there is the British Engineering Standards Association, founded in a simple form in 1901 and incorporated in its present form in 1918. This is a non-governmental body including many associations of technicians and practical scientists, and it receives grants in aid from the Government. Its purpose is to fix the standards upon which the present production of engineering goods actually depends. In the case of gold, silver and plate, the measure of purity and the marks are fixed by statute, and are therefore governmental ; but the executive function of applying the marks is conferred by charter upon the

<sup>1</sup> Cmd. 760, 1920.

Goldsmiths' and Silversmiths' Company, the Birmingham Assay Office, and a Sheffield association, all of which are private companies. Thus the economic regulation of measures is carried out by a complex organization of which government forms a part.

The regulation of industry by the State through Patent Acts and Trade Marks Acts may be regarded in one of its aspects as economic ; but it may in another aspect be simply the application in this sphere of the general principles of equity. Clearly order and liberty, or justice, involve the certainty or security which is given by such Acts in regard to certain forms of property, and thus the Acts are part of the police functions or administration of justice. But in most States the administration under these Acts is through the department dealing with finance and commerce. The Board of Trade, and not the Home Office, deals with patents and trade marks ; and in the past this function has been performed by trading associations, guilds, companies, etc., and not at first by State authorities. The most fundamental purpose, then, of these Acts may be said to be economic, aiming at the better organization of production and distribution ; but whereas if the traders themselves administer the regulation of their own trade, those outside the trade depend only upon the goodwill of the traders, and whereas goodwill is not a good basis for social organization, the State now takes over the regulation not simply to protect consumers, but to represent the whole economic unit of which the traders are only a part.

Government enters even more closely into economic life in the action of such a body as the Department of Industrial and Scientific Research. The Department acts under the executive control of a Committee of the Privy Council ; but, like other new departments dealing with industry, it has an Advisory Council of "experts," who in this case are Fellows of the Royal Society, and who are assisted by Assessors representing the Government

departments concerned with industrial research. The Advisory Council has a theory of the functions of the State, for they say: "It is necessary for the modern State to organize research into problems which directly affect the well-being of large sections of the people"<sup>1</sup>; but they do not say why it is "necessary," for they are scientists and not political philosophers, and it may be that they believe the State to be a sort of general Providence which bears the responsibility for doing anything which no other body is willing to do. Practice, however, indicates principles more clearly than theory does, and in practice the Department has assisted in the formation of Research Associations which are companies working without profit, formed by as many firms in a trade as are willing to co-operate for research. The Associations are therefore voluntary industrial organizations; but the Government assists with funds and administrative co-ordination of their activities. There were nine such Associations in August 1919. Thus, as in regard to labour legislation and the trade unions, there is a tendency on the organizing side of industry for a junction to be made between government advancing into the economic field and industrial organizations advancing towards public service.

There is, however, an even clearer instance of the creation of new quasi-governmental machinery by direct connection with the non-governmental organization of commerce. In the case of commercial arbitration the State has put into the hands of commerce itself the arrangement or decision in regard to disputes. The Arbitration Act of 1889 (August 26th) consolidates the traditional methods. Contracts for purchase or sale of commodities now generally include a clause by which the parties agree, if a dispute arises, to submit to arbitration rather than appeal to the Law Courts. Under the Arbitration Act this submission is made to arbitrators, who may be

<sup>1</sup> Report for 1918-19, Cmd. 320, 1919. Cf. also Cmd. 905, 1920.

assisted by an umpire. The arbitrators are judges, not advocates. They are supported if necessary by the Court of Appeal (Section 17), which may issue writs to compel the attendance of a witness. The arbitrator or arbitrators are usually chosen by agreement between the parties, but if disagreement arises in regard to the choice, then the arbitrator may be chosen by lot. The award given is final, like a judgment in court, except, of course, for appeal and in regard to correction of mistakes in the awards (Section 7, c). The two important points in regard to this method are: (1) the ordinary courts are relieved of very technical matters, and the costs of a dispute are therefore often less than a process in court would be; and (2) the judges of the issue are generally commercial men of high standing who are familiar with the subject in regard to which the dispute arises.

The action of government in regard to commerce and finance seems to include different and perhaps irreconcilable policies: and government in Great Britain is traditionally connected with this apparent duplicity, for it is not based, as in other countries, upon a fixed or rigid constitution, but has grown largely by empirical efforts to perform specific acts without requiring any connection in principle between the acts. It may, however, summarily be said that government in performing economic functions in regard to commerce and finance is (1) using, improving, and therefore perpetuating, the profit system and the system of private ownership as a basis for industry and trade, and is also (2) revealing certain defects of that system from the point of view of the common good, as well as introducing tentatively and in very subordinate sections of the system practices irreconcilable with it.

The profit system is explained by economists as a method of payment for (1) organizing production and distribution, and (2) bearing the incidental risks. This explanation is based upon the assumptions that (1) those who get the profits are those who do the brain-work of administrative

organization, and that (2) those who have a chance of gaining more than the average payment for their services are the same persons who have a chance of getting less than the average. But both of these assumptions are incorrect. There are, of course, some persons who get profits who also organize ; but the old ladies in Kensington do not organize the shipping trade, although they get some of its profits ; and the amount a " sleeping " director gets in profits is not proportionate to the value of his administrative ability. Again, there are some persons who get less than the average when they invest in speculative " securities " ; but there are many wage-earners and salary-earners who lose employment and payment when trade is bad, and who therefore bear the risk without any hope of extra gain when trade is good. It is not only capital-owners who bear the risk ; but capital-owners get most of the surplus when there is any. This is the system by which the conditions of production and distribution of goods are governed, and the maintenance of this system may therefore appear to be essential to the present supply of boots and bread. But an organization such as government, which claims to act in the name and for the sake of all those concerned in industry and trade, cannot leave the balance of interests to be so obviously ill-distributed, and this not only because of political justice, but also because of industrial and commercial efficiency. This, then, is probably the dimly conceived ground for adjusted taxation and for death duties.

Again, if profit is a payment for service rendered, and if that method of payment is a good one, it should conduce to the improvement of the service. The better the organization of production and distribution, the more payment should be received, if gain for the organizers is the best incentive for making them organize. On the contrary, the worse the organization, the less the payment should be. That this is the actual governing principle in the existing system the more simple-minded economists

appear to believe : and their belief is based upon some facts, but there are other facts which disprove it. Trusts and combines exist, and also many amalgamations and agreements which tend towards limitation of output and enhancement of price. The amount of profit earned through this system is certainly not less than that earned by the old competing individuals of economic fiction ; but how is this profit earned ? Certainly in part it is earned by better organization. Competition is displaced by combination largely because the latter eliminates some of the waste of the former ; and profit earned for eliminating waste may be conceived as a payment for services rendered. But the story does not end there. The improved organization in a larger unit of production and distribution also gives increased power ; and a power to serve involves a power to refuse to serve. Now it is an open secret that if you are paid for services, you may derive increased payment from partially withholding your services. This is the operative principle in strikes for higher wages. Strikes, however, are occasional, while the withholding of services by a combine or a large unit of organized production and distribution may be a permanent element in its policy. The more you withhold, within a certain limit, the more you get for the amount you do not withhold ; and profits increase, not because of the improvement of the service, but because of its deterioration. The profit system, therefore, in one of its forms by no means conduces to the improvement of services ; and it is perhaps for this cause that one who had some experience long ago, Francis Bacon, Lord St. Albans, said : " The ways to enrich are many, most of them foul."

Apart from the need for political justice, the need for each man to contribute as much as he can to the common store of thought and imagination, there is the question of economic effectiveness. The economic community should eliminate waste and increase the supply and

improve the distribution of goods ; and government, in so far as it acts for the sake of the economic community, cannot base all action upon the assumptions underlying the profit system, because that system is in some ways defective and because some of the assumptions on which it rests are incorrect. Government, dealing with economic issues, does, therefore, in fact modify and correct, and does not simply maintain the existing system.

Nevertheless, government does also, while modifying, maintain the system, for there is no alternative system which an overwhelming desire or public action is establishing immediately and over the whole of financial activities. The change now proceeding is gradual. It is not, of course, inevitable that this should be so ; for sudden mutations are always possible : but in actual experience to-day the change seems to be very partial and very slow. The action of government ultimately depends upon the opinions prevalent in society—not only political opinion, but religious, artistic, and moral opinion ; and governmental action is therefore slow to change because opinion is changing slowly. The only valid argument for a revolution in politics or economic organization is that a revolution in social standards has already occurred.

## CHAPTER VIII

### COMMUNAL ENTERPRISE

THE general idea that political organization is different in kind from economic organization seems to be contradicted by the fact that States and subordinate local units of government do actually own and control the production and distribution of some commodities. The amount and the variety of industrial enterprises undertaken by political authorities have immensely increased in recent times. Nationalization and municipalization of services and even of manufacture seem to be increasing, in spite of opposition in the Press, which is supposed to be the voice of the people but has not yet been called the voice of God. The praises of private enterprise are sung by minstrels, *jongleurs* or *joculatores*, who are generally believed to be hired ; the evils of governmental action and the incompetence of civil servants appear to be articles of faith even among those who advocate communal enterprise ; and yet the process continues—the State and the local authorities take over more and more industrial services.

This movement is taking place all over the world. In every industrial country the government has been coming into closer contact with industry ; regulation has developed into direction or the suggestion of methods of organization ; assistance to trade has developed into alliance with trading enterprises ; and now government actually substitutes for the older system of production and distribution a new method. The new method, however, has many varieties,



and in different countries the relations of government to the ownership and management of communal enterprises is different. The one general statement which seems to cover the whole field is that the older system of production and distribution by private groups for private profit is no longer conceived to be the only system of organizing economic life.

In the unfolding of the argument so far the British system of government has been the chief example used : and in order to make the argument all of one piece, examples of communal enterprise also must be found in British experience. In this case, however, the examples drawn from Great Britain must be recognized to be more inadequate than in other cases ; for in regard to communal enterprise the British State is very timid and restricted, and even municipal enterprise in the United Kingdom is less various than elsewhere. For many reasons, most of them economic, industry and industrial services in the United Kingdom have been felt to grow in opposition to governmental action ; and the old idea of the economists of the early industrial period still survives in the phrase " government interference." If any new industrial or political ideas, therefore, were to appear in England, they would be obstructed by an established custom and attitude of mind. In the same way, when a house or city has been fitted with gas in the nineteenth century, it is more difficult to introduce electric lighting and heating ; but in a new American city the latest electrical fittings can be easily introduced. Again, the old factories and industrial workshops are damp and badly lit, but their very existence is an obstacle to improvement in an old city, while a new city can have its factories on a new plan at once. The English pay the penalty for having been initiators in industry, and the achievements of the first industrialists obstruct new attempts. So in the sphere of new ideas, the relation of the State to industry is very much affected by the experience of opposition between

them to which the British appear to be committed by their history.

In spite of the traditional opposition, however, there is in England an advocacy of nationalization of which any political party must take account. The controversy on nationalization provides excellent examples of irrelevancy in political and economic argument. It is said on the one hand that shipping should not be nationalized because the early shipping ventures were private risks and the venturers did very well : on the other hand it is said that we should nationalize shipping because the seamen's quarters are unhealthy. Neither conclusion follows from the evidence presented ; but happily the argument here does not necessitate the exposition of fallacies or the discovery of valid arguments for or against nationalization. It is said by a cynical writer in the *Temps* that nationalization is not really a live issue, for "the word 'nationalization' is too long and too ugly to become a battle-cry. No revolution could possibly be born of a substantive afflicted by so great a number of syllables."<sup>1</sup> However that may be, the controversy is largely one regarding future policy.

The reasons given for "nationalizing" coal-mines, railways or other services now privately controlled, are not of the first importance to the argument here. The debate on future policy may indicate a tendency ; but a still more important indication can be found in the reasons underlying the transference which has already taken place in various industries or services. It must be remembered that the provision of roads, the carrying of letters, and even the army, navy, and administration of justice, were all once instances of "private" enterprise. They were all once "run" with a view mainly to the private gain of those who ran them. Again, the possible methods by which industries now privately controlled may in the

<sup>1</sup> *Temps*, May 20, 1920, "Pour cingler la foule il ne faut pas choisir une cravache trop longue."

future be organized by the State are not of the first importance here. Much more important are the actual methods used in the case of industries and industrial services now organized by or under political authorities. Thus a mere description of the existing situation, with some reference to the tendencies which have produced it, will be enough for the purpose of showing what is the relation between government and industry in the case of communal enterprise.

All forms of State or municipal industry or industrial service are intended to be included under the term "communal enterprise." There is a very great distinction between State ownership or management and ownership or management by local authorities, not so much because of the centralization under the State, but because the State is fundamentally the source of law and justice. When the State becomes an employer or a trader, the situation is very different from that created by a local authority or a municipality as an employer or a trader, primarily, as will be shown later, because of the peculiar effects upon law and justice. Municipalities and local authorities have, indeed, some political status, and do, therefore, stand for political justice; but their status is derivative, and they have not so much hold upon the political imagination as the State. They may very well be trading companies without creating political difficulties; but the State can hardly afford to trade without losing some prestige. Apart from this distinction, however, all communal enterprise may be contrasted with all private controls of industry, first because the communal enterprises are not normally organized for profit-making; and even when so organized, the profit is shared by the whole political community. Secondly, communal enterprise is dominated by the conception of public service, whereas, it has been shown above, private control may lead to gain by withholding service. It has become common to speak of private enterprise and State control,

and for that reason here the phrases are reversed. The idea of adventure and initiative is not necessarily connected with the desire for private gain ; and therefore there is nothing in communal industry or services which necessarily excludes initiative and enterprise. Indeed, the current conception in regard to private enterprise is a misleading myth. What is private is the capital which gets the gain ; but the enterprise which has made the modern world has been that of the users or servants of the capital, who have seldom been the owners of it and have never reaped most of the gain. Control, and not enterprise, is what is peculiar to the shareholders. On the other hand, even if men could not be got to show initiative and enterprise except by the promise of personal gain for themselves, the same class which now has the initiative might still gain by showing initiative in a communal service. On that ground, without any further discussion, it is proposed to speak of communal enterprise.

The different examples of communal enterprise will be referred to simply as indications of a tendency in order that the facts may be clear within which the operation of a new principle may be observed ; and communal enterprise may be classified under the three heads of (1) communication and transport, (2) supply, and (3) health conditions.

In all civilized countries at present the carrying of letters and small packages is in the hands of the State, which operates through a separate Post Office department. In the United Kingdom the Post Office arose out of a monopoly designed in the seventeenth century to bring in money to the government. As the payment made by the public was regarded as a sort of taxation or "fees," the rates were fixed by Parliament ; but at first the postal officers were persons who had bought a monopoly and made what they could out of the public. The idea that the Post Office must make something out of the public still sur-

vives: it is worked as a separate financial unit which should show more income than expenditure, and therefore it is a source of gain; but the gain now goes to the community at large and not to any monopolists. The following figures will show the financial position of the service:—

GROSS AND NET REVENUE OF POST OFFICE.<sup>1</sup>

|         |    | Gross Exchequer Receipts. | Net Revenue. |
|---------|----|---------------------------|--------------|
|         |    | £                         | £            |
| 1887-8  | .. | .. 10,600,000             | 2,950,455    |
| 1898-9  | .. | .. 15,860,000             | 3,742,535    |
| 1910-11 | .. | .. 25,700,000             | 5,153,000    |
| 1912-13 | .. | .. 29,175,000             | 5,366,000    |

The Post Office is still for financial purposes classified with Customs and Excise and Inland Revenue as one of the Revenue Departments,<sup>2</sup> which is another indication that it is supposed to aim at raising revenue, and therefore naturally subordinates to that end the purpose of providing service.

Post offices provide an industrial or economic service, a service distinct in kind from the services of police and law courts: but, of course, communication is on the border-line between the political and the economic. One could not have justice in the modern world without trustworthy methods of communications. Nevertheless, in the main the Post Office may be connected with the departments of government which are economic rather than political, for the communications between citizens or members of the general public are not so numerous nor so important as the communication upon which trade depends. The Post Office provides a system of communication which makes the large-scale industry of to-day possible; but this system is provided not for the producers nor for the consumers separately. It is a system

<sup>1</sup> Table XXIII, Mallet's *British Budgets*.

<sup>2</sup> Its expenditure was estimated in 1914 as £26,152,000, and in 1920 as £49,689,000 because the post offices were used for payment of pensions, issue of war loans, etc.

which binds together all the members of the economic community.

The economic community is in this case very wide. The Post Office is a communal service, and the "consumers" may indeed be only those who write and receive letters; but obviously every one in a community benefits, not always directly in proportion to the number of letters he sends or receives. The custom prevails that the senders of letters should pay for the service, but they do not necessarily have the chief advantage, and there is no conclusive reason, except custom, why the service should not be paid for out of ordinary taxation. The principle is of general interest in regard to all such communal economic services. Why should certain persons be selected to pay most of the cost of what benefits every one? A traveller on a railway, going to business, brings about the advantage of the whole community. Why then should he pay the whole cost of his ticket? Of course, part of the cost is repaid to him by the community in his salary or wages; but it might be simpler to pay out of taxation for the whole of communication and transport, as we now pay for "the King's Peace." Obviously, it is nonsense to speak of "free" services or of "gratuitous" travel or letter-carrying. State and municipal services, for which no special charge is made, are paid for out of the pocket of the ordinary man by taxation. No special charge is made for the use of roads when we walk or drive on them, but the man who stays at home pays for their upkeep as well as those who use them, for he too derives an advantage from them. If the cost of postage and transport were paid for out of taxation and taxation were direct upon incomes, then the poor would have less of the disadvantage which they now suffer by comparison with the rich; for now the poor man pays his fare and he pays for his infrequent letter, and in so paying is burdened more than the rich for the same service and for the advantage which accrues

to both, whoever uses the service. It is possible, however, that the sender of letters is required to pay in order to deter the public from overburdening the service: but it is doubtful if the passion for writing letters is so great as to need deterrence. In any case it is interesting that in this great economic service we appear to be hesitating between two very different principles of estimating the value of a service to the community at large.

In finance the State post offices have already made an advance in banking; but there are separate State banks in Australia and New Zealand. The Australian Commonwealth Bank is interesting in particular because it was begun without any deposits solely by the use of the credit of the Government of Australia. The bank now operates successfully in the same manner as other banks, except that the profits on transactions accrue to the common account of all the citizens. In the United Kingdom naturally no such attempt has been made; but the post offices have been used for various services other than communication. A "savings" bank system and an insurance system are operated through the Post Office, and advantage has been taken of the post offices for the distribution of pensions. The important fact is that the State is represented as a service, other than that of policing, in every town and village by a post office. The system covers the whole country and enters intimately into the normal life of the population.

Further, the same system has direct connections with similar systems in all civilized countries, and therefore this department of government which, in one aspect, is most local, is in another most international. The Universal Postal Union will be discussed below; but it is worth noting here that the postal services provide an opportunity for bringing the peoples into much closer contact than they could possibly be brought by the contact of the central governments which are supposed to represent them. This is perhaps only a reflex in the

governmental sphere of the internationalism of trade and commerce; and it is perhaps because government, acting through post offices, is in reality performing economic functions that the postal services are international.

In addition to services performed by post offices, government is now usually concerned with the provision of roads. Here communication is obviously a political necessity; but it was not until private enterprise for profit had failed to produce or maintain the roads that in most countries the central and local government took them over. By that time, however, communication had begun to depend, over long distances at least, upon railways, and in some countries the State at once took up the task of providing railways. In other countries, however, the railways were provided by private trading groups, and in 1913 there were in the world 690,138 miles of railway, of which 225,914 miles were owned and operated by governments. Thirty-three States owned the railways of their countries either partly or wholly, but the United Kingdom and the United States did not. In India and the Netherlands private companies are given by the State a concession for working some of the railways.

Even in the United Kingdom, where the railways were established during the classical period of suspicion of government "interference," the peculiar character of the transport services has been recognized. From the very beginning the railway companies have been regulated and supervised in a very special way by the State. The Railway Department of the Board of Trade administered Acts as to rates, expansion, and safety, and during the war the obvious fact that the life of the whole community depended upon the railways necessitated a step towards organizing them as a public service under a Railway Executive Committee formed of representatives of the shareholders. The next step was the establishment of a Ministry of Transport, which took over the functions of



the Railway Department, the Road Board, and certain Commissions dealing with transport services. It now attempts to co-ordinate without State ownership or State management, and therefore provides a partial and tentative economic service.

In the supply of commodities the State is active. It owns and operates coal-mines in Germany, the Netherlands, Australasia and Sweden ; but in the United Kingdom and the United States there has been no "nationalization" of supplies.<sup>1</sup> Normally the State provides commodities in order to ease the economic situation, and by a method which departs from that usually employed in industry ; but governments may act exactly as private groups.

Camphor is a monopoly of the Japanese Government since 1903. The tobacco trade, both manufacture and sale, is a State monopoly in Austria, France, Italy, Spain, Portugal, Roumania and Serbia ; and in these cases the purpose seems to be to raise revenue, not to provide or to reorganize services. The principle is, therefore, not different from that of private enterprise, for profit takes precedence of service as a dominant motive.

Municipalities or subordinate political authorities provide supplies of all kinds. Water, gas and electricity are supplied by most great cities. In Italy there are many municipal bakeries, drug-stores and butcher's shops. There are municipal refreshment-rooms in Torquay, Hamburg, Munich, Frankfurt and Ghent. And generally it may be said that, even in the United Kingdom, the supply of those commodities which are regarded as the

<sup>1</sup> An amusing instance of a theory which will not fit the facts is to be found in the idea of "interference" in the following sentence : "The government may provide . . . various public works and institutions for the provision of which private enterprise is unequal. . . . Considered as a method of governmental interference, this . . . etc." (Shield Nicholson, *Principles of Economics*, iii. p. 247). So even when no other body can do it, it is interference for government to do it !

necessary minimum (water and light) is mainly in the hands of municipalities.

In regard to health conditions the most obvious economic services are performed by municipalities and local authorities. The provision of drainage is now regarded as a normal activity for local government, although there are cases in which the drainage system is provided by private enterprise. For example, the drainage of Rosario in Argentina is provided by a British company with £800,000 capital. The company's profits, earned from the moneys paid by householders in Rosario, amounted in 1913 to £40,795. The dividend was 4 per cent. The municipality has, however, granted only a concession of seventy years, not a complete freehold of the drains. Another example of private enterprise is that of the public conveniences in Paris, controlled by the Société des Chalets de Nécessité, "which has for several years paid dividends of over 20 per cent. on its capital of 2,519,100 francs."<sup>1</sup> These examples are commonly regarded as strange, since the majority are now familiar with the idea that public health needs should be supplied by public authorities. These public health needs are on the boundary of what has been called in this book economic; and no reference need be made here to those services which clearly lie beyond the boundary, such as the provision of education, art and social amenities.<sup>2</sup>

The extent and variety of trading by political units has been well put by Mr. Emil Davies as follows: "Eliminating the element of time in getting from place to place, it is already possible for a man in any civilized country to be brought into the world by a State doctor or midwife, reared in a State nursery, educated, clothed and doctored at a State school, and, if needs be, fed at the cost of the community during his school-days (except, in London,

<sup>1</sup> Davies, *State in Business*, p. 20.

<sup>2</sup> The reason for distinguishing these services from services here called "economic" is given in Chapter I, p. 17.

on holidays and days of public rejoicing). He can earn his living in Government employment in any country. In most big towns he can live in a municipally owned house. In New Zealand the Government will lend him money with which to buy a house, and it will also lend him, free of charge, the plans on which to construct it. If sick, he may be treated by a State doctor or in a State hospital. He may read at the State or municipal library until he goes blind, when the State will take him into a State blind asylum, or until he goes off his head, when he will be cared for in a State lunatic asylum. If unemployed, the State endeavours to find him work. In most of the towns in Italy or in Buda-Pesth he can buy his bread from the municipal bakery, and in other countries he can get municipally killed meat from a municipal butchery, and flavour it with Government salt, after having cooked it over a fire made with State-mined coal. Or he can partake of this meal in a municipal restaurant, drinking municipally brewed beer, wine from the State vineyards, or State spirits. He then lights his State-made cigar with State-made matches, and can read a municipally produced daily newspaper. By this time, feeling more cheerful, he can draw some more money from his account at the State or municipal savings bank, and can visit the municipally owned race-course, where he gambles with the State or city, and can end up the evening at a State or municipally owned theatre. If he likes he can even take a municipal ballet girl out to supper, after which he may, if he feel so inclined, confess to a State-supported priest. Then, if he can afford it, he may go to recuperate at a State or municipal water spa or bath in France, Germany or New Zealand, after having insured his life with a State insurance office and his house and furniture with the State fire insurance department. By this time, if a strong individualist, in despair at the encroaches of the State and municipality in every domain of life's activity, he can buy State gunpowder at a State shop

and blow his brains out ; or if he likes to blow out some one else's, the State, having brought him into the world and made him what he is, will finish the job and kill him, this being a monopoly jealously guarded by the State except in war-time. In Switzerland, Paris or many another city, the municipality will bury him. There is no time to follow him beyond this stage, except to mention that the Public Trustee in most countries will probably look after the deceased's affairs much better than he did himself during his lifetime."<sup>1</sup>

In communal enterprise there is not only a different principle of ownership, but the idea of service becomes so dominant that the persons served are sometimes given control. This has been the result of experiments. The consumers and users have been organized in France by the Association des Abonnés au Telephone, which not only "protests," the normal British activity of a user of telephones, but actually spends money on the study of improvements for the system, both technical and financial. An American technical adviser was brought over to France by the Association. At first the Association was opposed to the personnel, but on studying the question of competence it has been led to an alliance with the telephone girls in order to shorten their hours of service.<sup>2</sup> The British Advisory Committees of Telephone Users are parts of the governmental machine ; but in both cases it is clear that the consumers and users are often given a place in the management of the service. This is unusual except in communal enterprise ; but it introduces into the economic system the conception that service should be the dominant motive in any enterprise. Examples of the same kind can be found in more important industries. When the State railway on the French western lines was organized in 1911, the managing council of twenty-one members included seven chosen by the

<sup>1</sup> *The State in Business*, p. 124.

<sup>2</sup> Marcel Sembat in *Annales de la R. d.*, i. p. 33.

chambers of commerce and the agricultural associations served by the line.

Similar systems have been introduced in the United Kingdom where a new form of communal enterprise has been attempted. The Port of London Authority is an example. The Act of 1908 is headed "to provide for the improvement and better administration of the Port of London"—an economic purpose. The Authority consists of twenty-eight members, ten appointed, one for the Admiralty, two for the Board of Trade, and the rest for the L.C.C., the Corporation, and Trinity House; and eighteen elected, seventeen by payers of dues, wharfingers and owners of river craft, and one by wharfingers—that is to say, all representatives of consumers or users.<sup>1</sup>

The participation of users or the control of users in the management of enterprise has been proved successful in the co-operative societies and the Co-operative Wholesale Societies; and thus there is in this sphere of finance and commerce the same movement of government and non-governmental organization towards a common basis of organization as has been noticed above in regard to the organization of labour. The basic principle of enterprise for service, not for profit, is being worked out both by government and by non-governmental groups, and the new economic community is, therefore, not born of the State only.

Another principle of organization of communal enterprise is worth noting. There is a tendency in some countries to organize enterprise communally in separate autonomous groups not dominated either by the central or by the local government. This is the case in regard to such bodies as the Mersey Harbour Board, elected by payers of dues at the docks, but containing some representatives of the State and the local authorities. Thus there are not simply two alternatives—nationaliza-

<sup>1</sup> The Authority controls capital to the amount of about £27,000,000 and has a revenue of about £1,400,000.

tion and municipalization on the one hand, or, on the other, private ownership for profit: for there is the third possibility of public ownership for public service, where the ownership and management are on the basis of other groupings not that of the State nor that of the local authorities. Examples of many different kinds of such groupings can be found. The law establishing in 1912 the State monopoly of insurance in Switzerland decrees that the administrative council for State insurance shall have forty members, twelve representing those who are compulsorily insured, sixteen representing the heads of private businesses in which there are persons compulsorily insured, four representing those voluntarily insured, and eight representing the State. Thus the whole management practically is in the hands of the representatives of the consumers and users. Similarly, in Saxony, in the national fund for insurance against fire, two-thirds of the council of administration represent persons insured.<sup>1</sup> Another example shows communal enterprise not based upon either control or local government units, but upon specially formed groups. There is obviously no reason why such private groups as co-operative societies should not have a public status different in kind from that of commercial profit-earning companies; and although in Great Britain this has not been the custom, it is being attempted elsewhere. In Italy a decree of August 2, 1916, established *Enti Autonomi dei Consumi*; and by June 30, 1917, there were 68 such associations, with a capital of about 9 million lire, connecting 535 communes with 8,200,000 inhabitants. In October 1917 they formed a federation with municipal councils which supplied foodstuffs, and in November 1917 the State assisted them to found the *Ente Nazionale dei Consumi*. This last association, as well as the others, unite for joint purchase and sale of foodstuffs, thereby exercising an influence on prices.<sup>2</sup>

<sup>1</sup> *Annales de la R. d.*, iii. p. 177.

<sup>2</sup> Milhaud, *Marche au Socialisme*, p. 255.

An earlier Italian law of May 31, 1903, established common funds for cheap housing. These funds are not either the State's or municipal, for co-operative societies, trade unions, charitable societies and savings banks, and other such associations, hold all the shares.<sup>1</sup> In Belgium the public authorities provided the basis for a similar plan just before the war for housing,<sup>2</sup> and a more successful plan of the same kind at the end of 1913 for the supply of drinking-water. Of the 2,630 Belgian communes in 1913 only 570 had a water-supply. A co-operative society was therefore created by law in which the capital was shared between the State, the province and the local authorities. Investigations began for a scheme for providing even the smallest villages with drinking-water.<sup>3</sup> In these cases, although government local and municipal was the basis, the new community was conceived to be a separate and distinguishable economic unit.

Communal enterprise in all its forms is important to the argument here chiefly because in it the conception of an economic community and of service rather than profit as the dominant motive is developed. But private groups may develop some preference for service rather than profit, and this may occur through joint enterprise with communal groups. Thus the public authority combining with private owners to provide a service thereby in some way affects the profit motive, though whether seriously or not it is difficult to say. In Germany the mixed form is common for electrical and gas enterprises. In Vienna, in 1910, the city became chief shareholder in a slaughter-house for reducing the cost of meat. In Switzerland the Bernische Kraftwerke A. G., which owns and manages all the electric power of the Canton of Berne, has a capital of 20 million francs, of which 94 per cent. is owned by the canton and the Cantonal

<sup>1</sup> A. Schiavi, *Annales de la R. d.*, iv. p. 167.

<sup>2</sup> Milhaud, p. 244.

<sup>3</sup> *Mouvement Communal*, November 1913.

Bank. The principle of sharing in these cases where the communal group dominates the private interests is entirely different from the principle in such sharing, as when the State takes a part of the capital in British Dyestuffs and the Anglo-Persian Oil Company. Clearly no rigid division can be made between the two types, but the difference is one dependent upon the motive of the dominant group within any such joint enterprise.

It has already been remarked that the mere fact that an enterprise belongs to the people of a State makes very little difference to the development of a new sense of the economic community, if the enterprise is merely worked for gain. In some countries the State industrial enterprises are used as methods of raising funds for the State, and this appears to be the chief conception at work in Italy. For example, the Italian Government monopolies provide revenue (in 1,000 lire) as follows:—<sup>1</sup>

| Monopoly.                   | 1919-20.  | 1918-19. | 1913-14. |
|-----------------------------|-----------|----------|----------|
| Tobacco .. .. .             | 835,451   | 647,869  | 205,156  |
| Salt .. .. .                | 75,534    | 69,743   | 54,997   |
| Matches .. .. .             | 63,764    | 48,537   | —        |
| Playing cards .. .. .       | 3,663     | 1,697    | —        |
| Lotteries .. .. .           | 55,728    | 39,764   | 64,879   |
| Coffee .. .. .              | 134,105   | —        | —        |
| Electric lamps .. .. .      | 2,123     | —        | —        |
| Total in 1,000 lire .. .. . | 1,170,368 | 807,610  | 323,032  |

The new monopolies of 1919-20 are interesting ; for no principle appears to have been operative in their introduction except the desire for State income. The use of lotteries in this connection is of special importance.

Similarly, no difference in principle in regard to the dominant motive exists when the State monopoly is

<sup>1</sup> *Economista d'Italia*, March 15, 1920.



granted as a concession. For example, the Spanish Tobacco Company, which has the monopoly as a concession, is accused of retaining a minimum of tobacco for Spanish consumption while making large profits by exporting the remainder. The Spanish Premier who granted the concession is manager of the Tobacco Company.<sup>1</sup>

In some cases municipalities follow a similar plan in profit-earning, and derive income for other services from ownership or the control of enterprises. Thus, Doncaster has an income derived from ownership of the race-course, of royalties on a coal-mine and of land. The small town of Klingenberg in Franconia actually pays each citizen about £15 a year out of town investments. The mere fact of public ownership and management, then, may not make a difference in principle in regard to the dominant motive of the economic activity.

On the other hand, the taking over of economic functions makes important differences in the structure of government, and this, more even than supervision of commerce or the organization of labour, tends to a change in the character of the State. The increase in economic activities has naturally led to the creation of new departments, and these departments tend to be separated from the departments of political government. Thus the Board of Trade, itself a new departure in government, had under it a railway department which before the war was largely concerned with "law and order" in regard to railways; but when the State began to organize the railway system after the war, a Ministry of Transport was formed which had a predominantly economic character. The same idea seems to be at work in the creation of a Mines Department, to which are attached Advisory Committees representing interests and Boards representing functions. In the same way the Post Office tends to be separable from

<sup>1</sup> *Accion*, April 21, 1920, quoted in *Economic Review*, May 19, 1920, p. 37.

the Treasury, as it enters more deeply into the supply of communications.

Thus, although on the surface the nationalizing of an industry and the taking of economic functions by central or local governmental bodies appears to show that the political State is extending its power, in actual fact the more economic activities there are, the more clearly a distinction arises between the departments dealing with economic life and the others. This is the case all over the world. The new economic departments are not "in the tradition." They have close relations with business men and trade unions, and their staffs tend to be of a different type from that of the officials of a Foreign Office or a Ministry of Justice. The increase of direct economic activities undertaken by government does not, therefore, show that political and economic organization are the same in kind, for as the economic activities are more clearly conceived and more effectually organized, government tends to be divided and a contrast grows up within the administration between the offices, both central and local, which are economic and those which are political. The centralization which accompanies the change from organization for private profit to organization for public service does not involve an increase of power and prestige for the political State, the repository of authority in law, the wielder of the "sanctions" of the traditional theory. The State and the local authority, in undertaking economic functions, thereby put off the "sovereignty" with which they are mythically invested. As a French jurist has put it :

"The number of public services increases daily. It is a movement which coincides with the progress of civilization. Theoretically this cannot increase the right of governments to power, for they have no such right ; but it is difficult to deny that it does increase their power in fact. We must not, however, forget that this increase of power is counterbalanced, if not annihilated, by an

extremely important movement, which is one of the characteristics of the modern evolution of public right : decentralization.

“ To say that a service has become or is going to become a public service means that it will be organized by the government, that it will perform its function under their control, and that they ought to secure its functioning without interruption. But this does not mean necessarily that the agents in charge of the service and the funds thereby affected are placed in direct and immediate dependence upon the government. On the contrary, in the case of many of the older as well as of the newer services, there is a tendency to establish a system of decentralization, which appears under various forms, for the study of which the time has not yet come. It is enough now to note regional decentralization, in which those who perform the public function have local connections more or less extensive ; decentralization of ownership, which implies the connection of an autonomous owning body with a public service ; decentralization of management (*fonctionariste*), which implies a certain managing power given to the workers in the public service ; and finally ‘ concessions,’ the system in which the service is put in the hands of a private body acting under control of the government.”<sup>1</sup>

It is possible now to consider some of the principles involved in the action described above, so far as they throw light upon the nature of government in the economic sphere. The idea that the State protects the weak or hinders hindrances is so prevalent even among scholars that communal enterprise is sometimes explained by reference to it. The State is thus supposed to be protecting the consumer or to be assisting the unorganized buyers against the organized sellers : but this is stretching the theory too far. It will not cover the facts. The public authority in communal enterprise is obviously not a

<sup>1</sup> Duguit, *Transformation du Droit public*, p. 56.

protector, keeping subjects in order : it is as obviously a servant, providing goods and services. The State and other public authorities are clearly organizing industry and industrial services in order that there may be more goods better distributed. The public authorities are not protecting anyone ; and therefore the classical English theory of sovereign and subject is not applicable. The Marxians, on the other hand, see that not protection but organization is the function of public authority in regard to industry. They, however, put off the performance of this function to a millennium in which the State shall be the Socialist State, and in addition they make the mistake of supposing that the State will be at some stage entirely " economic," as well as the mistake that the organization of industry will at the millennium be as centralized and governmental as the organization of police or the administration of justice is now. In actual fact the State has begun to organize rather than to protect, while still continuing in some of its activities to reflect and maintain capitalist society ; and further, whatever the millennium may be when it comes, the signs now point to a political as distinct from an economic State, and to an organization of industry as a public service in a very decentralized " federal " form.

The general tendency towards the domination of the principle of public service in economic enterprises has two aspects, from the point of view of economic life and from that of politics. In regard to economic life, it is obvious that most of the forms of communal enterprise are regarded as substitutes for the traditional system of private competition. Either that system is unable to provide the services demanded, as in the case of roads or drainage, or the elimination of competition leaves the public defenceless against private interests. But it is unnecessary to review the many reasons given for what has actually occurred : it is sufficient to point out that in communal enterprise we have the experience of a new form of economic

organization. It is not necessarily the taking over of economic functions of supply and distribution by a political government or a political local authority, for some of the forms of communal enterprise do not involve either management or ownership by political authorities. But in every form the characteristic is that the economic function is regarded and is organized primarily as a public service, that therefore there is (a) full publicity of finance, (b) facility for complaints, and (c) at least partial control by users. It is not possible to say, on the present evidence, that the new form of economic organization gives a new and better status to the workers, but obviously the tendency will be in that direction as a result of publicity and the possibility of effective complaints.

First, then, in regard to publicity, the conception of an economic community was perhaps dimly present in the agitations and policies leading up to the existing practices of communal enterprise. But what is more important is that the actual experience of the new system is making the conception of an economic community much clearer and more common. We are in fact passing from the age of industrial competition for private interest into that of economic service for common interests; and a revolution no less striking than that when the mediæval system gave place to the new industry may be going on under our eyes; but of course, if that is so, not communal enterprise only, but the whole contact of the organized community with industrial services, will show it.

The advantages aimed at by communal enterprise may be all subsumed under the head of public service as contrasted with private profit, for in every case it is believed that the conception of public service will dominate if any economic activity is organised communally. But how can this be secured? How can it be made certain that the public are served? The answer is: By publicity in the first place, and secondly by the power of effective criticism. The peculiarity of a communal enterprise is

that, as compared with a private business, its accounts and its operations are public : but this involves a very complete system of keeping records and distributing responsibility, and these inevitably lessen the speed of operation. The system of records is not greater in a communal enterprise than, for example, in a great modern bank, but in the State enterprises the system is adapted from political administration and is therefore called "red tape." A private business can be negligent. Its policy is opportunism. Its safety is that it works in secret. A communal enterprise, on the contrary, must have a continuous policy, a memory, and therefore a complex administrative system. The advantage of publicity, therefore, is paid for by delay ; and this is sometimes used as an argument in favour of private as opposed to public enterprise, although it only proves that the economic organization of the State has so far been modelled too closely upon political administration. There is a tendency, already noted, to distinguish the "economic" offices of central and local government from the other offices and to give to the former a new technique which will perhaps secure publicity without involving dilatoriness.

And now with regard to effective criticism. The consumer or user of goods and services provided by private enterprise has no defence except to cease using or consuming ; and in the case of certain necessities he has no defence at all. It may be taken as obvious that the supposed defence by competition among producers is so weak and so easily avoided by combination that it is no defence at all. On the other hand, any one can complain against a public service ; and it is of the essence of communal enterprise that it creates this right to complain against bad service. For this reason many complaints can be found to be recorded against communal enterprises and few against private. For this reason also there is a prevalent notion that civil servants are incompetent because their mistakes and defects are open

to public criticism, whereas the incompetence and even the fraud of the agents of private enterprise are not thus made known.

Finally, the domination of the idea of service involves both an emphasis upon the need for continuous service and a new conception of the status of employees. The fluctuations of profit cause interruptions in service or supply ; but where profit is irrelevant interruptions are less likely. This is undeniably the principle embodied in the taking over of water-supply and lighting by public authorities. And with regard to employees, public service is notoriously characterized by the security or comparative permanence of tenure of employees. This has even been made a ground of complaint as a cause of inefficiency. There remains the possibility of entry of employees into a share in management, and the claim has been made by the trade unions concerned. The French State railway system allows of some share in management by employees, but it is very small ; and in the British system some attempt has been made on the Committees of the Transport Ministry to give a place to the workers ; but this principle is still rather an ideal than an operative tendency, and therefore is somewhat beyond the purview of this book.

The political effects of the movement may now be considered. The most startling is the effect of economic services performed by the State upon the conception of the other services also performed by the State. It is perfectly obvious that a postman and a State railway employee are not representatives of sovereign authority, but servants in the performance of a social function. The amount of power they have is strictly limited by the needs of the service. The efficiency of the service rendered is the one test by which to discover what the State servant in any economic service should do. There is nothing sacred or divine about a post office or a public convenience : nor is it possible to say that in providing these the State

is essentially the repository of force. Indeed, it would tax the imagination of an Austin or a German philosopher to see in the economic functions of the State any "sovereignty." But as a result, inevitably the conception of State service in non-economic spheres is affected. Sovereignty, authority, force, and all the jargon of traditional political philosophy, becomes inapplicable; for the policeman, the soldier, and the king are themselves regarded as servants in the performance of a function strictly limited in its sphere and carrying with it no special sacredness or divinity. The amount of authority and the kind given to each such servant is dependent upon the needs of efficiency in the service he performs. The political State is, then, not a leviathan whose powers and rights are limited only by a meagre individualistic right to "freedom": it is not organized society or the general will "compelling men to be free," in the absurd phrase of Rousseau, but a co-ordination of public services for the maintenance and development of a certain form of social order and liberty.

It is reasonable, then, either to complain against any part of the State organization because the cost in mental and moral as well as financial damage is too great in view of the service performed, or to criticize away into nothing any State apparatus which performs a political function badly or performs none at all. Thus, Parliament is part of the State machine which may not be performing its function properly, and all common men know this; but the lawyers and the philosophers have woven round the whole of public service an authoritarian myth of sovereignty.

The second great effect of communal enterprise upon political government is far more important. It is that political government may lose the status necessary for the maintenance of order and liberty and the administration of justice. This loss is not quite the same as the loss of authoritarian sovereignty; for justice may be maintained by a State service which claims no special



sacredness. Justice, however, depends for its maintenance upon a certain aloofness of the judge and his presence in a dispute as one who is not a party to the dispute. The saying that no man can be judge in his own case is true also of the State. Now if the State becomes an employer and a trader in industrial services, there will be a danger that the government representing the State as employer, when it has a dispute with State employees, will seek assistance from the State as maintainer of justice. In concrete terms the military may be called in to settle a wages dispute, and the conceptions of the majority are so confused that it may even be generally believed that to strike against the State as employer is treason or a "defiance of the community."<sup>1</sup> That problem need not be solved here. The point of importance is that if the State uses the force which exists for the maintenance of justice to give it an economic advantage not possessed by other employers, the State as judge will lose all the prestige and the independence necessary for the exercise of judicial functions. This is not pure prophecy. We have had experience of State forces used against State employees in France and Italy. We have had the threat of it in the United States and England: and this is not the least important of the causes for the present suspicion of the State, especially among the working-class, for how can the State be believed to be neutral in any dispute if, whenever its own advantage can be secured, it makes use of its supposed superiority as a neutral to crush those who complain against it?

The solution of the difficulty is obvious. The State or public authority as employer must be clearly distinguished from the State or public authority as judge and maintainer of order and liberty. The State or public authority employees in an economic service are not bound to the managing authority or to the community

<sup>1</sup> This appears to be believed by the leader-writers in *The Times* and the *Temps*,

by any bond of loyalty or patriotism, but only by the bond of a contract to serve on specified or implied conditions. And therefore they and the public must clearly distinguish their position as parts of an economic organization from their position as citizens in a political community. But this distinction in principle is not only an ideal, it is gradually becoming operative in the tendencies referred to above. The two types of governmental organization are being distinguished and divided in practice. The position given to postmen, and railwaymen when the State owns railways, is quite different from the position of soldiers or police. The tendency of public opinion and of legislation and administration is to make the distinction even more clear, and this can only result in a division between the political and economic community, however intimate their connections.

## CHAPTER IX

### WAR CONTROLS AND EXPERIMENTS

**T**HE Great War was the occasion for a more than normal intimacy in the relations of government and industry. In every country the Government called into administration the business man, and more and more industry tended to be organized as part of the State machinery. The business man in the name of government dealt with the industries into which the State entered, and, step by step, the State entered into every section of industrial life. The result was that after three years of general war in the chief industrial States, government and industrial organization could hardly be disentangled. Private profit gave place to State control, and the chief economic purpose of government seemed to be to produce war material.

Some have supposed that the result proved the bankruptcy of the capitalist system or the system of private enterprise; and certainly the weaknesses of that system were revealed by the strain of war; but it is not possible to conceive of any system applicable to peace which would not show weakness in time of war, and indeed an economic system suitable for war would be quite unendurable unless war becomes the normal activity of all men.

The fundamental cause of the new situation, however, seems to have been, not that the economic system was bad, but that war is a State enterprise, and so absorbing an enterprise that it necessitates the adjustment to it of all the other activities of men. It is the State which goes to war, and government, which is always normally

affected by preparation for war, when war comes, is in the main "force and fraud."

For the absorbing industrial needs of modern war "business" men were used as agents and advisers, not as principals; and business organization was used as the instrument of ends for which it was never designed and was perhaps unsuitable. It was understood in all belligerent countries that the chief purpose was to "win the war," and that purpose was the purpose of government. Business or industrial organization, mean as some of its purposes are, does not now usually sink so low as the State does when it goes to war; and thus it does not follow that industrial organization is better when it is used for State purposes.

War is essentially a relation of governments, or of States; and therefore in the argument of this book the point has now been reached when government can no longer be considered simply in relation to the governed. It is now necessary to bear in mind that any government is essentially over against, contrasted with, and in contact with other governments; and the nature of government in general is, therefore, to be understood partly by reference to these contacts. It is because of the existence and the action of other governments that any government enters into the relations with industry which we now include vaguely under the term "war controls and experiments."

The normal relations between governments in regard to a common economic life of all nations is discussed below in reference to international trade; but it must be recognized that the preparation for war is also a normal, though not an economic, relation of governments, and that this preparation is the reason for various strange relations of government to industry, such as in England we find in the dye industry. The subject here, however, is more restricted. It is not the general relation of government to industry in view of future war, but the actual tendencies

embodied in the experience of the recent Great War. That experience, however, was in some ways abnormal, and cannot be used to indicate a fundamental tendency : it cannot, therefore, be argued, for example, that because we had food-rationing during war, therefore we can or should have it during peace.

In another way, however, war experience is important for the present argument. Both industry and government have been profoundly affected by the last five years of war, and it is still difficult to say how fundamental the changes are. Government is entirely transformed in Russia, Germany and Austria. Many new States have arisen, and they, as well as the older States, are involved in currency difficulties and burdened with war debts. On the other hand, industrial organization is on a larger scale than it was in 1914. Financial amalgamations have been formed which are likely to be permanent. Trade Unionism is stronger, and has a more definite policy ; and therefore the experience of war has undoubtedly affected permanently some of the relations of government and industry.

Again, the experience of the war may be useful in indicating new methods of relating government to industry. Even if every trace of war control were destroyed, the memory would remain : and the experiments in restricting profit, ascertaining costs of production, distributing according to need, and many such, contain some indications of new principles in economic life.

What follows, then, must be regarded, not as an attempt to give a complete account of war experience in the contact of government and industry, but merely as a statement of some important experiments which may be useful in estimating the value of the tendency to an organized economic community based upon other principles than self-interest and profit.

One of the most remarkable facts is the number of new Ministries and sub-departments to which the war

gave rise. In Great Britain there were the Ministry of Munitions, the Ministry of Food, the Ministry of Shipping, the Ministry of Labour, the Wool Control Department under the War Office, and the many Control Departments for Coal, Timber, Petrol, etc., under the Board of Trade. Apart from departments dealing with economic life directly, there were, of course, some new departments which were merely extensions of political departments—as, for example, the Ministry of Information and the Postal Censorship under the War Office; and there were some which were partly political and partly economic—as, for example, the War Trade Department and the War Trade Intelligence Department. The political and quasi-political departments, however, may be omitted here, since they do not affect the principle of the relation between government and industry. With regard, however, to departments organizing or supervising industry, commerce, and economic life generally, it was clearly felt that economic activities had to be reorganized. The existing machinery for organizing economic life was found to be inadequate, and the older departments of government were found to be unfitted for direct economic action.

Some of the creations of the war were not specially connected with war needs and will be permanent—as, for example, the Ministry of Labour. In other cases modifications introduced during the war have permanently affected an older structure, as may be noted in the change from the Board of Agriculture to the Ministry of Agriculture with wider powers, or in the case of the Department of Overseas Trade. Further, the movement set up by the war is continuing, as can be seen, for example, in the setting up of the Ministry of Transport. But in the main the war experience was embodied in the purely war-time departments such as the Ministry of Munitions. It is therefore necessary to consider the principles implied in what these departments did.

The State in war-time is an economic force as the greatest consumer and the greatest employer. As a consumer the State demands munitions of war, ships and railways, and perhaps even supplies for the civil population. In a great war the whole of communal life is dominated by the State, since war is the business of the State, and it is so absorbing a business that the State is compelled to extend its activities not only over industry, but over the whole of life. Education and the Church are subordinated to the State in time of war even more completely than is industry. Teachers inculcate savage virtues and bishops adapt Christianity to practical life. It is not to be wondered at, therefore, if industry becomes a means for destruction rather than production.

As an employer, the State directly engages men, boys, and perhaps even women, in its armed forces ; but it may also employ, directly or indirectly, all who supply war needs, which, if a war were great enough, would include the whole population. It is not possible in a war waged by an industrialized State to distinguish combatants from non-combatants. Thus in war-time government becomes both economic consumption and economic management.

The chief industry of war is the armament trade ; but the position of this industry is important not only during war-time ; for war is an established institution and the preparation for war is part of war. The State is affected all the time and in every detail of its action by the institution of war ; the actual period of fighting is simply the exaggeration of a normal state ; and the relation of the State to the armament industry is therefore normal and continuous. The State, indeed, produces some of its own armaments ; but private firms also produce armaments of which the only consumers and users are governments.

This industry, however, has several interesting economic peculiarities. It is the only industry in which the producers can be certain that the more they produce the more will be needed, so long at least as the war or

the preparation for war is carried on by equals. Thus the more Vickers and Armstrong produce for Great Britain, the more Schneider and the Bethlehem Steel Works will produce for other nations; and *therefore* the more again Vickers and Armstrong will be called upon to produce. The public appetite for the instruments of destruction is inexhaustible: the more we have, the more other peoples will want; and the more they get, the more we shall want. There is no economic law here of diminishing utility as the quantity increases.

Secondly, most industrial concerns regard other concerns producing the same kind of material as spoiling the market or capturing trade; but in armaments each great national group positively gains from the extension of the activities of groups in every other nation. Armament firms, looking across frontiers, wish each other good business—not altruistically. Thus the international spirit is embodied in the manufacture of instruments for destroying men. The competition here is not a competition in which each competitor desires to destroy his rival; for his trade would be gone if he had no rival. In other spheres the more competitors the less trade: here it may almost be said that if the competition is once established, the more competition the more trade there is.

Further, the making of a market in armaments is largely dependent upon the creation of political situations. The subject is delicate. It is unnecessary to recite again the old story of the Japanese naval scandals and of the agitation by a sometime employee of the Coventry Ordnance Works in England, and of the Krupp scandals revealed by Liebknecht in the German Reichstag. It is sufficiently clear that if governments will want more goods from the armament firms as war or the danger of war comes nearer, there is a tendency among these firms, if not to bring on the war, at least to make the governments believe that the time approaches.

Finally, in no industry is the idea of public service



more frequently inculcated than in regard to armaments. The chairmen at meetings of armament firms do not use the vile desire for lucre commonly expressed to the shareholders of boot companies. They appeal to the need of the country and the highest calls of patriotism. All armament firms produce the means of defence and not of aggression, as all governments prepare war and wage war only in self-defence. And all educated peoples believe this. Therefore to attack the great servant of public needs, the sources of our defence, savours of disloyalty. The conception of industry as a public service is not prominent in other economic services, but in the supply of instruments for the destruction of other men, the public rejoice to find it.

When the Great War came, the needs of the State in England were not met by the pre-war armaments trade, either privately or publicly owned, as at Woolwich; and therefore in June 1915 a Ministry of Munitions was established which eventually reorganized the whole engineering trade and the bulk of other trades. At the end of the year about twenty national factories had been established, and by 1917 about ninety-five; and by June 1917 there were 4,942 "controlled" firms under the Ministry. The mere size and inclusiveness of the organization is an indication of what may be done when an economic need is felt to be that of a whole community; but more important in principle was the working of "control." Every controlled firm had to show all accounts and to reveal other facts as to its works; elaborate systems were used to discover the normal cost of production with efficient working; and a standard profit based on this costing was enforced by the Ministry. The complete control of raw materials by the Government gave still more certainty to the method; but the details need not be considered. The important point is that government increased the efficiency of the trades controlled and brought knowledge into the place of traditional habit.

The State as the great employer, directly in the armed forces and in some munition works, indirectly in a vast number of war industries, was compelled to deal with what is vaguely called the labour problem. A traditional sentiment prevents the State from being regarded as merely an employer in regard to services in the army or navy, and indeed there is an obvious distinction in the fact that in these cases the service is not used for the private advantage of the employer, even in the case of a professional army of mercenaries. When the armed forces of the State are all those who are competent to bear arms, then the servant is felt vaguely to be his own master, obedient in his own interest, or at least in the interest of the whole of that political unit of which he is an integral part. Something of the same kind is felt in regard to all war services, and therefore in munition work at first the prevailing tone was one of willing or at least submissive service. It would have been impossible in 1914 in Great Britain to conceive that the action of the State in regard to munitions labour was one of "control"; nevertheless the control of labour was as inevitable by 1915 as the control of prices and material. Strikes were forbidden, arbitration was made compulsory, and trade union practices were violated on the condition that this was to be for the war period only. Dilution, or the introduction of women and unskilled men to the posts hitherto held by skilled men, was a further step. The most important result for the argument here was the change in the workers' attitude towards State ownership and State management. The State as an employer and as the assister of employers during the war lost more in prestige than the State of patriotism and of "the defence of the people" could possibly regain. Hence it seems clear that a distinction between the economic and the political activities of government would be for the advantage of both.

In addition to the supply of munitions, government

was largely concerned in the Great War with problems of transport. The railways were always understood to be vital to the State, and the British companies held their franchise on a distinct understanding as to the claims of government in a crisis. On the day after the war began all the railways in Great Britain were taken over by the State, but the actual reorganization was done by the Railway Executive Committee, which consisted of the General Managers of the chief companies. Thus government organization of an economic service, not for profit but for public needs, was actually carried out by the same men who normally had based their action upon the practice of competition for the sake of private profit. The rolling-stock was pooled, competing services stopped ; and with an eventually much restricted material and machinery the whole service was able to carry quantities of munitions and troops as well as to continue the civilian services which were still required.

Shipping was another story, for the procedure was tentative, and the reorganization was achieved very gradually. The history of blue-book rates need not be recounted. The requisitioning of some ships and the sinking of others raised the value and the earnings of the remainder ; but at last, in 1917, almost the whole of the British mercantile marine was controlled from one centre, the Ministry of Shipping. The important point of principle is that the freight-space was allocated in accordance with the essential needs of the people as a whole, and the comparative money values of the cargoes were regarded as irrelevant. Normally, of course, a ship carries what will pay best, having in view bulk and return cargo, and not what is most urgently needed by the consumers. A still more unusual experiment was successfully made in 1918, under the Allied Maritime Transport Board, which allocated tonnage among the various allied nations, again according to the need of their populations and without regard to ability to pay for the service rendered.

We may now turn to experiments in the provision of more commonly felt needs for heat and food and clothing. In the coal trade the first entry of government was for the purpose of increasing output, since recruiting had diminished the number and the skill of those employed. Coal exports were controlled under a licence system from May 1915 by Order in Council under the Defence of the Realm Act, and Committees considered and reported upon the possibility of reorganizing production and distribution.<sup>1</sup> The prices of coal continued to rise, and led to the Price of Coal (Limitation Act), 1915, in the hope that the Government might control the situation while remaining external to the organization of the trade; but the plan proved impracticable. On December 1, 1916, the State took over the mines in South Wales, and on March 1, 1917, the remaining coal-mines in the whole United Kingdom,<sup>2</sup> establishing a Coal Controller's Department under the Board of Trade. The result was an Act to legalize an agreement entered into by the Controller with the mine-owners' representatives, by which the Government guaranteed a profit to every company based upon the profits for the two best of three or four best of six years before the war, but the Government were to take 95 per cent. of the profit earned in excess of this standard; and thus the State enforced a principle as to limiting profits in the interests of the community.

The wages disputes leading to some strikes and to increases in wage rates do not involve any principle except in so far as here again the interests of the parties concerned were subordinated to that of the organized community in the stress of war.

The Government reorganized the distribution of coal by arranging for coal to be supplied to districts from the sources best suited to supply them, whether because of geographical position or transport facilities. Next, the

<sup>1</sup> Cd. 7939, Cd. 8147, Cd. 8345.

<sup>2</sup> By Order in Council of February 22, 1917.

coal distributors were given distinct and non-competitive services to perform, and consumers were allocated to them according to a scheme which retained some elements of voluntary choice.

The amount of coal and other fuel was rationed in accordance, not with the wealth of the consumer, but with the size and kind of the premises to be warmed ; and local fuel committees were organized to administer the orders issued by the Controller. Thus the old economic principle of contending demands was abrogated, and the local group was given some power in applying the new standard.

The economic organization of the supply of fuel, however, is simple by comparison with the organization for supplying food. Of all foods the easiest to deal with governmentally in England was sugar, as the whole supply was imported ; but 68 per cent. of the normal supply came from Germany and Austria, and therefore the supply ran short as soon as war began. A Sugar Commission was appointed on September 11, 1914, which bought supplies on a large scale from Cuba, Java and South America. The Government, being now owner of practically the whole supply, also took control of the refineries. Prices were raised and sugar was rationed. The price of sugar by the summer of 1917 was three times that of 1914, and complaints were made as to sugar for jam-making, confectionery, etc. The result was the establishment under the new Food Ministry of a complete and rigid control.

For controlling meat supplies which were imported the Government in April 1915 requisitioned all the space on ships which was suitable for carrying frozen meat. In 1917 the Government fixed the price of home-grown meat, in spite of the danger that the supply would diminish ; and eventually the whole of the meat supply was organized governmentally.

Four-fifths of the wheat and other corn used in the United Kingdom was imported before the war, and the

shortage of ships, therefore, soon caused a diminution of bread supplies.<sup>1</sup> In November 1917 the Government began to purchase corn abroad, and soon had a large reserve supply of its own. At the end of 1916 a joint body, the Wheat Executive, began to buy jointly for the allied governments; and in 1917 the Government, under the Corn Production Act, attempted to stimulate the production of home-grown supplies. Statutory Orders at the end of 1916 and beginning of 1917 controlled the milling of flour, and a special form of "war bread" was designed; and in April 1917 the Government took over all the flour mills. Restrictions were enforced against the use of foodstuffs in the brewing of beer, the amount of beer to be brewed being reduced by 30 per cent., and sugar and barley were thus saved for food. This, however, is the administrative operation of a standard in the kinds of food which is based upon the needs of an economic community. Attempts were made to introduce "voluntary" rationing and the saving of foodstuffs. There was a restriction on meals served in public places; but the result was not sufficient to lessen the aggregate consumption nor to secure that those who needed food for the performance of their social functions in industry would have enough or that those who could afford more than enough should not have power to get it. The Government was therefore driven to rationing the food supplies; and it is generally agreed that in Great Britain the rationing was in the main honestly and effectually carried out.

For the argument here what is most important is the application by government of a new practical principle in the economic sphere. As in the case of heat and light, the principle of distribution under the rationing scheme for food was no longer the pull of effective demand or, in plain words, the comparative wealth of individuals or families, but the need of each person irrespective of wealth. The amount to be distributed was known, and

<sup>1</sup> Cd. 8483, 1917. Increase in Prices.

was divided into "rations" by using the number of individuals as a divisor. There was also an attempt to allow amounts in view of the needs of individuals performing particular social functions. The amount of food, therefore, obtainable by each person was based upon a vague conception of the common good attained by permitting him to obtain it. This was the equality of an economic democracy which no abstract argument could have made enduring; but it was adopted, without half the bitterness occasioned by restricting profits, as a practical method of "winning the war."

Again, as in the case of fuel, so in regard to food, the administration was partly in the control of local Food Committees. It is therefore a tendency of which we have had experience that when government enters into the organization of necessary supplies, it is decentralized. The governmental activities which are economic are essentially more diverse in respect to different localities than law or the police force needs to be. The economic community is necessarily less unitary and more federal than the political; and therefore the structure of the economic community ought not to be conceived as a mere duplication of the political. The tendency to a distinction between the systems of organization in the administration of each community is no less important than their similarity in both providing public service.

In regard to clothing, the position was different from that of heat and food. The Government affected the normal trade in woollen goods first because of the need of clothing for the armed forces. The first act was to prohibit export of wool except under licence, while the Government bought large stocks of raw wool. There was some fear that the supplies of raw wool might run short, especially as the armed forces alone needed as much yearly as the whole population of the United Kingdom had consumed yearly before the war. The prices were going up, and in order to prevent the manufacturers taking personal advantage

in accordance with economic custom, of the absolute needs of the community, the War Office Contracts Department bought the home clip and the Australian and New Zealand clip, and began to allow to the manufacturers only a "reasonable" profit after a very careful examination of the cost of production, which the firms were compelled by Order in Council to reveal. The machinery for organizing all this procedure was formed by committees of traders and manufacturers in the wool trade, and at last, in September 1917, a Wool Control Board was formed.<sup>1</sup> The Board consisted of thirty-three members, eleven representatives each for the State, the manufacturers and traders, and the trade unions: the administrative staff was entirely provided by the State. The raw wool being in the hands of the Government, the Board "advised" how the contracts for army clothing should be distributed among the different districts and firms, and the wool remaining for civilian use was rationed by the Board itself among the different firms. The most interesting new principle thus introduced was that the manufacture of the raw wool was viewed from a single standpoint; and the needs and capacities of the different mills were estimated as a basis for distributing orders instead of comparative wealth or profit-making capacity; and further, the trade union representatives played a part in this allocation, thus showing that trade unionism can be made a basis for constructive industrial action.

A similar joint Board existed for the Cotton Industry, on which were two representatives of the Board of Trade, six of employers, four of trade unions, and three of commercial groups. The State did not buy cotton, nor did it use very much; but the allocation of supplies was nevertheless found necessary, and this the Cotton Control Board performed. The most important principle operating here was that the firms in the spinning section which wished to use more of their spindles than 60 per cent.

<sup>1</sup> "The Board of Control of the Woollen and Worsted Industries,"



paid a levy on a licence to use more, and a similar levy was raised in the weaving section of the trade. The levy went towards a fund out of which the unemployed or under-employed workers in the trade were maintained. Thus the cotton industry had begun to maintain its own reserve of labour, as it has been suggested above might be the case on a large scale. Once again, under the influence of governmental action, and perhaps also because war had increased the sense of community, the cotton trade was viewed as one whole and the workers in the trade were treated as essentially partners in the organization of production.

The good as well as the evil of war experience almost disappeared in the general confusion following upon the Armistice; but some results remain. All the governmental controls and experiments have at least made great numbers think that government and industry and their relationship are capable of a much more varied and extensive development than was commonly imagined before the war. It may be said that in the economic sphere the war was a period of discovery, and the result has been well summarized thus:—

“What the Government discovered during the Great War, and the point on which it succeeded largely in convincing the business world, was that—whatever might be the effect on the profits of particular firms—the aggregate output of commodities could be very greatly increased, their average cost of production considerably lowered, and a valuable saving effected in the expense of transport and distribution if only each industry were organized as a whole, in relation to its function in supplying the community with what was required—by collective purchases and importation of the raw materials; by concerted allocation of production to the establishments best suited to each part; by further standardization and specialization; by elaborate comparative costing of each component and every item of expense, and the relentless

application of the knowledge thus gained in the effecting of improvements wherever required ; by concerted distribution of the product so as to lessen the aggregate of handling and transport ; by collective selling and the elimination of unnecessary advertisement and expenses of distribution.”<sup>1</sup>

The position reached in the relations of government and industry at the Armistice of 1918 was so abnormal and so much the result of empiricism and accident that no general principles can be drawn from it with regard to the normal contact of the two organizations. Certain hints or suggestions, however, are contained in the experience gained. For example, the increasing entry of government into industry was partly due to the fact that the system of political life was not reflected in economic activities. The governing principle of State organization is the pursuit of a common good and the service of the public as the dominant motive in rendering service. In economic life the governing principle seems to be the pursuit of a separate private or group interest, and the motive of service is mainly the livelihood or wealth of the servant. But it was found necessary during the war for the political principle to be expressed in the economic sphere, lest the principles operating in economic life should obstruct political life. Therefore it seems that in any society contradictory principles cannot always govern the actions of the same men in different spheres of their activity ; and if so, the tendency to the formation of an organized economic community has been strengthened.

Secondly, it seems that the non-governmental organizations of industry can form an even more intimate connection with government than appears in normal life. The Wool Control and Cotton Control Boards, the Railway Executive, and many other governmental units of administration during the war, were formed of those very organizations which are normally conceived to be seeking

<sup>1</sup> Webb, *Constitution for the Socialist Commonwealth*, p. 326.

chiefly, not the interest of the community at large, but their own. It follows that men who are moved to action by one kind of motive can sometimes be induced to do the same action even better under the operation of another motive. The same men doing the same kind of work may do it for motives not now prevalent.

Thirdly, the organization of the economic community during the war involved the creation of administrative divisions of the country, smaller than the "kingdoms" of the United Kingdom but larger than the counties. As soon as industry came to be dealt with communally it was found necessary to work on the basis of "regions," and on that basis rested the action of the Ministry of Munitions and the Ministry of National Service, as well as the organization of the Employment Exchanges. Thus at the end of the war the country was administratively divided by the chief central departments into the same regional sections. The same tendency was at work in the creation of local fuel and food committees: for the truth is that as soon as government becomes economic it must be decentralized in order to be efficient.

Finally, it seems possible to apply with some approach to general agreement standards of distribution and of price which are other than the standards applied by the comparative wealth of the purchasers of goods or the users of services. These other standards are implied in the phrases "fair price," "fair wage," and "reasonable profit"; but none of the adjectives in these phrases are economic in the old sense of that word. The experiments and the discoveries of war-time have made it possible to conceive an application of the new standard when that standard is agreed by the community: but the war period was abnormal, and we must now pass to consider the older and more normal tendencies which arise in the economic sphere from a contact of governments not at war.

## CHAPTER X

### FOREIGN TRADE

ONE of the most important economic facts is that there is a world-market. Production and distribution of many commodities have no geographical limits, and for many economic forces political frontiers are not obstacles. This implies that there is not only foreign trade but *international* trade in regard to many commodities and services; for it is utterly impossible to understand the world-market if one assumes that the chief distinction is between "home" and "foreign" trade. The frontiers of any one State are quite irrelevant in the matter, since the most important fact is that there is no centre or circumference. International trade is, as it were, in a plane quite distinct from that of political frontiers.

Again, the economic position in one country may affect the economic and the political situation of peoples under another government. Thus the deterioration of French agriculture during the war, leading to a "pull" from France upon the cereals of the world, may improve the economic status and increase the political power of the agricultural interests in England.<sup>1</sup> The growth of the manufacture of cotton goods in the United States, causing the retention there of raw cotton, makes it necessary

<sup>1</sup> One of the causes of agricultural deterioration in France was the law by which all farms which were neglected because of the war-service of the farmers were excused from taxation. The result was that the women and children who had continued the upkeep of some such farms were less inclined to prevent deterioration.

for Lancashire to look to Egypt for more cotton; and the extension of cotton crops in Egypt restricts the food-production there and results in a "pull" from Egypt on cereals from outside. Hence the need for seeking corn in Mesopotamia, and the frontier controversies connected therewith.

The financial position of different peoples may affect international relations. It is true that in any nation the holders of capital are a small group; but (1) that group affects the foreign policy of their government, while those who hold no capital are not generally interested in foreign affairs, and (2) the group of capital-owners can for certain purposes claim solidarity with and support from all the members of their nation, usually on the ground that every one in the nation benefits from the ability of some to buy raw material or foreign commodities.

Further, there are groups of owners of capital whose capital is invested in enterprises outside the frontiers of the State in which they live. British groups hold property in public utilities and land in South American States, and in oil in Mexico and the Dutch Indies. French groups hold industrial property in Czecho-Slovakia and have lent money to Turkish and Rumanian public authorities. But where the owners of enterprises are of a certain foreign nation, mechanism and material, and sometimes brains, for those enterprises tend to be imported from the same foreign nation. Thus the electricity systems in South America largely owned by German firms before the war are said to have bought most of their material from Germany. This aspect of international trade, then, clearly brings governments into close relation to trade.

A comparatively new economic phenomenon complicates the problem—the appearance of international combines and trusts. This represents a development of large-scale economic organization, such as was discussed above; but in this case the units of organization disregard or

subordinate differences of nationality and sovereignty. For example, the Big Five, the Meat Packing Companies of U.S.A., control the supply of Argentine as well as United States meat, and they operate apparently by agreements with non-American companies. Hence in all matters of international trade government is concerned for other reasons than the connection between any one government and its own subjects: and through international trade every government is brought at least indirectly into contact with the subjects of other governments.

This is the field of investigation, and here, as in the cases already examined, analysis of the present situation and a review of tendencies are needed. The one common element in all the facts is that the State affects industry and is affected by it *because there are many States in contact*. Thus government, in these cases, comes into relation with industry and commerce not as a separate unit, but as part of a State system. The States of the world are in continuous contact; for the production and distribution of goods is part of a general contact between all the peoples of the world.

The economic facts are closely connected with social facts in other spheres: for since communication is world-wide, ideas, arts and social idealisms have no geographical limits. The peoples of the world are continually affected by the ideas and the social habits of "foreigners." The cinema is producing primitive but international conceptions of life and character: the possibility of obtaining similar food and clothing in all countries is forming an international, if very crude, standard in the externals of civilization. These are cultural facts which are outside the purview of this book: but they have their economic effects. Old industries and services develop, new services arise in the supply of an international luxury which soon becomes a necessity, and governments are faced by new problems resulting from the needs for foreign goods. Such facts

as these have brought all governments into continuous contact ; and obviously the character of modern government is affected by dealing with other governments outside the relations of war and the preparation for war. The travel of commercial agents, the settlement of trading groups in foreign lands,<sup>1</sup> the conflicts of commercial or private law, all tend to place government in a new and difficult position.

In order to make the issue clear it will be best to distinguish foreign from international trade and to speak here first of foreign trade, understanding that term to mean the trade relations of any one people taken as a unit in regard to other peoples. Foreign trade will therefore be conceived in the terms of import and export and not in terms of the world-market.

In no section of the subject here dealt with is it more difficult to distinguish the economic from the political, the organization for producing and distributing commodities from the organization for order and liberty. In regard to foreign trade, imports and exports, and international services such as shipping, the States seem to act as though they were either commercial enterprises or the agents for trade ; for it is still commonly believed that government is good when there are great quantities of imports and exports. The wildest political philosophy is assumed and inculcated by professed students of foreign trade, who do not perceive the distinction between government and commerce.<sup>2</sup> On the other hand, it is generally felt to be disrespectful, not to say abusive, if armies and

<sup>1</sup> Cmd. 672 (1920), *Report of F.O. Committee on British Communities Abroad*. Advises registration, the support of English schools against any form of propaganda, and use of the Boy Scout Movement, as "the principles on which it rests are essentially British."

<sup>2</sup> The simple mind of the economist in this matter is well expressed by Leone Levi, a Professor of Commerce in King's College, London, in his book, *The History of British Commerce, 1763-1878*, 2nd edition, 1880.

navies are regarded as the instruments of commercial rivalry: and some persons in every State appear to believe that the Foreign Services ought to aim at the promotion of justice rather than the earning of dividends. There are even a few persons who appear to believe that the liberty of "foreigners" should be promoted by the action of all governments, although it would apparently still astonish many professed teachers to hear that a national government had any duties at all towards foreigners. We may suppose, then, that even in regard to foreign nations a government is not essentially a trade agent or at least that it has other functions to perform which are connected with justice and liberty.

Again, those engaged in foreign trade, though not averse to assistance out of State funds or by the use of State force, appear generally to believe that trade is not the concern of the State—when it is going well. Thus the official committee to report on the British Shipping Industry after the war was very emphatic in repudiating any interference of government with the industry except in so far as subsidies interfere with the practice of private enterprise.<sup>1</sup>

The distinction between those who identify good policy with commercial success and those who abhor any connection between the State and trade is not the same distinction as that between protectionists and free-traders; for most free-traders, who are economists, confuse politics and economics quite as completely as any protectionist;<sup>2</sup> and, on the other hand, most protectionists are violent opponents of State enterprise in industry or trade. This, however, need not confuse the issues here. The facts remain distinct in spite of much argument about them.

<sup>1</sup> Cd. 9020 (1918).

<sup>2</sup> Cf. *The Economics of Progress*, J. M. Robertson, chap. vi., "The Economics of Commerce": "The fundamental *political* problem as to international *commerce* may be said to be as old as commerce itself. . . . Holland was a middleman *State*": but the arguments are not about government but about wealth.



There are, on the one hand, forty or more governments in contact ; many of them have Foreign Offices, Ministries of Commerce, Foreign Services, and a legislature or quasi-legislature which follows some dimly conceived political policy. There are, on the other hand, various commercial enterprises, most of them controlled by citizens of a single State, although some are international ; and these peculiar institutions or groups produce and distribute goods for men of other nationalities in many different countries. The group of governments all stand in some way for what philosophers would call "government in itself" ; and the group of trading companies stand for what have been called economic activities. The question now is not whether one member of the governmental group should protect or should not protect groups of the second kind : for the preliminary question to be discussed here is rather what actually happens. It will be perceived that government is in fact performing economic functions in regard to foreign trade.

The most usual form of promotion of foreign trade by the State is to be found in the collection and dissemination of information by Ministries of Commerce or a Board of Trade, through commercial attachés, consuls and other officials. In the British system of government the Board of Trade has from its inception dealt with foreign trade, but as this trade became more elaborate, its importance to political action abroad led to a confusion of functions between the Board of Trade and the Foreign Office, and finally a special joint department, that of Overseas Trade, has been established.

There are two branches of the Board of Trade : one, the Public Services and Control Department, has been dealt with above ; the other, the Commerce and Industry Department, is officially described as follows :<sup>1</sup> "It is

<sup>1</sup> Appendix B, Cmd. 319 (1919). It would be interesting to analyse the assumptions in political science and philosophy underlying this document.

entirely concerned with the development of trade and with the duty of thinking out and assisting the commercial and industrial policy of the nation. It is organized in three sections: 1. The Commercial Department, which deals with the commercial aspect of treaties and relations with foreign countries, foreign and dominion tariffs and trade regulations, and all other matters relating to the protection and furtherance of British commercial and shipping interests in foreign countries and other parts of the Empire, so far as they come within the scope of the Board of Trade. 2. General Economic Department, which takes within its survey general economic conditions. 3. Industries and Manufactures Department, which maintains a watch over the conditions of British industry and directs the attention of the Government and the interests concerned to weaknesses in industry, and advises the Government on requests for Government action in support of any particular trade."

The fact that foreign trade is not separable from the trade carried on within the country is recognized in the connection of the Board of Trade with both. There is, therefore, at least a dim perception that economic life is different in structure from political life: and government when it performs economic functions must be based upon the structure of economic life. The world-market and large-scale production are the basic facts upon which any governmental treatment of commerce and finance must rest: but whereas the Foreign Office clearly knows nothing of the situation in the cotton-manufacturing districts of Lancashire, a Ministry of Industry which promoted domestic industry would know nothing of the cotton markets in the East. Therefore the Board of Trade acts in a sphere in which political frontiers if not irrelevant are at least of subordinate importance, and its action is part of the economic functioning of international government.<sup>1</sup>

<sup>1</sup> For example, the Board of Trade organized the British section

The Department of Overseas Trade specializes in the non-British markets. It perpetuates, if not in the minds of its officials at least in the minds of the merchants and manufacturers who use it, the absurd myth that foreign trade is a form of war and that foreign markets must be "captured"; but the pressure of facts is too strong for the survival of practices based on this myth, since no one can prevent the interchange of goods from bringing advantage to both parties to the interchange and indirectly to other parties. Under the new Department are the Consular Services, and it is worth while to note how an official committee regards their functions. The Royal Commission on the Civil Service says that "in some quarters we have noticed an impression that a consular officer should perform the duties of a commercial traveller and secure sales for the products of particular manufacturers or contracts or concessions for particular firms. But consuls are not qualified to perform services of this kind, and it is undesirable in the general interests of this country that they should perform them. The Consular like the Diplomatic Service exists for the benefit of *the community* as a whole, and the influence and efficiency of either service are impaired when it becomes identified with the interests of individual traders or concessionaires."<sup>1</sup> This, however, implies most important principles touching not only consuls, but the State itself. First, the distinction between Consular and Diplomatic is practically a distinction between the economic and the political community; secondly, government in regard to foreign trade is an agent of the economic community; thirdly, that community and its "common good" are quite distinct from individual traders and the collection of their gains. Thus government, according to this principle, should never be an agent of private gain, as it certainly still is in many cases.

of exhibits at international exhibitions in 1910 at Brussels, Buenos Ayres and Vienna, in 1911 at Turin and Rome, and in 1913 at Ghent.

<sup>1</sup> Cd. 7748, Section 13. Cf. my *International Politics*, p. 127 *et seq.*

In order to show that recent British developments are parts of a world-wide movement in regard to the functions of government it is worth while to refer to France and the United States. Under the French system of government, as in the case of the British, consuls were apparently expected by the traders to push their wares or to give economic information, but they continued for long to deal only with administrative and legal matters. The Foreign Office, however, now recognizes the consuls as sources of commercial information and publishes their reports in the *Moniteur officiel du Commerce*. The Minister of Commerce now has some control over appointments to the Consular Service, and can correspond directly with them on economic matters. He reports every year to the Minister of Foreign Affairs on the commercial work of consuls. In 1882 there was established a *Conseil supérieur du Commerce*, which was occasionally consulted on tariffs but has not been very effective.<sup>1</sup> In 1897 an agreement was made between the Minister of Commerce and the Chamber of Commerce of Paris for the creation of a National Office for external Commerce, which was established by law on March 4, 1898. This office has five publications, the *Moniteur officiel du Commerce* (weekly), the *Feuille d'Informations* (twice a week), *Commercial Reports*, *Monographs on Industries, etc.*, and *Commercial Notices*. A decree of May 21, 1898, appointed *Conseillers de Commerce extérieur*, who are leading Frenchmen in industry and trade, and who are expected to give advice to the Minister of Commerce and are supposed to place young Frenchmen in foreign or colonial enterprises. They numbered in 1899 as many as 1,400 and had then formed a Committee connected with the Government. On November 3, 1905, commercial attachés were established whose services are described by M. Perier, the vice-consul in London, in the *Moniteur officiel* of May 17, 1906.

<sup>1</sup> G. Lecarpentier, *Commerce International*, 1908, p. 53 *et seq.*

The functions of government in the United States have in their recent development led to similar administrative methods. The Department of State performs mainly political functions, but it includes among its officials a Trade Adviser, in whose office there is a *liaison* officer of the Department of Commerce. The consular reports made to the Department of State are *viséd* and then passed on to the Department of Commerce. Commercial attachés reporting to the Department of Commerce are in the diplomatic corps; but there are also "commodity" experts, sent out by the Department of Commerce. These are specialists in some one trade, and are more closely related to the non-governmental system by which traders obtain information than is the case with the British and French consular and diplomatic officers. There are fifteen independent offices of the Federal Government which issue orders and regulations affecting international relations; and recently a Foreign Trade Council and an Economic Liaison Committee have been established to co-ordinate at least the commercial policy.<sup>1</sup>

Exactly the same difficulties have occurred under the American as under the British system of dealing governmentally with foreign trade. "The Department of Commerce feels that if their agents (commercial attachés) were under the control of the Department of State, they would soon allow matters of general or political concern to obscure this primary object of fostering the development of our foreign commerce."<sup>2</sup> . . . "The difficulty has been largely due to the desire of the State Department to stand before the country as an active commercial trade-getter, supplying the American business man with first-hand assistance. This is not, properly speaking, the function of the State Department. . . . It is the Department of Commerce which should act as the intermediary

<sup>1</sup> *Report on Foreign Service*, p. 91, published by Civil Service Reform League, New York, 1919.

<sup>2</sup> *Ibid.*, p. 95.

to facilitate trade expansion for individual merchants and exporters." <sup>1</sup> There is, therefore, beginning to be felt, as a practical necessity, a division between the political and the economic functions of government.

Administrative action in regard to foreign trade seems in all countries to be concerned largely with giving commercial information which is generally in the form of statistics of imports and exports for various countries, and includes details in regard to regulations of foreign governments or efforts of foreign traders and very general statements contained in Consular or Colonial Office reports. It is said that this information is sometimes used by traders who are thinking of trying a new market and by those who require a vague general idea of the economic situation abroad; but all the chief trading firms know much more about the countries they deal with than any government department can tell them. The greater number of traders are either negligent or scornful with regard to trade information supplied by governments; but some are angry about it. Most traders can apparently be roused to advocate government assistance in acquiring trade information, and yet none are satisfied with the results. This is not merely the bad temper natural to private enterprise; it indicates a very important if rather minute fact. The truth is that trade information for communal use is of one kind and trade information for private gain is of another. The information supplied by the State, acting for the community as an economic unit, is open to all, and covers many years and large areas. It is a general guide to the demand for goods and services, which it may be useful for a whole producing community to supply: but the information acquired by traders is secret for each, a guide to private advantages and unsuspected opportunities. These are the extremes. Great numbers of examples intermediate between these two can be found; but the distinction is interesting

<sup>1</sup> *Report on the Foreign Service*, p. 99

because it indicates the distinction between trade conceived as a public service and trade as an opportunity for private gain. In the supply of trade information by the State, although there is no doubt some intention of increasing opportunities for private gain, there is a dim consciousness of trade, even foreign trade, as a public service which should be to the common advantage of all parties concerned. Therefore in supplying information relevant for foreign trade government may be conceived to be acting, not as the agent of private groups of traders, but in the interest of a whole economic community.<sup>1</sup>

In addition to supplying information, government is connected with foreign trade in most countries by an elaborate system of prohibitions of import or assistance to export, tariffs, drawbacks and other such economic activities. A government is traditionally regarded in most countries as a trade agent in regard to foreign trade. In the very earliest times trade with foreigners had greater risks than home trade, and governments entered the field as protectors of their subjects in trade with foreigners.<sup>2</sup>

<sup>1</sup> The direct promotion of an export trade by government is best exemplified by the United States Export Trade Act (Webb Act), 1918, which abrogated the anti-trust laws for the benefit of combines for export trade, foreigners needing no protection from the U.S. Government! In June 1919 one hundred combines under this Webb Act were registered with the Federal Trade Commission. The Edge Act, December 1919, allows of banking combines for foreign trade. The Federal Trade Commission itself appears to be a governmental agency for promoting exports.

<sup>2</sup> "Edward, by the Grace of God, King, etc. Whereas Alice Countess Marshall caused a ship to be laden with jewels of gold and other her goods to the value of two thousand pounds, and John Crabbe, etc., with certain other evil-doers of the parts of Flanders, met the aforesaid ship and took it so laden; we many times requested Robert, Count of Flanders, to hear the plaint of the aforesaid countess and to cause full justice to be done to her. Whereupon the same count afterwards wrote back to us, saying that he had caused certain of the aforesaid evil-doers to be punished. But because the count delayed to show justice to the said countess touching the restitution of the goods . . . although a great part of the goods had come into his hands, we,

Sometimes there was no distinction between the government and the foreign trade—as, for example, in the case of the Republic of Venice in the Middle Ages. Every year a fleet known as the Flanders Galleys sailed from Venice to the Low Countries: the ships were owned by the Republic but the loading of the ships was put up to auction and the goods carried were on private account.

In the next stage of development of foreign trade, government performed economic functions apparently because the economic gain of the whole national community was believed to be best attained if government promoted national trade in rivalry with that of other nations. The “wealth of nations” is confusedly thought of as the purpose of government; but at the same time political motives, the desire, not for wealth, but for order and liberty, are conceived to be best attained by the direct action of government upon the mechanism of foreign trade, and this still survives in the tariff system.

Except the United Kingdom and Holland, all States and all the self-governing Dominions of the British Empire maintain tariffs: and in general the tariffs, together with similar measures such as prohibitions and drawbacks, appear to embody the following purposes. They are used (1) to exclude wholly or partially foreign competition in the markets of the country; (2) to “equalize” the

therefore, command you (the bailiff of the Abbot of Ramsey of the fair of St. Ives) that you cause to be arrested without delay all wares and goods of the men and merchants of the power and lordship of the Count of Flanders . . . to the value of two hundred pounds in part satisfaction of the two thousand pounds. . . . For we have commanded the mayor and sheriffs of London to cause to be arrested and to be kept under arrest until full satisfaction be made to the aforesaid countess, the goods and wares of the men and merchants of the said count within their bailiwick to the value of one thousand pounds; and the bailiffs of the town of Yarmouth to arrest goods to the value of three hundred pounds, and of Ipswich to the value of three hundred pounds, and of Lynn to the value of the two hundred pounds residue. Witness myself at Westminster, 24th April (1315).”—Text in *Eng. Econ. History, Select Documents*, p. 188.



costs of production of articles produced at home as compared with those of foreign producers ; or (3) simply to raise revenue. All these are economic purposes, and government by action for these purposes becomes part of the economic organization, for it is simply the machinery which a particular national group of producers or a section of such a group uses in order to derive an economic advantage or to equalize a disadvantage in regard to foreign trade.

There are, however, political purposes embodied in the same system ; for tariffs may be used (1) to retain the manufacture in a country of goods the supply of which might otherwise be cut off in war-time, and (2) to diversify the character of the social organization in a country.

It has been noted above that the British Board of Trade was originally concerned chiefly with giving advice as to raising or lowering the tariffs : but now government in the United Kingdom has practically ceased to attempt to adjust the machinery of foreign trade. In Holland the same development has occurred. In all other countries, however, Ministries of Commerce are still concerned chiefly with manipulating foreign trade. The comparative excellence of the two systems, the arguments for and against " protection " or " tariff reform," need not be discussed here ; since for the purpose of the argument of this book it is sufficiently clear that both the free-trade and the protectionist policy are chiefly aimed at economic results. In both cases government is believed to act for the sake of the whole community, and the community in this case is conceived to be, not a community of law and justice, but a community of producers and consumers.

The difference in the two policies is probably due to the fact that the character of the economic unit differs in the two cases. Obviously, to cut off by governmental action in Great Britain the buyer of raw cotton from

the seller in the United States and the seller of manufactured cotton goods from the buyer in the East would be to cut across and divide an economic unit. The manufacturer and the operative in the British cotton industry belong to many economic communities, some of which are national, but one at least includes within it the negro and planter of the cotton districts in the United States and the Indian, the Chinaman and the West African negro, but there is no single government which includes all these. The economic unit has no corresponding political unit. This, however, does not imply that government in this case has no economic function to perform: and indeed the Board of Trade did not cease to act when tariffs in the United Kingdom were no longer operative. The function performed by a government which covers only part of an international economic unit is international: the administration acts as an integral part of a system of economic life which has corresponding parts in the administrations of other countries.

On the other hand, the Department of Commerce in a State which maintains tariffs, prohibitions or drawbacks, acts upon the basis that its nation or governmental group is an economic unit in relation as one whole to other nations regarded as separate economic units. Apart from all theory and all question of what ought to occur, a country like France is much more truly an economic unit by itself than a country like the United Kingdom. Cause and effect are in real life inextricably intertwined, and there is no saying whether the separateness of the unit causes the tariff or the tariff causes the separateness: but clearly a system of governmental action in the economic sphere which is suitable to one country may not be suitable to another because the economic lives of the two are different; and probably "free trade" was introduced into England, not because the abstract argument of the economists was correct, but because in actual fact "free trade" was suitable to English economic life.

The conclusion to be drawn in regard to the economic functions of governments in foreign trade is that although the type of action varies in different countries, government is regarded correctly as acting for the sake of a communal economic end, whether the community be international or national.

Another important instance of contact between government and foreign trade is to be found in the relations of government to the shipping industry. The present position is due to a long series of past events, but the history of Navigation Acts cannot be dealt with here. It is enough if the acts of the government of to-day are analysed ; and in this matter it will be seen that government performs some economic functions.

The Marine Department of the Board of Trade is partly an administration for regulating the shipping industry for what may be called political reasons—as, for example, when it deals with subsidies for carrying mails ; but in the main it may be regarded as part of the organization of economic life. The Department began in 1850 ; and, under the Mercantile Marine Act of that year, a system was set up for testing the competence of masters and mates and for the engagement of seamen. The Acts now administered run from the Merchant Shipping Act of 1894 to that of 1906.

Government thus affects the shipping industry both (1) in regard to the character and qualities of the ship and (2) in regard to personnel. Under the first head there is registration of tonnage ; but, as is well known, the industry itself has in Lloyd's Register of Shipping an organization for registration and testing qualities of the ship which in that sphere is more important and more active internationally than the Board of Trade Marine Department or Registrar-General. This is another instance of the interlocking of government and industry : but clearly one could not be substituted for the other, since Lloyd's provides chiefly knowledge for traders and

the separate institution, Lloyd's Insurance organization ; and the Department supervises, through Surveyors in Mercantile Marine offices at the chief ports, seaworthiness, load-line, life-saving appliances, lights and signals, etc. This supervision is exercised under the 1906 Act also over foreign ships in British ports : and the Department is responsible for the carrying out of international conventions on collisions, the international signal code and life-saving apparatus.

With regard to (2) personnel, the Marine Department examines and issues certificates of competence to masters and mates, through the Registrar-General of Shipping and Seamen.<sup>1</sup> The Superintendents at the Mercantile Marine offices in ports in the United Kingdom and Consular officers abroad also issue seamen's money orders, transfer wages to dependents, relieve distressed seamen, and take over effects of seamen which have been left abroad or have belonged to dead seamen. This section of administration is partly under the Finance Department of the Board of Trade.

It is possible to regard all this as governmental "interference." Thus an authority says: "Our shipowners had the advantage of cheap coal, cheap labour and cheap iron, and so they had cheap ships: but government interference followed. The business of the shipowner was regulated. The Board of Trade began to insist on certain precautions being taken with a view to the safety of the lives of those who manned the ships. There were devised various regulations as to manning and as to the space and food to be provided for the crews. Then there were life-saving appliances to be carried and a load-line to be marked on the ship's side. All these were excellent things in themselves and things which conduced to safety. But they penalized the shipowner

<sup>1</sup> The principle is the same as in the issue of certificates to certain managerial officials in coal-mines, under the Home Office, Coal-Mines Act, 1911,

and reduced his gross profits in competition with the unregulated foreigner. . . . Moreover, the provisions of the Acts were not enforced with any consideration of the shipowner's interest." The writer was later employed by the Marine Department, and in a new edition added the note: " Things are very different now (1907) under the present Secretary of the Marine Department. Restrictions remain, but shipowners and their difficulties are never forgotten."<sup>1</sup> It will be understood how "labour" lies between coal and iron in this passage and how abominable it was for government to save lives at the cost of "gross" profits. Net profits were perhaps not affected! But such is "interference."

Looked at more closely, however, it is seen to be not only an attempt to realize political justice, by protecting those who are at a disadvantage in the wages contract or in sending goods by ships that are unseaworthy, but also an attempt to organize the shipping industry. In the abstract it might be thought quite possible for those directly concerned to organize the industry themselves; and so the shipowners appear to think in their amusing report against "interference." But the practical experience of organization (1) for carrying cargo and passengers without regard to the crew and (2) for international Conferences, seems to show that in fact self-government by the shipowners would be for the sake rather of profits than of public service. Indeed, some shipowners seem to think that the chief public service they perform is the earning of taxable profits. Government, however, in its economic functions, aims chiefly at increasing the effectiveness of the service in the interest of all concerned.

The British system, therefore, in regard to shipping includes more than regulation of services; and there is also a financial connection between government and the shipping industry based mainly upon political rather

<sup>1</sup> B. Ginsburg, LL.D., on "Shipping," in *British Industries*, edited by W. J. Ashley in 1902, new edition, 1907.

than economic reasons, although having important economic effects upon the industry. The methods by which governments assist shipping are as follows :<sup>1</sup> Direct aid is given by subventions for carrying mails. The first contract of this kind in the world was that of 1838 between the British Government and the Peninsula Co. for carrying mails between England and the Iberian peninsula. Further contracts were made with the Cunard, the Royal Mail S.P. Co. and the Pacific Steam Navigation Co. The United States made its first contracts in 1847, with the Ocean Steam Navigation Co. for mails between New York and Bremen and Havre, and with E. K. Collins for mails between New York and Liverpool. In 1891 (March 3rd) a Mail Subsidy Act was passed which made the practice of granting subventions permanent. The French Government made its first contract in 1851 with the Cie. Générale Transatlantique. The German Government made its first contract in 1886 with the Nord Deutsche Lloyd for carrying mails to the Near and Far East, and the only other subvention for mails was made to the German East Africa Line.<sup>2</sup> Subventions for carrying mails are sometimes granted by governments to foreign shipping. For example, Belgium used to pay subventions to three German lines and one Danish line : Italy pays a subvention to the Netherlands Steam Packet Co. for mails from Genoa to the Dutch East Indies : Brazil since 1913 pays four Italian lines : New Zealand pays an American line, the Oceanic Steamship Co., for mails between Auckland and San Francisco. Mail subventions to shipping companies now exist in every maritime State ; some, as those of Norway, being restricted to coastal service : and in some cases the same line receives subventions from more than one Government.

<sup>1</sup> G. M. Jones, *Government and Shipping*, No. 119, Department of Commerce, Washington, 1916.

<sup>2</sup> The Hamburg-America Line received a small share of the subvention to the North German Lloyd for mails to China and Japan.

For example, the North German Lloyd before the war received from the U.S. for U.S. mails to Europe about a quarter of the amount received by the line from the German Government for the Far East services.

The purpose of this aid to shipping is primarily the political or quasi-political gain of quick and regular communication. In this sense the subvention is a payment for service rendered, but the service is not thought of as primarily economic. Again, the promotion of the running of fast ships is conceived to be useful to governments because of the use which can be made of such ships in war. But there is also a purely economic or trade policy combined with political motives; for in some cases a government pays much more than the cost of the mail service in order to promote the trade of the country.

Direct aid is also given by general subsidies without special service.<sup>1</sup> France has led in this, and its present system began in 1881 (Law of January 29th). There is a subsidy to the builders of ships on the basis of tonnage and a subsidy to shipowners on the basis of distance travelled. Italy adopted a similar system in 1885, and Spain in 1909. Japan in this, as in other matters, identifies government with trade, and several of the Japanese steamship lines are practically governmental enterprises.

Loans to shipowners may also be regarded as direct aid. For example, under a contract of 1903 the British Government lent to the Cunard Company £2,600,000 at  $2\frac{3}{4}$  per cent., or about 2 per cent. lower than the market rate, for the building of the *Lusitania* and *Mauretania*.

Indirect aid may be financial—as, for example, preferential railway rates, reimbursement of port or canal dues. The French Government under a contract of 1911 reimburses the Suez Canal dues to the Cie. des Messageries

<sup>1</sup> Cd. 6899 (1913), *Bounties and Subsidies to Shipping in Foreign Countries*.

Maritimes; and France also grants differential rates on certain railways for goods shipped on certain French ships. An almost amusing instance of indirect aid to shipping is the bounty granted by France and Italy for shipbuilding. A duty is levied on imported materials for shipbuilding and then a bonus is given to the shipbuilders! Norway, Sweden and Denmark also have import duties on materials and then allow drawbacks on any material used for a native-built ship!

Indirect aid may also be given by legal means by reserving the coasting trade or by refusing to admit foreign-built vessels to the register of the State. The former is the practice of the United States, France, Italy, Spain and Belgium, and since 1910 of Japan. Until the war the United States refused to register foreign-built ships, and this was supposed to assist their shipbuilders in view of the higher cost of production in the United States: in 1920 the Jones Law, involving the repudiation of about twenty-four commercial treaties, aims at reserving for United States ships the export trade of the country.<sup>1</sup>

It is sufficiently obvious from all this evidence that government performs economic functions in regard to shipping, although here also, as in regard to tariffs, there are, broadly speaking, two different methods reflecting two different types of economic life. The British method in regard to regulation of ships and crew is similar in principle to that of other nations, although in some countries there is no adequate administration for carrying out the most admirable laws. But in regard to assistance for shipping, the British method seems to imply the recognition that shipping is in the main an international service, whereas the method of other governments seems to imply that shipping is a mere addendum to the completeness of an economic unit which is national.<sup>2</sup> The

<sup>1</sup> Cf. *Times*, June 19, July 8, 1920.

<sup>2</sup> The British may, of course, take the nationalistic view when



distinction between the two methods is similar to the distinction between the practice of what is called "free trade" and the practice of "protection" in regard to imports and exports. The differences are due, not perhaps to theory or to the application of general principles, but to the fact that the British shipping trade is mainly an international service and non-British shipping trade is in fact not so international. It is important, therefore, to recognize that any government can pursue either a national economic policy based upon the economic separability of the national group or an international policy based upon the economic integration of one national group with another. There is nothing in the nature of government to prevent its acting, even in the economic sphere, as a part of a system rather than as itself a "closed" system.

Foreign trade, even if distinguished from international trade, is not entirely a matter of imports and exports. It involves also the investment of capital abroad and the return on that capital, and this brings in the relation of a highly industrialized country to others which are not industrial, which is largely the result of a desire for wealth or goods in the industrial country.

The countries now being exploited for raw material or for dividends on works and transport are of three kinds. There are entirely undeveloped lands inhabited by scattered and primitive tribes in the tropical zone which is practically uninhabitable for the white man. Such a country is Nigeria or the Gold Coast. Secondly, there are countries in which the white man can live and work but where there is a sufficient amount of native labour to make it unnecessary to introduce white labour, as in Uganda and East Africa. Thirdly, there are populous British shipping seeks assistance from government without "interference." The *West Indian Com. Circular*, June 10, 1920, p. 1, has the naïve expression: "No patriot will deplore the disappearance of the Hamburg-America Line steamers which used to make nearly two hundred calls at St. Thomas every year."

countries, such as China and India, where a large industrial development is possible but where no native capital or enterprise is large enough to control the situation. Fourthly, there are countries where capital has been imported as well as labour, and which are therefore still dependent upon industrialized countries although themselves becoming industrial: such countries are in South and Central America.

In regard to all these the governments of the industrialized countries perform certain economic functions. They provide generally a sort of support for economic enterprises which are dimly conceived to be in the interests of the whole community in the industrial country: but it is generally not the practice of these governments to act on behalf of the inhabitants of the non-industrialized country. Where the new country has its own government, the governments backing the foreign capitalists are in some way reminded of the interests of those who are not their own citizens; but where the government of the industrialized country is the same as that which controls the situation in the non-industrialized countries from which raw material is derived, the economic functions of government tend to a peculiar form. Government in tropical countries thus tends to become simply an agency for the economic interest of the ruling race. The situation in British East Africa, French West Africa, Portuguese Africa and some Australasian islands is of this kind. On the other hand, government in Nigeria and the Gold Coast seems to be based upon some consideration for the economic interests of the natives: but in either case clearly the economic functions of government in dependencies has to be considered as well as its purely political functions.

In the abstract it may be undesirable to extract from tropical countries the large supplies of raw material and foodstuffs to which we have become accustomed, especially if the necessary condition for the maintenance

of their supply is the exploitation or partial enslavement of natives. We are, however, committed by the past. We cannot immediately reverse the tendency of a century, and perhaps we shall never be able to reverse it. The large and concentrated populations in our industrial cities already depend upon the import of tropical raw material and foodstuffs: the demand for rubber and soap is increasing and more sources are being tapped every day. Some articles which were luxuries are becoming necessities, and it is impossible to maintain that natives who do not desire to use the resources of their country must necessarily be allowed to prevent others from using them: but the chief trouble is that in most tropical countries only the natives themselves can supply the necessary labour.

Some of the conditions under which the supply is secured appear to be inevitable. Rubber collecting involves labour which cannot be performed by white workers but is not difficult, in the majority of cases, for natives. The growth of certain tropical foodstuffs and of cotton involves native labour, which is not difficult. The problem, however, remains that the natives have no desire or inclination to work at the supplying of raw material for European industries. The inducement offered to them—wages with which to buy cotton goods, houses instead of huts, roads instead of forest tracks—do not attract them in sufficient numbers; nor is the temptation of money to be buried because it cannot be used, a very potent force in regard to young men and women.

In this matter British government is embodied in the Colonial Office and in the governments of colonies and dependencies: but what is the tendency of that government? Mr. Chamberlain believed that the natives should be made to work—of course, for their own good. In a speech in the House of Commons he said: "The progress of the native in civilization will not be secured until

he has been convinced of the necessity of labour":<sup>1</sup> and it has been found that a useful method of convincing natives is first to take from them the land from which they need to derive their livelihood; secondly, to confine them to "reserves" within which they can only obtain a meagre livelihood for a few; and, thirdly, to tax them for an amount which can be paid only if they work for wages. This is government with a decidedly economic purpose: and a recent discussion in the House of Lords gave point to the problem.<sup>2</sup> Lord Milner, in that discussion, accepted the assumptions of current economics and quoted with approval a statement by the Governor of East Africa that, "left alone, the majority of adult men in the native reserves live a life of idleness, drunkenness and vice." *Laissez-faire* in a reserve is interesting. "Encouraged and taught to work, the native sees the advantage of earning money"; and this is "for the good of the Empire, which requires our raw materials—and for the good of the native whom we protect." Lord Milner himself said that it was "of vital importance to the native to encourage him to more steady and continuous industry."

The argument that it is good for the natives is not new, nor was it always applied to the subject races. It was at one time used in application to subject social classes in England, and thus the enclosure of common lands was proved to be good because it made the lower classes work and so improved their characters. "The moral effects of an injurious tendency accrue to the cottager from a reliance on the imaginary benefits of stocking in common. The possession of a cow or two, with a hog and a few geese, naturally exalts the peasant, in his own conception, above his brothers in the same rank of society. It inspires some degree of confidence in a property inadequate to his support. In sauntering

<sup>1</sup> Hansard, H. C., March 24, 1903.

<sup>2</sup> Hansard, H. L., July 14, 1920. Milner's Despatch in Cmd. 873, 1920.

after his cattle, he acquires a habit of indolence. Quarter, half, and occasionally whole days are imperceptibly lost. Day labour becomes disgusting: the aversion increases by indulgence; and at length the sale of a half-fed calf, or hog, furnishes the means of adding intemperance to idleness. The sale of a cow frequently succeeds, and its wretched and disappointed possessor, unwilling to resume the daily and regular course of labour, from whence he drew his former subsistence, by various modes of artifice and imposition, exacts from the poor's rate the relief to which he is in no degree entitled."<sup>1</sup> The implied argument is now thought invalid so far as British labour is concerned; for the destruction of security in order to obtain labour is clearly another form of enslavement: but it is doubtful whether the economic functions performed by the Colonial Office and the governments in the dependencies have ever been clearly conceived, in distinction from their political functions in regard to order and freedom.<sup>2</sup> It is even doubtful whether the Colonial Office and the colonial governments are conscious that they are acting as parts of an economic system which is by no means either inevitable or necessarily the best.

With regard to countries not under the jurisdiction of the government whose subjects the traders and financiers are, the action of governments has generally been at first little more than assistance. It is true that in the case of countries like Japan and China, where foreign traders were obstructed, the governments used forcible measures to open the door. Japan was threatened and war was actually fought against the Chinese in order to enforce foreign trading: but the obstacles having been overcome, the governments of industrialized countries generally leave the first economic penetration to private

<sup>1</sup> Survey of Somerset, 1798, *Eng. Econ. History*, p. 533.

<sup>2</sup> The Imperial Institute, originally (1903-1907) under the Board of Trade, has recently been performing economic functions under the Colonial Office and the Dominion Governments.

enterprise. This method has usually succeeded in subordinating the whole economic life of the new country.

The only instance of efficient exclusion of foreign enterprise by a non-European nation is that of Japan. The exclusion was contrived by the Government through the supply of credit to Japanese enterprises; but in most undeveloped countries the government has not been strong enough or wise enough to act in the economic sphere with direct reference to foreign entry. There was at one time in Japan a danger that at least commerce might be in the hands of foreigners: but the Government subsidized firms, of which the chief is the great Mitsui Company, established commercial agencies cutting out the European middlemen, gave preferential rates to Japanese goods, and as a result it is said that "There are still a number of foreign firms in Japan, but their number is steadily dwindling, and those which remain find it increasingly difficult to carry on their business."<sup>1</sup>

In most cases the foreign trader and investor has completely dominated the economic life of the non-industrialized country. Egypt, Northern Africa generally, and Syria on the one hand, and on the other South and Central America, have become the fields of action for financial and trading groups of the industrialized countries. Following these groups come the governments of which they are subjects: and the examples of this process are so many and so notorious that it is unnecessary to give any in detail here.

It is quite well known that government, presumably acting in the interest of all its own citizens, sometimes is the direct agent of small financial groups. Thus to cite one example, the Sultan of Zanzibar was compelled by the pressure of the British and German Governments to grant "concessions" to two groups of capitalists, the British East Africa Association (May 24, 1887) and the German East Africa Company (April 28, 1888). The

<sup>1</sup> McGovern, *Modern Japan*, p. 260.

Governments were pressed into action by the capitalist groups concerned. The Companies took over political sovereignty and a monopoly of trading rights for which they gave to the Sultan one founder's share in each Company, on which he actually never received anything at all! †

There is probably some vague idea, both among the financial groups which move governments to action independently of legislatures and the mythical will of the people, and among their agents, the Ministers and the officials of the State, that it is all for the good of the citizens as a whole. Even here, therefore, government may be conceived to represent an economic community, in spite of the perversity of the view implied as to the nature of that community. It is probably believed by many that most get something if a few get much, that wealth filters down, or that large incomes are good for those whose services are required by the owners of large incomes: but these economic beliefs need not be discussed here. The point is that government, in being the agent of financial and commercial groups, has not professedly ceased to represent a whole community, but that community is economic.

Occasionally the distinction between the political aims of government and its economic purposes is made the basis for promoting the activities in a new sphere, not of groups of traders, but of government itself. Japanese government has carried this system to an extreme in its claims to economic rights, which in practice have the following results.

“The concrete working out of economic rights in Shantung will be illustrated by a single case which will have to stand as typical. Po-shan is an interior mining village. The mines were not part of the German booty; they were Chinese owned. The Germans, whatever their ulterior aims, had made no attempt at dispossessing

† Woolf, p. 246, *Empire and Commerce in Africa*.

the Chinese. The mines, however, are at the end of a branch line of the new Japanese-owned railway—owned by the Government, not by a private corporation, and guarded by Japanese soldiers. Of the forty mines, the Japanese have worked their way, in only four years, into all but four. Different methods are used. The simplest is, of course, discrimination in the use of the railway for shipping. Downright refusal to furnish cars while competitors who accepted Japanese partners got them, is one method. Another more elaborate method is to send but one car when a large number is asked for, and then when it is too late to use cars, send the whole number asked for or even more, and then charge a large sum for demurrage, in spite of the fact that the mine no longer wants them or has cancelled the order. Redress there is none.”<sup>1</sup> It is evidently time that the philosophers ceased to suppose that government was the exercise of a general will, or that it was necessarily different in character from the activities of a group of traders.

A certain dim perception has always survived that it was exceedingly unsafe for government to confuse the methods of administering justice with the methods of obtaining wealth. It has long been felt that wealth was one thing and justice another, and in spite of the confusion created by certain philosophers, most men have refused to believe that one can reach wealth by pursuing justice or justice by pursuing wealth. Therefore, if for no other reasons, it seems unreasonable to regard government as chiefly a means for increasing markets abroad or using colonial markets. As Adam Smith said, “To found a great empire for the sole purpose of raising up a people of customers may at first sight appear a project fit only for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of shopkeepers, but extremely fit for a nation whose

<sup>1</sup> John Dewey, *New Republic*, March 3, 1920.



government is influenced by shopkeepers." <sup>1</sup> That is to say, the people who gain from an imperial reserve are not the nation but the traders: and if the reservation of empire for trade is made by a government, it is the result, not of the people's interest, but of the trader's influence; but, as it has been pointed out above, the confusion of mind among the public in this matter is reflected in the confusions of administrative action.

The confusion may, however, be useful for the manipulation of policy, since at one moment the nobility of law and government can be emphasized, and, at another, the need for cash. For example, when it was suggested that the British did not approve of French action on the Rhine in 1920 because it would prevent the economic recovery of Germany, the *Temps* adopted the noble attitude: "It would be useless to reply (to objections) because France refuses to regard England as a mere community of merchants. We are not of those who mistake the British Empire for the colonies of Carthage." <sup>2</sup> But what then is France? The same periodical tells us in regard to French policy in Turkey: "We must remember our essential rights, and labour to safeguard them. The French are the chief creditors of the Ottoman Empire; but for nearly six years they have received nothing from their debtor. It is a situation which cannot continue at a time when foreign debts are particularly precious for France. . . . The national interest of France is necessarily injured if the most important sections of

<sup>1</sup> Bk. IV. chap. vii. "At the end of the seventeenth century some Americans had set on foot a woollen industry: in 1719 it was suppressed: all iron manufactures—even nail-making—were forbidden: a flourishing hat-manufacture had sprung up, but at the petition of the English hatters, these competitors were not allowed to export to England or even from one colony to another."—Toynbee, *Ind. Rev.*, p. 81. He notes that Adam Smith's *Wealth of Nations* was published in the same year as the Declaration of Independence.

<sup>2</sup> *Temps*, June 10, 1920.

the Turkish State are separated among diverse dominations or different foreign influences.”<sup>1</sup> But is this the politics of law and government or the economic desire for cash?

<sup>2</sup> An admirable example of confusion between commercial transactions and political arrangements is provided by the Nauru Island Agreement Act. An agreement was made by the United Kingdom, Australia and New Zealand as to (1) administration of the island and (2) the mining of phosphate. As for the commercial transaction, the State, in this case the three sections of what is usually called the British Empire, buy out the Pacific Phosphate Company, which had a concession, in succession to the Pacific Islands Company, from the German Government, dated January 22, 1906. The State, or its three sections, will own and manage the phosphate production and, according to the spokesman for the Government in the House of Commons, that “will give this country great opportunities as regards a cheaper provision of phosphate.” Apparently the original trading Company would ship the phosphate to the highest bidder, whereas now “the three Commissioners (who are apparently commercial managers, distinct from the Administration mentioned in the agreement) shall not, except with the unanimous consent of the three Commissioners, sell or supply any phosphates to or for shipment to any country or place other than the United Kingdom, Australia or New Zealand.”<sup>2</sup> This was supported in the House of Commons as good business.

As for the administration of law and justice, the British Empire, and not the three sections of it which do the commercial work described, is supposed to be the mandatory for Nauru. The mandatory power is supposed to administer territories under supervision of the League of Nations, although the Supreme Council grants mandates.<sup>3</sup> The

<sup>1</sup> *Temps*, April 20, 1920.

<sup>2</sup> Article 10, Schedule.

<sup>3</sup> Cf. Nauru Island Agreement Act, 1920, Schedule, “Whereas

mandatory under the covenant agrees to "secure equal opportunities for the trade and commerce of other members of the League," and this was supposed to imply the "open door" policy. But in the case of Nauru Island the mandatory, the British Empire, is also, so far at least as a section of it is concerned, a commercial undertaking which agrees to close the open door.<sup>1</sup> The British Empire as administrator will have to forbid the British Empire as "three Commissioners" to do what it has agreed to do, but whether as a commercial undertaking or as an administrative unit is not clear.

The confusion in the same policy of contradictory principles, a practice often called "compromise," is so characteristic of the British system of government that it is interesting to note a clear distinction, also within the British system, of political from economic functions. The distinction is to be found in the practice of government in the self-governing Dominions. It is well known that Canada entered in 1911 into a reciprocity arrangement with the United States, and this is recognized to have been the legitimate conclusion of a long development.<sup>2</sup> Again, the Dominions have abandoned the Crown Colony policy of levying duties for revenue and now have protective tariffs. In spite of protests forwarded to Canada by the Board of Trade in the United Kingdom, a high tariff was established in Canada in 1879. A similar principle is involved in the granting by the Dominions of Imperial or inter-colonial preferences in trade. Under the British Acts of 1873 and 1895, the difficulty was faced of separate trade arrangements in

a mandate . . . has been conferred by the Allied and Associated Powers."

<sup>1</sup> Mr. Bonar Law (Hansard, June 16, 1920, col. 1324) said: "Nothing is lost by transferring the power to treat the product as it liked to a body represented by the British Empire (!) as compared with a private trading company." So the British Empire represents some commercial body.

<sup>2</sup> Keith, *Responsible Government in the Dominions*, vol. iii. p. 1144.

the Dominions in view of the treaty arrangements of the Imperial Government; but in effect the independence and autonomy of the Dominions was recognized in regard to economic issues. Again, although the Mint is still an Imperial service, the currency of the Dominions differs from that of the United Kingdom.<sup>1</sup> Thus clearly the Dominions are economic units and are not political units to anything like the same extent. In their foreign policy with regard to non-trading matters, in their defence systems and in part of their legal system in subordination to the judicial Committee of the Privy Council, they are one with the single political unit known popularly as the British Empire and internationally recognized as the United Kingdom: but in the trade policy and the economic activities of their governments they are distinct from one another and from the United Kingdom.<sup>2</sup> This is due to no abstract theory, but to the inevitable tendency in modern life towards a separation of the co-ordinating organization of economic life from the centre of political government. The French have attempted to resist this tendency in regard to their colonies: they have tried to make Algiers and Guadeloupe and Indo-China economically one with France, but even this attempt has failed, and they now permit a difference known as "tariff personality" to divide the French territories overseas.

The acts of government in regard to foreign trade are obviously based upon different principles, some of which are irreconcilable with others. There are many tendencies to be found embodied in different policies, and it is impossible to foresee which tendency will in the end become dominant, for government may become either in some States or in all States mainly a method for the enrichment of one group at the expense of another.

<sup>1</sup> Keith, *Responsible Government in the Dominions*, p. 1186.

<sup>2</sup> An interesting example of action by economic communities is the new reciprocity agreement between Canada and the West Indies. Cmd. 864 (1920).

Again, government may become, more consistently than it now is, a method for reducing ordinary men to that type of life which Hobbes thought "nasty, brutish and short." It is quite possible to adopt a policy aimed at the production and distribution of purely British goods; for we might possibly live on acorns and dress in woad, and thus be independent of foreigners. Alternatively we might have "possessions" which would give us all our raw material and buy all our products, as the Dominions Royal Commission, viewing Empire as a proposition in economics of the oldest type, seems to desire. The French and the citizens of the United States seem to have similar desires. Among all the tendencies, however, both within and outside the British system of government the most important are (1) the tendency to divide economic from political functions, embodied in the development of distinct governmental offices and in the general principle, so often enunciated by Lord Cromer, that administrators should in no sense be traders; (2) the tendency for government not to leave trade and commerce severely alone but to enter more deeply into economic life; and (3) the tendency for government in its economic functions to preserve some shreds of the dignity it has in law and justice and to act for the sake, not of privileged groups, but of all the governed of every class and every race.

## CHAPTER XI

### INTERNATIONAL TRADE

**I**T has been already shown that a part at least of what is usually called foreign trade consists of international trade or services. In some cases such trade can be studied as if it were a trade between two parties only, the exporter and the importer ; but obviously there are some cases in which these conceptions are inadequate, for the whole of the economic structure is affected by what takes place between any two parts of it. The rates of exchange between New York and London may be affected by trade between Genoa and Smyrna ; and the development of Cornish tin-mines may be dependent upon the amount of Straits Settlements tin that is shipped to the United States. The identification of foreign trade with international trade is, therefore, dangerous : and the State administration in promoting or supporting trade may very well have to distinguish between the increase of exports of a particular country and the growth of international trade. It may be an advantage to a country to have fewer exports if it can assist in promoting trade between two other countries : and this may be an advantage both from the political and from the economic point of view. For example, if all British ships took only British exports from Great Britain, it might increase our export trade : but this might be less advantageous to Great Britain itself than using British ships in the carrying between foreign ports, although these ships never come anywhere near Great Britain. International services, although advantageous to the nations taken

separately, are still more advantageous to the whole structure of the State system and to the peoples. The economic advantage is obvious: the political advantage is in the promotion of harmonious relations between foreign States, for all States gain from the preservation of amity between any States. The Prince Line, for example, before the war may be counted as one of the forces that went to the make of the Pan-American Union, and thus British traders improved the political organization of the world.

From this point of view international trade, though it may be only another name for what is usually called foreign trade, implies a totally different conception. It implies, first, that the economic unit is the whole world of men; and secondly, it implies that tariffs and other obstacles to trade are not domestic problems nor even problems of foreign policy, but problems of international policy. If the United States, for example, keeps out British woollen goods by a tariff, that concerns not only the United States and the United Kingdom, but also France and Italy; and therefore any action for the removal of such obstacles is a first step in international economic policy.

The interlocking of political and economic action is very complex in this matter, since the removal of trade obstacles may be due rather to political alliances or the change in the strategic military position than to a desire to increase the supply of goods and services. As the imposition of tariffs or preferences may be urged for political reasons, so their removal may be due to political reasons. But clearly there is a distinction between the international interest in restricting armaments or delimiting frontiers or reconciling marriage laws, which is political, and the international interest in more production and better distribution of commodities. The argument here refers to the action taken by government to promote or develop trade or to prevent obstruction to the trade

between different peoples, when this trade is regarded not as an advantage only to one government or people. The policy and administrative action to be considered cover (1) commercial treaties, (2) international agreements, and (3) international organization: and the particular point to be noted is the relation between the political and the economic in regard to these three; for it seems obvious that (a) the same men will not have competence or time to deal with political problems such as frontiers as well as economic problems such as supply, and also that (b) the confusion of the two kinds of problems may lead to economic disaster if the political problem only is solved, or to political troubles if, in the interest of economic development, national prejudices are disregarded. These two practical results of confusion may be found in the results of the Austrian Treaty and the partition of Asia Minor. The old economic unity of the Austrian Empire was destroyed in the interests of nationalities, and the economic need for oil caused in Asia Minor a forgetfulness of nationality. This is not a complaint against the politicians: for the mistakes are chiefly due to the inadequacy of the machine of government in the international sphere where both political and economic issues must be dealt with.

The first step is the removal of obstacles by a commercial treaty. Commercial obstacles having been created by the States acting as economic units, some of these obstacles are removed again by the States acting in the economic sphere. It is true that the commercial treaty is generally conceived as an advantage gained for the parties concerned only; but it is easy to see that the advantage in any removal of obstacles to trade is an advantage for the whole economic life of the world at large. The method by which the obstacle is removed is by granting "most favoured nation" treatment in regard to tariffs or prohibitions. The estimate of the result by an English Foreign Minister was as follows: "The most favoured nation



clause has now become the most valuable part of the system of commercial treaties, and exists between nearly all the nations of the earth. It leads more than any other stipulation to simplicity of tariffs and to an ever-increasing freedom of trade.”<sup>1</sup>

In the usual interpretation a State granting “most favoured” treatment to any one other State grants the same treatment to every other State to which it has granted “most favoured” treatment. Thus if France grants to Italy a low rate of tariff for her steel, and France has already granted “most favoured” treatment to Spain, then Spanish steel comes in on the same terms as Italian, even if the treatment hitherto granted to Spain did not include so low a rate on steel. The tendency is to simplify the tariff system and to give to more than one State any advantage granted to one: and the interpretation thus given to the clause is known as the “unconditional.” The United States, however, has always maintained a conditional meaning for the clause: that is, the “most favoured” treatment is not considered to be extended to any nation except under a direct mutual arrangement.<sup>2</sup> This difference of interpretation, however, hardly affects the argument here. It is enough if the fact is clear that government performs an economic function in maintaining the terms of commercial treaties.

The second great step towards international economic policy is indicated by the phrase “the open door.” This is an attempt, not to overcome existing obstacles, but to secure uniformity of treatment for all peoples in exploiting certain undeveloped countries. Here again the State acts in the economic sphere: but here it attempts to initiate and to forestall commercial rivalries which may secure privileges or concessions for traders from

<sup>1</sup> Lord Granville in 1885, quoted in Culbertson, *Commercial Policy*.

<sup>2</sup> Culbertson, *Commercial Policy*, p. 192.

“ native ” rulers or from the traders’ own government. Obviously the sphere within which this policy could be immediately applied was restricted in 1885, when it first became an international rule ; but there is no reason why the same system should not be extended to cover the whole world, even when the obstacles to trade are ancient and imply many vested interests.

Great Britain and the Netherlands maintain the “ open door ” in their colonies, and when Germany had colonies she followed the same rule : but all the other great States maintain tariffs against foreign goods in their colonies. Thus the obstacles to trade may be increased by the transference of German colonies to British Dominions or to France and Portugal, unless, of course, the mandatory system is by any chance taken seriously. Unfortunately the mere acceptance of the principle of the “ open door ” is no security against subtle measures for avoiding its obligations. Thus the “ open door ” in the Congo was closed quite effectually by the administration of King Leopold, which forbade any one to take products except by its leave and forbade natives to sell except to itself or its “ aliases ” the concessionaire companies. This is only another instance of the futility of admitting a principle or passing a law without providing for any administration to make it operative. China has been forced to accept the “ open door ” ; but it has meant in effect, not equality for all everywhere, but reserves or spheres of influence exclusively in control of different national groups. Morocco is supposed to be governed under an “ open door ” agreement, but manipulations occur which favour French traders. Thus the phrase “ open door,” although it represents a policy, does not at present imply administrative action consonant with that policy, and it is very likely that there will be no real removal of obstacles to trade even in dependencies until the governments and the peoples are able to adopt an international point of view and to pursue the common interests of all nations in

the development of the resources of the world. The administrative action in regard to Commercial Treaties and the Open Door is carried out in the United Kingdom by the Department of Overseas Trade and in other countries generally by the Ministries of Commerce.<sup>1</sup> In all cases the Foreign Offices have a special connection with the Ministries of Commerce in these matters, as it has been shown above in regard to foreign trade; but the lack of an international point of view and international organization is as obvious here as elsewhere; for it is primarily foreign trade and not international trade with which the departments deal, and they are conceived usually to be pushing national trade rather than improving international trade. A tangible and definite change in administrative action might, however, transform the situation. The Ministries of Commerce are already in closer contact than before the war: there are continual meetings of the heads of departments from the several States and consultations by the commercial representatives of all nations. Trade may thus come to be viewed, and will perhaps be dealt with, administratively on an international plan. For the better production and distribution of commodities what is needed is not only to remove obstacles or to negotiate treaties between two parties, but to review the whole system of commercial treaties and of the obstacles to international trade. This is an economic function which could very well be performed by the existing machinery of the State; and there is a tendency towards the adaptation of the machinery for performing this new task in the closer contact which is developing between the commercial departments of the central governments in all the great States.

The sphere of international trade has also been affected

<sup>1</sup> The Department of Overseas Trade has issued a valuable review of the economic situation in Europe, August 1920: but even that genuinely international survey is excused by the Preface in this way: "In considering the economic condition of Europe from the standpoint of British and commercial interests . . ."

by international agreements. In these cases the action taken by the several governments in regard to trade is based upon and is taken in consequence of a rule agreed to by them, but there is no international "sanction" nor any international administration. For example, there are agreements as to weights and measures,<sup>1</sup> covering before 1914 twenty-six States; there are monetary unions, such as the Latin, Scandinavian and South American; there are agreements as to property rights, in industrial as well as literary and artistic property; there are agreements for collecting information as to trade—for example, that setting up the International Institute of Agriculture and that for publishing tariffs and laws and treaties affecting commerce, of which only the vaguest result remains in a statement of principles as to the collecting of information. There is the agreement of 1890 between nine European continental States in regard to the carrying of goods on railways across frontiers. The war, however, has interrupted the growth of this international organization of government on its economic side; and presumably the League of Nations will review and co-ordinate all that is left of the pre-war governmental machinery for assisting international trade.

The tendency which was so vigorous in the ten years immediately preceding the war is likely to revive with the revival of international trade, and it can hardly be doubted that governments performing economic functions for their foreign trade will make the next step and agree to promote international trade. Indeed, the needs of each nation, taken separately, will probably lead to joint action, such as was taken before the war, for example, with regard to the fishing industry. The International Council for the Investigation of the Sea was the result of two Conferences held in Stockholm in 1899 and Christiania in 1901. There is a central Bureau at Copenhagen. Eight countries had joined in 1912, and the

<sup>1</sup> Convention of 1875, Metric Union.

United States joined later.<sup>1</sup> Independent national investigations were carried on, but they are co-ordinated by the Council, and the result has been much additional knowledge of plankton fauna and flora and of plaice and herring. Such knowledge was necessary as a basis for any regulation of fisheries by each State concerned.

The most striking international joint action, however, apart from war experience, is in the Universal Postal Union. The governments in that Union, all the civilized governments of the world, carry letters and packages for nationals of other governments at charges fixed internationally and according to international rules supervised by a central Bureau at Berne. The village postman, therefore, who carries a foreign letter is, in a sense, an international official; and the system is, in a sense, international administration. This system continued to operate even during the Great War, and letters were carried by postmen of one belligerent which had come from nationals of another belligerent. English letters were delivered by German postmen, in spite of the fact that politically the States held no communication. The economic seems in this case to be surprisingly independent of the political; but, of course, some ordinary trade continued also in spite of obstacles, and the postal system continued simply as an item in the whole of economic life. In any case the governments have recognized the necessity of an international point of view in regard to the carrying of letters; for it is obviously futile to discuss the interests of nations in this matter as though they were opposed. It is a common good of all peoples, which each people enjoys, that communication should pass across all frontiers according to a single rule.

Another form of international agreement touches

<sup>1</sup> The countries were Belgium, Denmark, Germany, Netherlands, Norway, Russia (Finland), United Kingdom, Sweden. Each sent two delegates, accompanied by experts, to the Council. Annual expense amounts to about £6,000.—Details in *Memoire sur les Travaux*, etc., 1902-1912, published for the Council in Copenhagen.

labour conditions. The movement towards international action by governments was produced by the unofficial Association for Labour Legislation founded in 1901. In 1906 the Berne Conventions were signed which prohibited night work for women and also the use of white phosphorus in the manufacture of matches.<sup>1</sup> These Conventions involved the passing of legislation in various countries. A less effective Convention in 1913 was never operative enough to be important internationally: and, of course, the war delayed progress in this sphere. The Peace Treaties of 1919, however, founded the International Labour Organization, in which government appears related to industry upon a new basis. In the Treaty with Germany the Labour Section is Part XIII and the Organization is said to be founded by the States which are members of the League of Nations, of which the details are given in Part I of the Treaty. The two international bodies are separated in the Treaty by all the punitive clauses of the Treaties, which are not constructive internationally; and there is only the very smallest connection in the text between the League and the Labour Office: but perhaps the most important fact for the argument here is that the Council and Assembly of the League are purely political, and the representatives on these are representatives of States or governments, whereas the Governing Body and the General Conference of the Labour Organization are not purely political, but largely economic, for they include representatives of employers and workers.

The structure of the International Labour Organization is important for the present argument, since in regard to this a definite departure has been made from the old State system. The International Labour Organization includes a General Conference or quasi-legislature and a Labour Office with a permanent Governing Body. The General Conference is an assembly of delegates from the

<sup>1</sup> Cd. 3271 (1906) contains an account of events preceding the Berne Conference.

countries whose governments are members of the League of Nations : but the delegates do not all represent governments.<sup>1</sup> From each country there may be four delegates, two of whom represent the government, one the employers and one the workers. Half of the members of the Conference, therefore, are not part of the State system but of the industrial or economic system. The governments nominate, indeed, the delegates of employers and workers ; but where organizations representative of these exist in any country, the government is bound by the terms of the Treaties to "choose in agreement with those organizations which are most representative."<sup>2</sup> The Conference will therefore normally consist of about one hundred and sixty members, of whom about half will be industrial and not political. Again, the delegations from the several countries are not units, for each delegate is free to vote as he thinks best : as a matter of fact, in the first Conference at Washington in 1919 the lines of distinction were not drawn, in the voting and speaking, between nations but between the workers and the employers, with the governmental delegates divided.<sup>3</sup> It is natural, therefore, to expect that, if the political colour of governments varies more in the future than it does at present, the Conference will develop industrial and not political distinctions ; but even as it now stands, its structure shows that the necessity for industrial representatives, for making industrial regulations, has been felt. The political difficulties which result may be in some cases amusing, because the State system has not yet in international affairs allowed a sufficient separateness to industrial and economic problems. For example, the Conference agrees by a two-thirds

<sup>1</sup> The draftsmen of the Treaty were apparently careless of the controversy as to representatives and delegates. The Treaties say "four Representatives, of whom two shall be Delegates . . . and the two others Delegates" !

<sup>2</sup> Article 389 of the Versailles Treaty.

<sup>3</sup> See H. J. Hetherington, *International Labour Legislation*, 1920, for a discussion of the Conference and the principles involved.

majority to Conventions : that is to say, any Convention so agreed binds all the governments in the League. The old sovereignty of States and the unanimous vote of international Conferences has thus been limited : for according to the terms of the Treaties a State may be bound whose representatives were not even present at the Conference ! Again, the Conventions cannot be signed by plenipotentiaries, since half of the members agreeing are not in any sense plenipotentiaries nor even representatives of States ; and yet those non-governmental delegates are of equal status with the governmental.<sup>1</sup>

The relation of this industrial quasi-legislature to the sovereign States is further defined by the obligations undertaken by the members of the League. Here sovereignty has been preserved ; for the governments are bound only to present draft legislation to the national legislatures for carrying out the terms of the Conventions. Naturally the governments could not be bound to compel legislation ; and if the national legislature will not support the Convention, the government has no further obligation except to explain the position to the International Labour Office. The important fact, however, remains that an international Conference in which non-governmental industrial units are represented can compel a government to introduce suggestions as to reform.

The structure of the permanent office of the International Labour Organization is evidence of the same tendency to give a place to the economic. The Governing Body consists of twenty-four members, of whom twelve represent industry and not government, six elected by the employers' representatives in the Conference and six by the workers' representatives. The present Governing Body does, indeed, include in its non-governmental members persons

<sup>1</sup> The Conventions, according to the Treaties, must be ratified in spite of not having been signed : and therefore a form of ratification hitherto unknown has to be invented. This shows again the different character of industrial legislation from political.



from the chief industrial countries ; but they were elected by a world-vote of the non-governmental part of the Washington Conference without regard to nationality. The Governing Body, therefore, like the Conference, shows the tendency to give a new position to industrial as contrasted with political organization. The International Labour Office itself is a result of the same tendency which has produced Ministries of Labour in all the chief countries ; and although, being international, its chief function is information rather than administrative action, the attitude and policy certainly imply, not benevolence or control, but assistance in the organization of industry.

The conception embodied in this organization is in close accord with the tendency to which attention is being drawn in this book. If the same conception had been applied at Paris to other international problems besides those of labour conditions, we might have had other bodies like the International Labour Organization dealing with Finance, Commerce, Shipping, Undeveloped Countries, etc. But unfortunately all these other international economic problems were conceived to be dealt with under the old comprehensive State system, in a Council and Assembly of a League which stands for nothing but political governments. The secretariat of the League does, indeed, include an economic section ; but in actual experience the League has been devoted chiefly to political issues, and economic problems have been dealt with by other bodies.<sup>1</sup> There is, however, even in the international sphere a tendency to create special economic administration ; for it has been felt that many of the international problems left by the war are primarily economic.

The Supreme Economic Council has been a sort of

<sup>1</sup> The Economic Section of the League has issued a valuable review of currencies in the different countries, July, 1920, and proposes to issue periodical surveys, thus performing a genuine economic function of international government.

international economic, as contrasted with political, body. It has dealt with food supply and transport since the Armistice; and it was evidently intended to take over in the international sphere some of those governmental functions performed in the national government by a Ministry of Food or a Ministry of Transport. So far as policy is concerned, however, its functions have been subordinate. It has been left with only very uncontroversial issues for consideration; it has carried out orders rather than given them; and it has not had the power to take practical action on the scale implied by its theoretical view of the problems.

The Reparations Commission is another international economic body. In spite of its subordination to the general policy of the Allies, embodied in the Treaty of Versailles, it may exercise a very great influence upon the future of European industry and commerce. The "politicals," however, seem to have misunderstood its functions. When M. Raymond Poincaré ceased to be President of the French Republic, he was appointed as French representative on the Commission and chairman. He was well known as an exponent of *Macht-politik*, the fomentor of a Russian alliance against Germany, and the designer of a "left-bank of the Rhine" for France or as an "independent" State. What he intended to do with the Reparations Commission may be inferred from the fact that after the San Remo Conference, when it became possible that German economic life might be revived, he resigned from the Reparations Commission and began violent attacks in the Press on the policy of the Allied Governments. Clearly, if the Reparations Commission is destined to take economic and not strategic or military views, and if it can put those views into action, it may become very important; but it suffers from not being truly international and from not being frankly and entirely a financial and commercial public body.

From this review of the field of international economic action it is clear that there is nothing in the commercial and financial sphere corresponding to the International Labour Office: but it is not unreasonable to imagine an international office like the British Board of Trade or the United States Department of Commerce, as the International Labour Office is like the Ministry of Labour or the Department of Labour. Perhaps such an international office may develop out of the Economic Section of the League of Nations Office, the Supreme Economic Council and the Reparations Commission. There is at any rate a very obvious need for administrative action on an international scale in regard to commerce and finance; for these are even more clearly international issues than are labour conditions. It would not, however, follow that the international administrative action should be what is usually called "control"; for it might more easily provide only supervision and information, as a Ministry of Commerce generally does. On the other hand, there might be special cases, such as a cornering of the world-market or a restrictive world-combine, in which control would be best. These are not mere indications of a possible ideal; they are interpretations of the tendency of governmental action at present: for although the confusion of policies is even greater in regard to international trade than it is in regard to domestic trade and finance, there was obviously an increase in 1920 in the amount of consideration given to trade matters in regard to Russia and Central Europe.

It has been suggested that there should be an International Tariff Commission, modelled on the Tariff Commission of the United States.<sup>1</sup> Such a Commission would investigate all obstacles to international trade, especially concealed discriminations against foreign goods:

<sup>1</sup> W. S. Culbertson, *Commercial Policy*, p. 308. Mr. Culbertson is a member of the U.S. Tariff Commission and he believes in tariffs for equalizing the cost of production.

it would carry further the publication of all tariffs, which is now done by the International Union for the publication of tariffs:<sup>1</sup> and it would study the effects of governmental or unofficial action on international supplies or services: but it can hardly be said that present tendencies point to so definite and so powerful an international organ of government.

Following the plan adopted in regard to other sections of economic life, it is now necessary to consider the non-governmental organization of international economic activities. In regard to labour, there is a Trade Union International and there are International Federations of unions in different industries. The tendency is for the national unions to come into closer contact; and the international conferences of trade unionists are opportunities for the review of problems common to trade unionism in every country. There has been recently an example of a boycott of a country through action taken by the International Trade Union Bureau;<sup>2</sup> but on the whole it cannot be said that the organized workers have any control over or even very much contact with international trade. On the side of finance, however, international non-governmental organization is very elaborate and is rapidly developing. Groups which are dominated rather by the desire for private gain than by the conception of public service are acting internationally and effecting both good and evil. As an example of the rapidity of organization by international financial groups the following facts are significant: "In 1915 and 1916 a transport syndicate was formed on the Volga and its affluents and on the Caspian Sea. This syndicate was headed by the Société Caucase et Mercure and the Société Oriental des Dépôts Commerciaux, to whose

<sup>1</sup> This Union has had a bureau at Brussels since 1890, which publishes a bulletin in five languages. Expenses are shared by the contracting States in proportion to their commerce.

<sup>2</sup> Boycott of Hungary: cf. Press of June 1920, *passim*.

management was entrusted the Société de Navigation du Dnieper, the Société Lloyd Russe, the Société Russe de Transport, the Société de Navigation de la Sibérie, and the Société de Navigation de l'Amur. Having thus centralized the navigation on the Dnieper and in Siberia, the Trust absorbed the North Russian Company, the Compagnie de la Navigation Marienshraya, which connected the Volga Basin with the Baltic. In this way, all the transport in Russia, Siberia, Central Asia, the Caucasus and Persia was controlled by this powerful Trust, which has branches in all cities, and all interior and coastal ports, and which also controls the great forwarding agencies, e.g. the Paul Fotovslovsky and others. In the domain of international transport the Trust has also intimate relations with large economic transport organizations, e.g. the Cunard Company and the Pacific Railway, while agreements are on the point of being concluded with powerful English and Danish transport companies. . . . Now that a movement is in progress for reopening commercial relations between Italy and Russia, the directors of the most important companies forming the Trust are to hold a conference in Rome to discuss questions relating to an exchange of commodities between the two countries and the even more important question of marine transport."<sup>1</sup>

The movement has two important aspects. First, there are many groups of financiers of different countries acting in concert or in competition within the poorer countries. For example, the foreign capital involved in the oil trade of Rumania in 1914 was about 530 million lei, held by financiers of the different nations in the following proportions:—<sup>2</sup>

<sup>1</sup> The *Financier*, March 18, 1920.

<sup>2</sup> *Bulletin of the Office Com. Française*, quoted in the *Economic Review of the Foreign Press*, June 30, 1920, p. 187. Two new companies have been formed (August, 1920)—“Petrolina” a company in which English, French and Belgian capital of the “Shell” group is interested, and “Neptune,” in which the capital

|               | Per cent. |                     | Per cent. |
|---------------|-----------|---------------------|-----------|
| France .. ..  | 6.5       | Anglo-Dutch ..      | 11.3      |
| Belgium .. .. | 2.1       | U.S.A. ... ..       | 4.7       |
| English .. .. | 29.7      | Italy .. .. .       | 1.4       |
| Dutch .. .. . | 7.5       | German and Austrian | 30.0      |

Secondly, there are groups of financiers who are frankly and genuinely international and control capital sums which are composed of capital from many different nations. These international groups obviously exercise a very powerful influence on the world's supplies. For example, in the oil trade the whole supplies of the world are controlled by the two groups, Standard Oil and Shell-Royal Dutch: and each of these is international.<sup>1</sup> The Shell-Royal Dutch group owns or controls the following firms: Anglo-Saxon Petroleum Co., Bataafsche Petroleum Co., Shell Transport and Trading Co., Shell Marketing Co., Ural Caspian Oil Corporation, North Caucasian Oilfields, New Schibaieff Petroleum Co., Anglo-Egyptian Oilfields, Shell Company of California, Roxana Petroleum Co., Mexican Eagle Oil Co., La Corona Petroleum Co., Tanpico Panuco Oilfields, Panama Canal Storage Co., Venezuela Oil Concessions, Ltd., Soc. Commerciale et Industrielle de Napthe Caspienne et de la Mer Noire, Société de Mazout Nouvelle Soc. du Standard Dusse du Grosnet, Astra-Romana Soc. Anon., Perlak Petroleum Co., Dordtsche Petroleum Co., Ceral Oil Syndicate, Ltd., Curacaosche Petroleum Co., Curacaosche Scheepvaart Co. The British Government Committee on motor fuel says that "practically all the sources (of oil), not only of supply but of the machinery of transport and distribution of petrol, are mainly controlled by the same interests." And the report also says: "In view of the world-wide operation of these Trusts, it does not appear possible for the British Government by itself to deal effectively

is French and Belgian—"the main object in both cases being the consolidation of various small concerns hitherto in Rumanian hands."—*Times*, August 6, 1920, p. 15.

<sup>1</sup> Cf. *Report on Motor Fuel*, Cmd. 597, 1920.

with this problem. The concentration of control over the price and disposition of motor fuel in the hands of two enormously powerful capitalistic combines, practically world-wide in their scope, constitutes so dangerous a power, if it happens to be improperly used, that it is imperative that the governments of the world should give some attention to it." Giving some attention to it is what the grammarians call "meiosis" and the dramatists "bathos": but clearly economic action in the name and for the sake of the communities concerned is what is suggested.

Governments, however, have already acted, not in controlling, but in supporting, the Oil Companies. In an agreement between France and Great Britain signed at San Remo, April 24, 1920, the following phrases occur: "The agreement is based on the principles of cordial co-operation and reciprocity where the oil interests of the two countries can be usefully united. . . . In the territories which belonged to the late Russian Empire the two Governments will give their joint support to their respective nationals in their joint efforts to obtain petroleum concessions and facilities to export." This, however, can only mean assisting the power of those very combines which a British official committee believes to constitute a danger to the public. Or is this perhaps what the Committee means by giving "some attention to it"?

Another type of the international organization of finance which intimately affects government is the system of loans to governments by financial groups. The South and Central American States, together with Egypt, Turkey, Greece, Spain and Portugal, are thus indebted to various financial groups. The money is provided for governmental development, and foreign, often international,

<sup>1</sup> Cmd. 675. Memorandum of Agreement in regard to Oil. See the *Contemporary Review*, August, 1920, "Facts and Documents," for the French view of British Oil policy.

groups obtain the interest on the loans from the taxes or other assets of the debtor government. Sometimes the proceeds are large; but sometimes there are no proceeds, and when "default" continues for many years the lending groups tend to call in the assistance of any governments with which their directors can claim connection. Sometimes this leads to expensive warlike operations, paid for by the citizens of the State whose nationals have lent the money. Thus if things go well, a small group gets the proceeds: if things go ill, the common folk outside the small group pay for it.

In some cases, as in that of the Ottoman Debt, an international quasi-governmental Commission manages the finance of the debtor country wholly or in part. The external debt of Greece, for example, is managed by an international Financial Commission, which controls the revenues from the State Monopolies (salt, petroleum, matches, playing cards, cigarette paper and Naxos emery), the stamp and tobacco dues and the Piræus import duties.<sup>1</sup> Clearly all such relations between international finance and governments have to be examined. The tendencies at present seem to point to an increase of the power of international financial groups, while governments remain isolated and without any effective international organization. This, therefore, leaves government to be a mere satellite to the operations of financial groups.

There are, however, some examples of action by non-governmental groups in international affairs which may be of assistance to governments. For example, the Chambers of Commerce of Italy and Switzerland have arranged for transit of goods to Switzerland through Genoa, and the Italian Government has followed up this move by granting the Italian Chamber of Commerce a yearly subsidy and allowing to the Swiss Government a free zone in Genoa harbour and town. Silk is to be imported into Switzerland from the East via Genoa,

<sup>1</sup> *Report of Council of Foreign Bondholders*, 1919, p. 172.



and two new shipping services are to be established on that route. The promotion of international life, therefore, which governments sometimes obstruct and seldom do anything to promote, may be brought about by financial groups. These groups are not to be thought of as necessarily or always the villains of the piece. They sometimes do subserve the common good in the pursuit of their own private gain.

Again, the spread of knowledge essential for international trade is organized by non-governmental bodies. For example, the tenth International Cotton Congress was opened at Zurich on June 9, 1920. Sir H. Dixon, the President of the International Cotton Federation, said that "if every other industry would co-operate as the cotton industry did, the League of Nations would soon become a great practical fact and not merely an ideal." Eleven countries were represented at the Congress, and delegates from four others were expected. The President said that Germany and Austria would also be represented as soon as they were admitted to the League of Nations. The discussion at the Congress turned chiefly on the problem of the relations of employers to workers and on legislation affecting the cotton industry. Comparisons were made between the experiences of different nations: the export trade, the exchange-rate and scientific research were felt to be interests common to all those present. The position with regard to the supply of raw cotton was one in which national jealousies might very well arise; but the paper which dealt with the British Empire, and particularly the Empire Cotton-growing Committee, included the statement that "no one of any influence desires that the use of British-grown cotton should be legislatively confined to British mills." It was argued that the whole world gained by the support given by the British and Indian Governments to cotton-growing. As examples it was said that the Aboukir Company of Egypt had reclaimed wastes which now produced

cotton and that the Soudan Exploration Company had prepared the way for cotton-growing on the Gezira Plain. The Spanish report recorded some failure and some good prospects for the extension of cotton-growing. The French report referred to great extensions in New Caledonia and West Africa. The Belgians reported on the Congo. This is an example of internationalism developing upon a functional basis; and clearly the life of the common man is better if the services of commerce are organized internationally.

A striking example of the effect of non-governmental upon governmental action is to be found in the events of 1919-1920 in international finance. The exchanges were obstructing trade and finance was in confusion. Various bankers, economists and politicians specially interested in international affairs, held meetings at Amsterdam in November 1919. The result was a memorandum addressed to the Governments of the United States, Denmark, France, Great Britain, the Netherlands, Norway, Sweden and Switzerland, by citizens of all these countries. The signatories were men well known as practical bankers and as economists. The memorandum was published in England on January 16, 1920, and in France some days later.<sup>1</sup>

This probably resulted in the remarkable declaration on the Economic Conditions of the world issued by the Supreme Council of the Peace Conference.<sup>2</sup> The war is there treated as the chief cause of high prices and unsound finance, owing to the destruction of goods which cannot be remedied "by a stroke of the pen." "Mutual rivalries and antipathies which are the natural legacy of war still dominate many of the nations of Europe" . . . "victors and vanquished are alike impoverished and enfeebled . . ."

<sup>1</sup> Cf. G. Vissering, *International Economic and Financial Problems*, 1920. The memorandum is given in full.

<sup>2</sup> Cmd. 646 (1920); dated 8th March, from 2, Whitehall Gardens, London.

Such are the facts : and the cure is thus stated : " Government must co-operate in the reconstruction of the common economic life of Europe, which is vitally interrelated, by facilitating the regular interchange of their products and by avoiding arbitrary obstruction of the natural flow of European trade." The language is that inherited from the old free-trade controversies : there is no ground for speaking of political reasons for controlling trade as " arbitrary " ; and there is a false conception of nature involved in the phrase the " natural flow " of trade : but that need not affect the argument here. It is clearly recognized by the Supreme Council that governments have an economic function to perform, a function which is international in its methods and in its purposes. The memorandum continues : " Attempts to manipulate the exchanges by government action will only retard ultimate recovery. Meanwhile means must be found to prevent the breakdown of trading operations." The false conception survives even in those sentences that government action is an impertinence and that the most beneficent action is facilitating or preventing breakdown. It is, however, true that government in the old sense, that is action by politicians who are ignorant amateurs in practical economic life, is pernicious. The Supreme Council recognizes that " trading operations " are public services : and all that is necessary is to connect this conception with governmental action. It would then follow that in international economic life governmental action is part of a communal system of which the other parts are to be found in the operations of traders and financiers. We should then have in the international sphere the operation of the concept of an economic community in place of a chaos of contending appetites for private gain ; but this concept of the economic community is not in fact operative in international affairs, and the most we can say is that there is a tendency towards it in the action of international bodies and occasionally in the

pronouncements of governments. The survey of economic conditions by the British Department of Overseas Trade includes the following significant sentences: "These two factors, the political and the economic, are in reality closely interdependent, for without the rehabilitation of commerce the establishment of political stability is impossible. So again the need for economic solidarity in the international sphere is no less urgent than is that for the integrity of political structure." This is a sufficient indication of the tendency studied in this book; and the very word "community" seems to be entering into practical use in the phrase of the same report: "The international community has many new members. . . ."<sup>1</sup> It is but a step from this to the conception of an economic community distinct from the political although closely related to it, and including all peoples.

It cannot be said that the position of government in regard to international trade is as important as its position in regard to domestic industry and commerce and "foreign" imports and exports. The administrative offices of an international character are few and feeble: the agreements and common customs of the several governments touch only the fringe of international finance and commerce: and meantime the organization of finance and commerce on an international scale is being developed by various non-governmental groups whose dominant motive is not public service. The absence of international government and its weakness where it has been introduced are probably due to the lack of any effectual public opinion: for the majority of the citizens of the several States have only just discovered that there are foreign States, and have not yet reached an international point of view.

It would be easy to suggest improvements in the present situation; but the argument here must be confined to interpretation of actual tendencies. The weakness of international government, the absence of an international

<sup>1</sup> *Economic Survey*, Department of Overseas Trade, August 1920.

policy in the action of the chief States, and the rapid growth of financial and commercial international organization not dominated by the idea of service, tend to subdue government in the international sphere to the purposes of finance. Thus, while government seems in the domestic sphere to be an influence for introducing the conception of public service into industry, in the international sphere financial organization seems to be making of government a mere instrument for private gain. The struggle for oil, for example, is not in the main a contest of governments but of financial groups. In Mexico, in Rumania and in the East, the governments of the world are involved in controversies with other governments, and no doubt some of the controversy is due to the desire of those who govern to secure oil for the industry of their several countries; but behind that lies the policy of financial groups, sometimes opposed, sometimes in alliance, using the prestige and power of governments as instruments of private gain.

## CHAPTER XII

### THE STATE AND ECONOMIC LIFE

#### A.—THE CHANGES IN THE MACHINERY OF GOVERNMENT.

**I**T has been shown that government and industry are activities so organized at present that they are very intimately related. The groups which control or devise the organization in each case may be distinct, but in the widest sense of the word the political and economic organizations are simply different relationships of all men. The same men enter into different relations, each with the other, either as citizens or as producers and consumers ; and this has perhaps been one of the chief causes for bringing together the governmental and the non-governmental organization in the economic sphere.

The development of the present situation has been slow, and many different tendencies, some obstructing others, have been at work ; but the result in the main has been to give a place to the activities of government actually within the organization of economic life. Factory laws, wage regulation and unemployment assistance have developed into positive and directive economic activities. This same tendency can be perceived, though less clearly, in the sphere of commerce and finance ; and in this sphere also government now promotes economic activities, both domestic and foreign. All this, however, has not displaced non-governmental economic organization ; for indeed that organization is more elaborate and more powerful than it was when the modern economic tendencies of government first began. As a result, while government

continues to act practically alone in regard to law, order and political rights, government in its economic activities assists and is assisted by non-governmental economic groups, chiefly representing the producers and distributors of commodities ; and thus a new social organization seems to be formed, which is based upon a dimly conceived principle that the economic community aims at common goods and that all economic activities are primarily public services.

This does not in the least imply that government is becoming in the main or altogether economic as contrasted with political. The activities of government even in regard to industry are broadly of two kinds : in some cases political government stands for something which limits, controls or canalizes the production and distribution of commodities. For example, factory legislation and some forms of commercial regulation seem to aim at securing purely political ends, either the promotion of citizenship or the preservation of legal rights. Thus in one of its aspects factory and other economic legislation is closely connected with the educational activities of the State, which aim at developing citizenship. The State, in effect, says : " At least there must be an opportunity for citizens or subjects to add their contribution to the general store of common life." It is recognized to be futile to have a vote or political and legal status if one lacks adequate food and adequate opportunities for education. Citizenship is not a claim to a right, but the acceptance of a responsibility ; and there are no means of exercising one's responsibility, or even of feeling it, unless one is able to live and to think. There are, then, reasons enough for the State to act for purely political ends in regard to the production and distribution of goods, and this is no more an " interference " than the painting of a picture is an interference with the eating of a dinner ; for both are legitimate activities. On the other hand, there is a second group of State activities in which govern-

ment seems to assist and promote the organization of the system by which goods are produced and distributed. Thus, in one of its aspects, factory legislation is a positive attempt by government to organize the chaotic frontiers of the industrial system ; and such legislation may actually assist industry. Again, most of the registration systems, the publishing of trade information and such administration as that of employment exchanges, involve positive industrial activities. Not simply is citizenship made more possible, but the production and distribution of goods is improved, and therefore government performs strictly economic functions. There are instances of industrial activities which did not exist at all, or at least not on a great scale, until the State undertook them—for example, the employment exchange system and the present form of industrial research. With these are naturally connected all industrial public services, whether under municipal or central government. Some of these were at first organized as private enterprises, but have been taken over, as in the case of the telephones in England. Others, although not actually taken over, are, as in the case of the railways of Belgium or Australia, enterprises which are generally regarded elsewhere as the natural spheres for private enterprise.

In all these cases the economic activities of government introduce a new principle into economic life ; for government in regard to law and justice being based upon the principle of communal life and public service, brings over from that sphere into the sphere of bread and boots the same dominant principle. The State and the local authority do not in fact become merely employers among other employers, because the primary purpose of the industrial service, performed either wholly or in part by public authority, becomes necessarily the service of the public ; and thus a new principle begins to be operative within the economic system.

The same conception can be presented from the opposite



point of view, by looking first, not at government, but at industry. The production and distribution of commodities is now regarded as, in some sense, a public service. Even those who praise enterprise when it is private would hardly dare to say that the service rendered by such enterprise was private: the apology made for private enterprise is that it is the most efficient form of public service in trade and industry; and no one ventures to praise that service mainly on the ground that it serves the servants of the public with profits. If, however, economic activities are public services, then they are directly the concern of the public or the community. As the fighting services are the concern of the political community and not primarily of the members of those services, so the industrial services should be the concern of the industrial community. All those within any one economic unit form such a community, all the producers and all the consumers as well. The employers' associations and the trade unions do not include all the producers; and even all the producers together are not an economic community, for all men do in fact belong to that community, although many are not organized within it in any group and such groups as exist are not organized in one whole. We have, therefore, in economic activities on the one hand a vaguely conceived principle of communal life and public service, but, on the other hand, no organization to make that conception effectual in practice.

There is no organized economic community. The State, however, stands for a whole community; and therefore, when the communal importance of any service is recognized, it is natural to confide that service to the State.<sup>1</sup> When the group already performing a service is seen to be a part of a community, its relations to that which represents such a community become more intimate. The industrial organization spreads more and more, and

<sup>1</sup> This is a well-known social law. An institution which has been developed for one function may be used to perform another.

all its parts come into closer integration each with the other, thus as it were compelling the government which acts for the community to increase its economic activities and to introduce a greater variation in its departments and its methods of action. Thus an accumulation of economic activities by the State may be interpreted, not simply as though government were bringing over into industry the conception of public service, but as though industrial organizations themselves were developing their own conception of public service and imprinting it upon the structure of government.

This, however, has a double effect : (1) centralization and (2) differentiation among centralized organs of communal life. Government is drawing up industry towards itself ; and that may look like concentration. It made Marx think that industry itself would be organized by the State which now provides law and order. The second tendency, however, the State Socialists did not perceive : it is that the State itself is being divided, and the functions of government are becoming clearly distinguishable into at least two types of activity, political and economic.

An example of the same process can be found in the origin of the Christian Church. In pre-Christian times religion was at first a family concern. The larger community formed in the Greek *Polis* and Roman *Urbs* had, of course, its own religious forms from the first ; but a great part of religion remained for long the concern of the families. Then, as the communal sense in religion developed, the larger unit, which we commonly identify with the State, took over more and more of the religious administration. Ceremonies became civic. Religion was centralized by its connection with political government, as industry is now being centralized in a communal service : but at that very moment the distinction between politics and religion appeared. The Roman Empire was, in the first years of the Christian era, a political organization

with a large religious sphere of action : the State was not interfering in religion ; but the religious, like the political, consciousness had worked towards a form of unity ; and the two communities, that of law and order and that of religion, were organized in the *cadre* provided by government. If, however, we imagine ourselves to pass directly from the Rome of the Antonines to the Roman world of the Dark Ages, we should find, in place of the unitary politics and religion of the Empire with its single central administration, a dualism—the temporal government on the one hand and the Church on the other. Rome itself was divided by the two great Orders which claimed its purple, the Empire and the Papacy : and in the same way now the State is being divided by the sense that the political and the economic community are distinct. The parallel is, of course, in its details fantastic ; but it will serve to suggest how there may be a political order and an economic order connected with a single system of administration and how these two orders tend to divide this central administration.

The tendency has been to increase the amount of industrial services performed by the State and other political organizations ; but this has not restricted the sphere of non-governmental economic organization, because, while the State has been increasing its activities, industrial organization has been developing. The proportional amount in the whole of industrial services organized by the State and by non-governmental organizations is, however, unimportant ; for no principle is involved. It cannot be said that there is a definite amount of industrial service which public authorities should organize, since they may extend their activities indefinitely without going outside their general commission to serve the interests of the community at large. There comes a time, however, when the concentration of innumerable activities of different kinds in one organization leads to confusion and inefficiency. On the legislative

side of government, Parliament becomes oppressed with the amount of its duties.<sup>1</sup> There are so many Bills that no effectual criticism and hardly any consideration can be given to each : and again, the Bills are of such varied kinds that the same body of men can hardly be fitted to deal with them all. For example, the same body of men is hardly likely to devise well the rules for such different activities as organized education and the organization of railways : but one of the most important features of modern legislation is the amount of economic or industrial measures it contains, and therefore either Parliament will have to give its mind to industry, thereby neglecting law and justice and education, or some machinery will have to be devised for specializing in legislation.

The position of Parliament in regard to industry to-day may be compared with its former position in regard to governmental administration.

Parliament at first did not attempt to administer government. It began by giving advice ; while the King and the King's servants carried on government. A new stage was reached when advice passed into control. Money was needed, and Parliament could therefore control administration ; but even that situation was very different from what is now done. Control then meant external correction ; but daily administration was still the sphere of the King and the members or servants of the King's Court.<sup>2</sup> Finally control passed into initiative and direction. Ministers and their staffs were made servants of Parliament ; and Parliament not only gave general directions but exercised, as it does now, detailed executive functions. That position has been established since, in 1848 for the first time, the Civil Service Estimates were laid before Parliament. But that is political history.

<sup>1</sup> Cf. the admirable statement in *A Constitution for a Socialist Commonwealth*, by B. and S. Webb, 1920, p. 75 *et seq.*

<sup>2</sup> It is worth noting that Parliament at one time actually opposed the presence of the King's Secretaries of State at its discussions ; but that very presence gave Parliament control.

If we turn to the industrial activities of Parliament we see a similar process ; but only the second stage, " control," has now been reached. The organization of industry from day to day is at first no concern at all of the representatives of the community. It is private enterprise ; as is all early administration or government. But it is soon perceived that every one is somehow concerned with the production and distribution of commodities. Therefore " control " begins in the mediæval and renaissance regulation of prices and wages and, under the new industrial system, in Factory Acts and the rest. Parliament still controls, as it were from the outside ; and day to day administrative services of industry and commerce are still under the direction of other persons and other bodies. But control is gradually passing into direction from within. Parliament is concerned, not simply with preventing evils, but with promoting the organization of industry—for example, in Unemployment Insurance Acts and the Labour Exchanges Act. The problem that remains to be faced is whether Parliament as at present constituted, indeed in any form, is capable of being the supreme executive power in economic as well as in political life. The tendencies traced above which seem to indicate that it is not, are (1) the increasing amount of statutory rules and orders, especially under industrial laws, and (2) the establishment of Councils for economic departments and the use of informal bodies representing industrial groups for the preparation of legislation and the solution of executive difficulties such as threatened obstructions of economic services. It would be difficult to interpret such tendencies without undue prophecy ; but it may be that they will work out in the formation of a new economic organization of the legislature. Either Parliament will be changed in structure or some new body will take over part of its powers : and the new body may grow out of advisory groups in the same way as the present executive in politics has developed out of an advisory Parliament.

Again, apart from legislation, the Executive, our Cabinet and the Ministry in certain foreign States, can hardly be expected to direct policy with effect when there is too much to direct. The same body of men, the Cabinet, in the Great State of modern times, cannot find time to deal efficiently both with the government of Egypt and the rates of wages of railwaymen. Indeed, we had in England, in the railway strike of September 1919, a startling example of the difficulties of centralized executive powers. The Prime Minister spent much of his time in detailed discussion as to the rates of wages for railwaymen, while the Turkish Treaty had not been signed and Ireland was going from bad to worse. Again, the French President du Conseil, M. Millerand, was recalled from a discussion of the Eastern problem in London in March 1920 because of the strike on the French railways. But when the same men hold the supreme power in many different spheres, all the spheres may suffer : for action is delayed when too much is expected of those who are in control of the Executive. That is the argument so far as the amount of their action goes : but in regard to the kinds of action, the argument is still clearer. The Executive of a modern Great State deals with defence and justice and education and health, and all those complex relations which we call industrial life. But if a large body of diverse persons in a modern Parliament cannot be expected to know enough of subjects of very diverse characters, still less can a small body in a modern Cabinet or Ministry have enough knowledge. It is true that we in England pride ourselves upon the fact that ours is a government of amateurs : the specialist and the expert are dangerous in supreme control, and this has now been perceived both in France and in Germany. But there is a limit to the utility of the amateur. The Executive, if not specialists in detail, must have a sufficient acquaintance with the broad features of the subjects with which they deal : and this is hardly possible in regard to the very diverse subjects

of modern centralized government. The result is that one or the other kind of activity is shelved, neglected or dealt with too cursorily. Government tends, in the hands of one kind of Executive, to become "business," and education or the administration of justice is neglected: or government may adventure into foreign and colonial policy, involving large expenditure, while the development of social life at home is neglected. It is conceivable that if a Government took control which represented a popular desire for "social reform," the members of such a Government would neglect the industrial activities which are being taken over by public authorities. This is no argument against any political party: it is a criticism of the Executive system in the present machinery of government, and the criticism is generally made. Indeed, the members of the Executive themselves sometimes complain of the complexity of their tasks. Meantime, the tendency of governmental action is making itself felt. The immense importance of industrial issues is compelling the Executive to concentrate upon these, and it is unthinkable that any politicians should hold power nowadays who were ignorant of industrial life. The result is working itself out. A clear division is being made between the political and the industrial issues to be dealt with; and although the supreme power still appears to be single in actual fact, the minds that move to executive action in politics are not the same as those moving to action in regard to industry.

The same distinctions arise in regard to administration in the Great State which has taken over innumerable activities. The offices, indeed, for different functions remain distinct: the officials who deal with education are separated from those who deal with railways. The type of official in the two kinds of office is different: and their methods are different. The administrative centralization of the Treasury or of a Ministry of Finance does not destroy the distinctness of the offices: and therefore it

may be thought that the tendency to economic organization of the State has reached its end, since there are no offices which, to any great extent, perform both political and economic functions. But even here there is a difficulty. The various departments or offices which deal with the same kind of activity are not co-ordinated, and yet clearly it would be an advantage for such departments as the Board of Trade, the Ministry of Labour, the Post Office and the Office of Works to be more closely connected than any of these need be with the Education Office or the War Office. There is, of course, an informal co-ordination. It has been found, for example, that the Post Office or the Board of Trade should not take action affecting wages without consulting the Ministry of Labour : and the need is not met if co-ordination is left to a consultation of the Ministers or the Cabinet. Administrative co-ordination is somewhat closer, more detailed and more continuous ; for it is operative through action which the permanent officials are driven to take by the mere pressure of circumstances, since departments which touch industrial life at different points must be aware of what other such departments are doing.

It may seem that the tendencies to which we are referring make difficulties only because of the increasing size of the unit of government. One solution of the difficulties of popular government in the Great State of modern times is Regionalism. This is similar to devolution or decentralization, and the word "devolution" is more familiar in England ; but the evils of centralization are more keenly felt in France, where the word "Regionalism" was first used and the remedy is thus conceived more clearly. The units of government are felt to be too large, and therefore it is suggested that legislative and executive bodies as well as administrative offices should represent and act for smaller territories and fewer persons. This would make it possible for governmental organization to reflect and to develop the peculiar characteristics of a region, which



is conceived to be a unit of culture or social life with some distinctive features. Government would then be better because less far away from common men ; and all men would be able to contribute more effectually to the life of the State.

This is so purely political a consideration that it is somewhat outside the scope of this book ; but even in regard to the economic activities of government the conception is important ; for smaller units of government would be more closely in touch with localized industries. At present local government enters closely into the economic services which involve restricted local markets and clearly delimited group of consumers ; but local government is confined to influencing chiefly such services as do not in fact much affect the whole industrial system. On the other hand, the Great State is not loved ; centralized government is identified with bureaucracy, and therefore any attempt to deal with industrial services through the system of centralized government is resisted both by the old school of thinkers and by the new. It may be, however, that the tendency to regionalism and devolution, producing units of government larger than the county and the borough, but smaller than the Great State, will make it easier for industry, some of which is already regional, to be recognized as a public service in co-ordination with regional government. Thus the dividing of the territory and population of the Great State into many units may make it easier to overcome the difficulties which arise out of the accumulation of governmental activities.

The more fundamental tendency, however, from the point of view here adopted is not Regionalism but Functionalism, not devolution to territorial units but devolution to functional bodies, not devolution in its primary sense but functional devolution. This is already beginning. The tendencies which have been traced (1) in legislation, (2) in the executive, and (3) in adminis-

tration all involve a division in the organization of the community. The Great State may, therefore, be split from top to bottom ; and the activities relating to industry, which are at present exercised by the political organization, may be divided from its other activities.<sup>1</sup> In countries where the State has already assumed ownership of large industrial services such as railways, these would naturally fall apart from the services of law-courts and education : but even in other States, as, for example, in Great Britain, a division tends to be made between the Post Office, Roads, and Employment Exchanges on the one hand and, on the other, the Lord Chancellor's Office and the War Office. The division thus described in the terms of administrative offices may be imagined to be taken through all the activities of government ; and therefore there may be for the industrial services, communally organized, not only a separate administration but also a separate executive and a separate central council or parliament.

The ministers who form the executive in the case of such services as the Post Office may form a cabinet or council distinct from the political Cabinet ; and they may be responsible to a representative body which will be, as it were, an industrial legislature. Already, as it was pointed out above, industrial and commercial legislation is drafted by committees of experts or representatives attached to the economic departments of governments. Permanent Advisory Councils of representatives of functional bodies already exist : and therefore the non-governmental organization of industry in trade unions and employers' associations would be taken up into one whole with the governmental organization directly promoting economic services. There would, then, be two distinct organizations of all men ; but these organizations would interact and be interdependent in every section.

<sup>1</sup> The conception is worked out as a plan of action in *A Constitution for the Socialist Commonwealth*. Here it is noted simply as an expression of an actually existing tendency.

They would not be co-ordinated simply "at the top," but in all their parts.

The most familiar modern theory of the dualism formed by political and industrial organization is that known as Guild Socialism. The tendencies here indicated, however, would not result inevitably in a society such as that advocated by the Guild Socialists, although the Guild Society may be conceived in such a way as to be the culmination of these tendencies. It may be worth while, then, to indicate what the difference is between the dualism indicated above and the dualism advocated in the older form of Guild Socialism. The two most important points of difference are (1) the conception of the industrial community and (2) the method by which the dualism is to be established. If what has been said above is true, the industrial or economic community is being organized, not upon the basis of producers' or consumers' organizations, nor upon the basis of a contrast between them. From the point of view here adopted, it is essential that the industrial community shall not be thought of as though it were formed by "producers." The Guild Socialists appear to think of the trade unions, of course vastly extended and better organized, as the basis for an industrial community; but here the trade unions, even in their most ideal development, are regarded as one element only in the larger and more complex industrial community. So long as the trade unions are regarded as a separate unit, so long will there be a not unnatural tendency to contrast them with "the community." It is nonsense to suppose that the community at present simply means those who are not trade unionists, or those who benefit by the established order which a strike disturbs: but, on the other hand, it is impossible to show that the trade unionists are "the community" simply because, with their dependents, they form a great part of the whole population. The real reason why the trade unionists are not even the industrial community is because they

do not form an organization which is a complete economic unit: nor could they, even if they included all the producers, be a complete economic unit. In economic terms, producers are dependent upon and essentially in relation with consumers, and both form one system. Therefore the industrial community is all the consumers as well as all the producers: that is to say, it is every one who forms part of an economic unit of supply and demand. The consumers, if they are to be represented anywhere, must be represented in the same organization as that of the producers: and this is the tendency in the economic actions of government. What obscures the meaning of the tendency which has been traced in the economic services of the State is a false psychological and economic view of the function called consumption. Consuming is too passive a term. The economic conception of the activity of consumers as simply absorbing services naturally prevents its being perceived that the economic community is in the main the maker of the standard of economic life, the group which stands to gain the common economic good.

Administrative organization of industry cannot, indeed, be based upon the traditional economic conception of those who "consume" or whose activities constitute merely "demand." They must be considered as artists, not as voracious impersonal appetites, nor even as scientific calculators. Consuming goods is a fine art; it is the creation of a type of life; its social function is not mere absorption for further production, but creative imagination. It is directive: it is constructive. It ranges over possibilities and goes beyond the actual: and for that reason consuming in its true sense is a function which must be organized in one whole with production. This, however, is ideal, for the consumer in modern life is a miserable beast, at best choosing between evils, at worst swallowing what is forced upon him, at a price named for him, whatever the value of the article may be in his own scheme of

things. It is normally believed that a consumer asks to be represented in order to defend himself. Thus we have the Consumers' Council of the Ministry of Food, a querulous if useful body; and there are Consumers' Leagues in cities of the United States. The Consumer is represented as a person with a grievance: he objects, he protests—against the prices of goods, the quality of goods, the scarcity of goods. The Consumer of economic fiction is never satisfied, and therefore the Guild Socialists may be excused for forgetting him. In a rational economic organization of society, however, the consumer would be felt to have something to contribute. His tastes would not be the appetites of a beast. His attitude of mind would not be that of a dyspeptic; and the whole economic community would be organized, not mainly to produce goods, but to enjoy them.

The second point of difference with the older Guild Socialism is as to method. The method by which it is here conceived that the dual organization of the community may be attained is not, as in some Guild Socialism, by devolution to trade unions nor by the forming of a legislature or congress. Perhaps too little importance is attached here to the process usually called legislation; but in any case it is conceived that *administration* will be the first basis for the organization of the industrial community. That is to say, such organization as the Post Office and the Employment Exchanges are the bases of public service in industrial activities. The country may be administered in industrial matters by a centralized organization representing the community, long before there is any industrial Executive or industrial Legislature. The process then will be for the trade unions and other industrial organizations to be co-ordinated in and through the State administration, before that administration is transferred to the control of industrial representatives. This does not mean that trade unions should be subordinated to or made dependent upon the State. They

should, indeed, be more independent than the Universities of Oxford and Cambridge are of the Board of Education : but they will form part of an administrative system long before they produce a new Guild Congress or an Economic Parliament. This is true to the law of governmental development, so much misrepresented by lawyers and historians of legislation. It is administration which develops first the sense of the community ; and then a system for directing the administration is developed by the community.

#### B.—THE CHANGE IN THE DOMINANT SOCIAL MOTIVE.

The argument of this chapter has so far shown that (1) government has accumulated economic activities and become one with economic non-governmental organizations ; and that (2) a division is appearing between the organization representing the whole economic community and that representing the political. But if this is true, certain large consequences follow, the most important of which are that (1) political organization, freed from the confusion with wealth-getting, will be improved, and that (2) economic life, dominated by the conception of communal needs, will be better organized for production and distribution.

The authority of political government will be more easily maintained if its impartiality is secured in industrial and commercial affairs, both at home and abroad. The sovereign State, which is the source of law, will be raised above the suspicion of maintaining financial or producers' interests and it will be independent of trade interests abroad. The British Empire will be no longer in danger of seeming to be a trading enterprise. Perhaps the conception may be expressed by means of a hypothetical case by way of example. Let us suppose that the organized community has both to maintain order and to move goods by road or rail : that is to say, let the organized community be supposed to own the transport

system. It is clearly impossible for the same officials to be employed both in the maintenance of order and in transporting goods ; for either order will be neglected while they attend to transport or the goods will be delayed because order must be maintained. Even if different officials are used for the two services, if there is only one supreme authority over both, the same difficulties will arise : for either the directions given by authority will emphasize transport or they will emphasize the maintenance of order. In the abstract the two activities could be co-ordinated in the directions given ; but practically it is found that no time or no energy or no adequate special consideration is given to different subjects by one supreme authority. It will be necessary, then, to give the concentrated attention of the political authority to non-industrial matters. It will be better for law and order and liberty. Again, another example : let us suppose that the community owns ocean-going ships for moving cotton or wheat, as well as a navy for maintaining order at sea or authority in dependencies. The interests of the community would not be served if the ships were all devoted to moving goods and the policing of the seas were neglected. The status of the political community in its dealings with foreign nations would be lowered if all the attention of the supreme authority were devoted to moving goods, to the neglect of the maintenance of security. Therefore, even if the organized economic community were to own ocean-going ships, it would be better to keep the white ensign quite distinct from the red. It may even be suggested that the word " state " should be confined to the political community within which the old ideas of authority and sovereignty may receive their proper development, while the economic community, a composite of present economic government and of non-governmental organization, should not be called the State and should develop, not the conception of authority, but that of service.

A further advantage which is political rather than

economic would result from the elevation of economic activities by connection with communal purposes. The evidence shows that the political and economic organizations of society may be kept distinct. It shows also that it would be an advantage to separate some of the administrative offices of the State from others : but, of course, the evidence does *not* show that only political life should be organized on a communal basis or that economic life should not. The conception that economic life is the sphere for individual or private group action may or may not be valid ; but it does not follow from what has been considered above. Indeed, it has been shown that there is an increasing tendency, embodied in legislation and in administrative action, to assimilate economic to political organization. The argument has gone to show that they are distinct ; but it has not been denied that they are similar ; and therefore whatever distinction exists between the political State and the organized economic community, it is *not* the distinction between what is communal and what is private or between the State and private enterprise. The new distinction exists within the general sphere of what is communal. The Ministry of Labour and the Board of Trade, no less than the Lord Chancellor's Office or the Board of Education, stand for what is communal ; and neither group of departments is a cover or an agent for private enterprise. It follows that there must be a close connection between the two parts of the organized community, not simply to secure for economic organization the protection of the political State, but because it is impossible for political organization to be developed upon lines of justice and humanity, unless economic organization grows on the same lines. It is impossible to increase the activities and improve the citizenship of members of the political community so long as the same persons, as members of the economic world, are governed by the law of the jungle or the play of natural forces. The play of such forces, supply and demand and



the rest, may be limited by wage regulation or by prohibiting adulteration of goods ; but so long as, in the producing and distributing of goods, action is based upon getting the most and giving the least and upon individual or group greed of gain, so long will it be impossible to organize men and women, even as citizens, according to the principles of justice. The same persons cannot be in one sense an orderly community while they continue to be, in another sense, a chaos of contending atoms or atomic groups. The economic world must cease to be chaotic, and within it must be formed real communities, with federal connections. That is the reason in principle for the maintenance of a close contact between the political and the economic, from the political point of view.

It may also be argued that a communal organization would, from the economic point of view, improve the supply of goods and services. If, however, the argument has been sound, this general reason of principle has been already operative in the world of experience. The economic world is becoming a community or a federation of communities. The old forces of supply and demand are not simply controlled, they are no longer accepted as the basis for economic organization. Of course, the economic "law" is still true. It is still true that supply and demand affect one another ; and many other "natural" laws can be observed in human relations. The point is that the supply of goods and services is now thought of as a reason for communal organization, and that the reference *in economics* is increasingly made to human needs and human costs, to pleasure and pain, and not to price or market value. This new thought and this new reference in economic matters is embodied in recent State action in regard to industry and commerce : and the State, therefore, has not simply extended its activities, it has transformed the character of the issues with which it has dealt. Government in its economic functions is changing

the bases of habit and belief upon which rest the operation of the "natural" laws of pure economics. Unfortunately this appears to some to be the introduction of what is arbitrary into what has hitherto been natural, for many of the writers on economic subjects are not conversant with social theory familiar to the Sophists of ancient Greece. Thus, to take not the worst but one of the best examples of thought upon these subjects, Professor Bowley writes: "The genesis and distribution of income has not hitherto been arbitrary or subject to the whim of any government or class, but has been the result of forces, which have been to a great extent beyond control, acting in an environment which has been determined only to a moderate extent by law or policy. The understanding of these forces and of their response to modifications of the environment is the proper field of political economy"—by which is apparently meant "economics."<sup>1</sup> There is, of course, a science of the "forces" which operate independently of human choice: even those who believe in free will do not deny the operation of such forces when the choice has been made. But there is another study which involves attention to human standards, ideals and customs: and no one who has not made these his study has any right to say that custom, not to speak of law or policy, has affected the environment "only to a moderate extent." Nor is it easy for such a person to prove that the genesis and distribution of income has not been subject to arbitrary social standards. In fact, the distribution of income is very greatly due to the absurd idea of a gentleman, the admiration for ostentatious leisure and other such arbitrary standards and whims of a class. There is nothing at all inevitable about the existing system except the inevitable results of transformable habits.

There is a further issue. The change of distribution

<sup>1</sup> *Change in the Distribution of the National Income, 1880-1913*, published 1920, page 1.

which may be effected by government is assumed to be due to a "whim" which is apparently contrasted, to its detriment, with forces beyond our control. Law and policy are referred to as determining the character of the social environment; but it is apparently assumed that these are the results of caprice, and this appears to be a common assumption among economists; for they seem to believe that questions of justice are mere matters of taste or of a passing whim of a class or a generation, and so in effect they deny the existence of a science relating to government which is based upon principles. Government at least seems to mean for them a method more or less empirical by which the caprice of the moment may be made to interfere with the admirable order of economic forces.<sup>1</sup> "The constancy," says Professor Bowley, "of so many of the proportions and rates of movement found in the investigation (of incomes) seems to point to a fixed system of causation and has the appearance of inevitableness." That is absolutely correct. The appearance is not deceptive. There is "inevitableness": but what is inevitable? The desires of men or the results of those desires? Clearly, so long as social standards remain the same, as they did from 1880 to 1913, the results of those standards may very well remain the same: for given the cause, the result is inevitable. But the economist is in danger of being a political obscurantist, if he supposes that the standards or the desires of men are inevitable; and in any case he has no right to suppose that they are, for it is not his subject, as indeed Professor Bowley admirably states when he says "whether the radical changes in opinion . . . in outlook and in methods of production can produce a new equilibrium radically

<sup>1</sup> In the simple faith of the nineteenth century Professor Jevons wrote: "*Prima facie* restriction is bad, because Providence is wiser than the legislator; that is to say, the natural forces of evolution will ensure welfare better than the ill-considered laws of the prejudiced and unskilful legislation,"—*The State in Relation to Labour*, published 1882.

different from the old is a question which a student of statistics is not specially qualified to answer." <sup>1</sup>

The application of new standards of action for the distribution and the production of goods would certainly transform economic life. It is perhaps possible to argue that this is outside the purview of economic theory, since the application of such standards is quite distinct from the play of the natural forces of supply and demand ; and indeed it must be admitted that the activity of public bodies in regard to production and distribution is not simply an example of the opposing pulls of " interests " or " demands." A public authority does not in fact always and on principle buy in the cheapest and sell in the dearest market : but some conception of a " fair " price or a " reasonable " wage seems to enter into its economic activities. To say that they still remain economic is to give to economics the sense given to it by Mr. J. A. Hobson in his *Work and Wealth* ; <sup>2</sup> for it is there shown to be possible to estimate at least roughly the " human cost " in pain or distaste in production and the " human gain " in pleasure or satisfaction in producing and consuming. Some such estimate is implied in the change of the basis upon which operate the laws of supply and demand. It is not, of course, argued here that the estimate in human terms is found only in public action, for many private employers use the same method : the point is, however, that all action of an economic character taken by public bodies is affected by this human estimate. The community, therefore, represented by the public bodies so acting, although an economic community, is not a merely trading community, nor is it one which simply buys cheap and sells dear ; but if the community applies new standards to the organization of industry, many problems now almost insoluble would be seen in a new light. <sup>3</sup>

<sup>1</sup> *Change in the Distribution of the National Income*, p. 27.

<sup>2</sup> J. A. Hobson, *Work and Wealth : a Human Valuation*, 1914.

<sup>3</sup> " The confusion and metaphysical propensities of our economic

Economic activities are not entirely due to desires for private wealth. The desire that production and distribution should be reorganized is economic, and it cannot be condemned as ignoble, although clearly such a desire is out of place if it dominates the whole of a man's life. Economic motives, then, are not all ignoble. Political motives are not, on the other hand, all noble. The desire for liberty is political, and it is operative in any man or group of men who seek to free themselves from bonds imposed by others. Sometimes, however, this desire to be free from bonds is developed into a passion for casting off all limitations or even for holding down others lest their will should interfere with ours. That political desire is more ignoble than even the desire for wealth, although it is traditionally connected with the nobility of the sword as contrasted with the meanness of money-bags. Independently, however, of political motives, the economic community would continue to be active in producing bread and boots without the domination of the desire for private gain.

To adjust industrial organization by reference to a standard is, therefore, not to interfere with what would otherwise be "free," but to substitute a conscious and calculated criterion for the unconscious, haphazard, inherited prejudices which now control the economic situation. It is true that the standard of adjustment should

theory; our neglect of the consequences of child labor, our lax interest in national vitality and health, the miserableness of our theories of labor unrest and of labor efficiency, our careless reception of the problems of population, eugenics, sex and birth control; our crass ignorance of the relation of industry to crime, industry to feeble-mindedness, industry to functional insanity, industry to education; and our astounding indifference to the field of economic consumption—all this delinquency can be traced to our refusal to see that economics was social economics, and that a full knowledge of man, his instincts, his power of habit acquisition, his psychological demands and endurance, was an absolute prerequisite to clear and purposeful thinking on our industrial civilization."—Carleton Parker, *The Casual Laborer*, New York, 1920.

be economic, that is to say it should imply that the prime purpose of industry is to supply commodities : it is true that there may be other standards governing the standard of efficiency in industry : it is true that any conscious and calculated standards tend to be crude in their first applications to experience : but these are not valid reasons against the adoption of any standard. The world at large and even the visionaries are by no means certain as to the standards which ought to be applied to industry and trade : but there is a very general agreement that some standard should be applied. This, however, implies conscious control or direction of economic forces. It implies examination and correction of those prejudices and habits upon which present economic forces rest. It implies, not the restriction of what is otherwise free, but the substitution of a civilized order for a haphazard barbarism. This is what is vaguely indicated by the phrases "a reasonable price," "a just wage," "a fair profit"; for in all these phrases the existence of some standard is acknowledged and the supremacy of economic law is denied, although the result is not anywhere clearly conceived.

How, then, is social life affected when the standards of the community are applied to economic activities? The result is not simply so much free contract remaining after limitations have been set up in the form of regulations. It is not simply that the parties to the wages contract, for example, have been transformed so that trade unions and employers' associations make contracts or agreements in place of the old master and man. This change has in fact occurred, and has effected a further change; but the further change has displaced contract itself. The State has not simply lent the weight of its power and prestige to the weaker side in the contract. It has not simply said, "The worker shall have so much and he is free to bargain for the rest." That has indeed been said, but the saying of it has worked a transformation. The plain fact is that

the relation of employer and worker is not fundamentally a contract at all. Certain elements in that relation have a contractual character ; for example, the amount of wage to be paid is based upon a contract which can be enforced in law. In the same way marriage includes some elements which have a contractual character. The essence of the relationship, however, is not contractual. It is a relationship of functions complementary to one another, within the whole complex of relations in the organization of the community. Thus in regard to employment labour legislation has embodied the growing sense that industry is a public service within the economic community.

Whether this involves status as opposed to contract may be very doubtful. Status in the old mediæval sense is certainly not involved, nor is the relation personal in the old mediæval sense. The parties in the relationship are types, not persons : their positions are determined by justice, not by the benevolence of one or the other : and therefore the new dominant word describing the relation of men is neither status nor contract but function. There is, however, more of status than of contract in the relationship. It is functional status or "commonalty," if some such word may be used, for it involves that each man has some function to perform as a human being, not as a passive instrument, within the whole economic community. The action of the State in regard to labour legislation has therefore tended towards the establishment of a new situation in industry, the recognition in fact of a relationship the whole meaning of which consists in its inclusion within a community.

It may be thought that this comes in the end to the same thing as if one said that the individuals were free within limits set by the State. But such a statement would involve the bad law and false history and ludicrous philosophy of the past. It would imply that the State was in essence restrictive and not promotive of freedom, and that individuals were separable units which were

sources of freedom. It is fundamentally different to assert that the functional activity of the organizer and the worker arise in and through the common life of the community. The State acting in the economic sphere is not restricting freedom, but establishing the communal basis and source of freedom: and thus over the whole of social life the dominant motive tends to be, not private gain sought in the pursuit of individual interests, but a common good sought in a public service.

The controlling motive may be simple and uniform, while the organization of a society is complex and varied; and a change in the dominant motive does not necessarily involve a radical transformation of government or economic life. On the other hand, changes in the forms of government or in economic organization may very deeply affect the motive which dominates social relations, although some such changes may leave the old motive still dominant. It seems likely that the dominant motive of the industrial period will be changed. The motive of private interest and private advantage has been too powerful to allow of a development of the kind of social life and individual character which most men at least sometimes believe to be most worth while. But this is not the place for moral exhortation: nor is it true that the best and most effectual changes are wrought by moral exhortation. What must be corrected is not any inclination to selfishness, but the false theory of economists and political philosophers, both as to what actually occurs and as to what ought to occur. It is this theory and the many assumptions upon which it is based, as well as the deteriorating activities which are its results, which are at the root of our contemporary social problems, both in politics and economics. Baldly stated, the theory is that if each man pursues his own advantage, the advantages of all will result,—which is violently contradicted by experience. But the theory has satellite theories, such as that every man does in fact pursue his own interest chiefly—a theory assumed



by many economists as though it were self-evident, whereas the facts give it the lie. More alarming still, this false statement of fact was transformed by many into an exhortation. Men were told not only that they naturally were self-seekers, but that they ought to pursue first their own interest and the interest of all would result. Thus all was as it should be if one man having £10,000 a year aimed at £20,000, while another aiming at ten pence got only five. It was never very clear whether these diabolical moralists meant that the advantage of the men who succeeded was identical with the common interest or was a means towards arriving at a common interest. But as a result of these theories it was not generally perceived that there is a perfectly definite object which can be called the common good, which is by no means identical with the good of any one man.

It is not argued here that men ought to pursue the common interest. It is unnecessary here to say whether they ought to do so or not. The point is that if they desire a common good they cannot in fact reach it by pursuing something which is not the common good. Again, it is not argued that men either ought to or will derive no individual gain from the pursuit or the attainment of the common good. The idealists of the nineteenth century made a mistake no less dangerous than that of the utilitarians, for they spoke of the common good as a good which no individual enjoyed. There is, however, no soul of the State or society as a whole or "people" which enjoys. Only individuals enjoy. But what they enjoy may be a common good; and the pursuit of this common good may very well dominate the action which goes to the make of the new economic community.



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