

CHAPTER VII

A SURVEY OF CAPITALISM

“’Tis so,” said the Duchess; “and the moral of it is ‘Oh! ’tis love, ’tis love, that makes the world go round!’”

“Somebody said,” whispered Alice, “that it’s done by everybody minding their own business!”

“Ah, well! It means much the same thing,” said the Duchess.

Alice’s Adventures in Wonderland.

§ 1. *The Un-co-ordinated Nature of Capitalism.* All the developments of business organization which have been discussed in the last five chapters, with the possible exception of some of the types labelled Co-operation (pp. 55, 82), fall within the boundaries of what may be somewhat vaguely described as Private Enterprise or Capitalism. We may therefore conveniently pause at this point, and attempt to discover and to express what exactly it is that constitutes the unity in all this diversity of industrial structure—what are the essential features of this thing called Capitalism: for by so doing we shall be in a better position both to understand the motives of the attempts and proposals which have been made to supplement or supplant it by some other scheme of industrial government, and to appraise the difficulties which lie in the way.

In the first place, then, we must remind ourselves once

more of the central fact about the government of modern industry—that strictly speaking there is no such thing. “The normal economic system works itself. For its current operation it is under no central control, it needs no central survey. Over the whole range of human activity and human need, supply is adjusted to demand, and production to consumption, by a process that is automatic, elastic and responsive. . . . This intricate system has been built and is maintained by the work of thousands of men, of keen but limited vision, each working within his own special sphere, each normally seeing and knowing only his own and the immediately adjacent territory. . . . Since the rude shock of war broke this machine the world has been looking for the supermen who made it and controlled it, for those who understood it both in its basic principles and its infinite detail, and could therefore re-fashion and re-model it to the new conditions. It has not found them. They do not exist.”¹

Here and there, it is true, we have found islands of conscious power in this ocean of unconscious co-operation, like lumps of butter coagulating in a pail of buttermilk. The factory system itself, while it involves endless specialization of the work of ordinary men, involves also deliberate co-ordination of their diverse activities by the capitalist employer; and the head of a single big business to-day exercises a width and intensity of industrial rule which a Tudor monarch might have sighed for in vain. Further, as we have seen, combination, the integration of raw materials and marketing processes, the financial penetration of industry, all in

¹ J. A. Salter, *Allied Shipping Control*, pp. 16-17

their way and their degree increase the number and size of the patches of ground which are brought within the vision and to some extent within the control of a single intelligence. But even these patches are still small and scattered in comparison with the whole field of economic life. In the main the co-ordination of the efforts of the isolated business leaders is left to the play of impalpable forces—news and knowledge and habit and faith, and those twin elementals, the Laws of Supply and Demand.

This way of doing things has many advantages. "It is the distinctive feature and signal merit of that system that under it the multitudinous economic activities of the world are, so to speak, democratized. They govern themselves with all the liberty and elasticity and variety of freedom"¹ A magnificent scope is offered to individual judgment and initiative and courage. Vested interests are hurled aside out of the path of economic progress. Within the wide limits allowed by the law, and the stricter bounds set by social opportunity, each man is at liberty to spend both his life and his income as he chooses. Even in bad times the vast majority of the productive resources of society, both human and material, are being utilized, and the faith in which they have been launched into various channels of endeavour is found to have been not misplaced. And on the whole the wants of consumers, so far as these wants can be expressed in the offer of a money price, are punctually and fairly abundantly supplied. When we reflect on the apparent chaos of the whole proceeding, the wonder surely is, as Dr. Johnson hinted in comparing the woman who writes books with the dog which stands

¹ J. A. Salter, *Allied Shipping Control*, pp. 16, 17

on its hind legs, not that the thing should not be done better, but that it should be done at all

Yet it is no longer possible, if ever it was, to pretend that the results are wholly satisfactory. Wants which cannot clothe themselves in money are left undetected and unsatisfied, and the luxurious fancies of the rich exert a stronger pull on the productive resources of the community than the stark needs of the poor. The maw of Marketing, with its handmaiden Advertisement, absorbs a proportion of those resources which may indeed be necessary to the effective working of the whole arrangement, but which could scarcely strike an unprejudiced observer as anything but wasteful and excessive. Worst of all, there occurs at fairly close and regular intervals a partial breakdown of the whole machinery of spontaneous co-ordination, large masses of industrial equipment are left stranded and unused, and large numbers of workpeople who seek only the opportunity to supply one another's wants find themselves at one and the same time in enforced idleness and in bitter need.

The chaos, partly apparent and partly real, of capitalistic industry suggests many reflections, of which two may be singled out for our present purpose, the one bearing a message of hope, the other of warning, to the would be reformer. The first is that amid all the welter of disconnected industrial entities it would be strange if there were not room for further diversity and experiment. To speak of "abolishing the present industrial system" may darken counsel, since strictly speaking there is no system to be abolished. Modern industry is in a sense the most Catholic of Churches, where, provided

he observes the ordinary decencies of life, each may worship as he pleases without fear of prosecution for heresy; and, as we shall see later on, a number of experimental forms of industrial enterprise can and do try their luck side by side with the survivors of the handicraft and merchanting systems, with the small employer and the giant company. From the fact that sudden and sweeping change has failed in some countries and does not seem to be within the range of practical politics in others, it does not necessarily follow that the last word in industrial government has been said by the financier or the Trust.

But secondly, if there is no system to be abolished there is also no throne to be captured. To transfer power from those who have it to those who have not may be a wise or unwise proceeding, but it is at any rate a definite and measurable programme which can be accomplished if the strength of the attacking force is great enough. But the task of the reformer of industry is not so simple as that. That great concentrations of industrial power do exist the foregoing chapters have abundantly shown; and that this power should and could be more equally shared is a very tenable proposition. But if we could redistribute in the best possible way all the power over industry that exists at present, the race of men that we should create would still be a feeble folk, doing inadequate battle against uncontrolled and largely uncomprehended forces. The control of industry, in the fullest sense of the words, requires not so much to be wrested from a band of supermen who are keeping it in some secret cupboard, as to be painfully built up out of the clay of man's ever-changing technical achievement,

and fixed out of the troubled atmosphere of his tumultuous needs and desires. And it behoves the reformer to beware lest in pursuing this difficult goal he overlook the achievements and impair prematurely the operation of that delicate mechanism of price and profit, faith and expectation, which is at present our only substitute - imperfect makeshift though it be - for the routine orders and operation orders of a single all directing intelligence.

§ 2 *The Association of Control with Risk* The next leading characteristic of Capitalism can be put provisionally in the form of the proposition that where the risk lies, there the control lies also - a proposition so important that it may almost be described as Capitalism's Golden Rule. The assumptions underlying the arrangement seem to be two, and though they are closely related it is important in some connections to keep them separate. The first is that the power of making decisions will be most wisely exercised if it rests in the hands of those who stand to lose most heavily if the decision turns out badly. The second, which follows psychologically from the first, is that the risks of industry will be most bravely shouldered if those who shoulder them are not obliged to hand over to others the power of making decisions about the use of the resources which they put to the hazard.

It is often said that the main motive actuating the modern business leader is the hope of profit, but in so far as this is a correct reading of his heart we must couple with the hope of profit its obverse - the fear of loss. By trading losses culminating in extreme cases in complete failure and bankruptcy, society exacts a ruthless penalty from those who waste the productive

resources entrusted to their care, or use them in ways which fail to respond to the imperious caprices of money demand. It seems likely on the face of it, first that those who play with such stakes will actually make better decisions than those who do not ; and secondly, that in any case they will *think* that they will do so, and will therefore not allow much decision-making power to pass out of their own hands without declining, to the great injury of mankind, to put the stakes on the table.

It is true that a number of real or apparent qualifications of these principles must be admitted. In the first place it is, as we have seen, the ordinary shareholders of a joint-stock company who bear its main risks, both of temporary ill-fortune and of permanent failure ; for though the machinery of the Stock Exchange enables them to get rid of their holdings, the price which they will receive depends on the dividends and prospects of the company, and may vanish to nothing at all. Yet these shareholders delegate their decision-making power almost completely to paid officials. We must not minimise the importance of this remarkable development, which is full of promise for social progress : but at the same time we must be careful not to interpret it too hastily. Often, as we have seen, the severance between predominance in the ownership of a company and direction of its policy is apparent rather than real : and even when this is not so, the bulk of shareholders frequently derive confidence in delegating their powers from a well-founded presumption that the directors themselves have a substantial financial interest in the company's welfare. The golden rule is infringed indeed, but not so seriously as at first sight appears. And so far

as it is infringed, its infraction brings social loss : for the sense of trusteeship is apt to make directors chary of increasing the risks borne by their shareholders, and to lead them to pursue a policy less enterprising than the interests of society demand (p. 68).

Secondly, a survey of the economic world reveals various classes of persons who appear to assume part of the risks of industry without arrogating to themselves any share in its control. But here again we must be careful. In the first place these specialized risk-takers—the insurance company, for example, or the speculative dealer in cotton or in foreign currencies—make their living partly indeed by *bearing* risks, but partly also by the less nerve-racking process of merely setting them against one another and *destroying* them. Secondly, even these specialists, while standing apart from the main council-hall of industry, take the decisions which are relevant to the risks which they assume : the expert speculator is less likely than anyone in the world to hand over his mind to be made up for him by someone else. Thirdly, the risks which can be thus devolved on to specialists are limited in range and number. The main risks of business arise from the fallibility of the human judgment grappling with elusive and complicated data ; and from most of these risks no business leader can escape without partial abdication of his leadership. Such risks may, as we have seen, be bandied about and rationed out in various ways among the diverse kinds of maker and dealer and financier : but whoever assumes them assumes with them functions of government over a slice of the industrial world. Thus from this test the golden rule emerges substantially unscathed.

But finally, there are many persons—more persons than not—who incur risks of an important kind without acquiring any share in industrial government. The whole body of manual workers launch not indeed their material capital, but the strength of their arms and the skill of their hands in ventures over the issue of which they have no control. It is true that the workman is paid, and paid promptly, a relatively steady wage while the capitalist takes his chance of a fluctuating and possibly even of a negative profit. But wage movements in both directions are more rapid and extensive than they used to be, and behind there lies the far graver risk that no wages will be paid at all because no work will be required. The business leader who mishandles his resources or misjudges his markets is penalized not only in his own person, but in the persons of those who have enlisted in the battle for livelihood beneath his banner. To thousands who have felt the rod of unemployment and to millions who live beneath its shadow, the statement that the capitalist bears the sole risks of industry and naturally therefore wields the sole control, comes with a bitter and provocative irony.

§ 3. *The Risks of Workpeople in their Bearing on the Control of Industry.* Yet here, again, we must analyse carefully if we are to attain to serviceable truth. Broadly speaking there are three kinds of risk which a workman incurs when he throws in his lot with a particular business enterprise. There is, first, the risk that the firm will meet with bad luck, or be rashly and incompetently managed, while its rivals prosper and expand. There is, secondly, the risk that the product which it turns out or the process

which it exploits will be permanently superannuated by the shiftings of demand or the progress of technique. There is, thirdly, the risk that the firm will be caught periodically in the trough of a trade depression, from which it will emerge indeed in the fullness of time, but which will involve a prolonged curtailment of its activities, with trading losses for the capitalist and unemployment for the workpeople.

Now as regards the first danger the workpeople in reality run comparatively little risk: for they can without much difficulty transfer their services elsewhere, while the capital, embedded and crystallized in the business in the form of machinery and trade connections, is incapable of disentanglement. Those who can with honour leave the sinking ship are ultimately in a stronger position than the captain who must go down upon the bridge, and have less claim therefore to be entrusted with the manipulation of the wheel.

As regards the second danger, if the workman is not highly specialized he stands a good chance of finding employment in the rival and victorious industry, or in some other, and the case does not differ materially from that just discussed. If he is highly specialized, he stands to lose all he has, but not through the capitalist's fault. It will not be bad management that runs him, and the best management cannot save him long. The decision relevant to the risk which he runs has been taken by himself or his parents, not by the capitalist, and it may be unlucky, just as the capitalist's may. That society ought to help him to choose wisely in the first place, and to retrieve an unwise or unfortunate choice later, is

doubtless true ; but that is another story. The immediate point is that no improvement of the methods of control can here much affect the issue, and that in consequence the risk of being thrown permanently on the scrap-heap is not the kind of risk which can be made appreciably more palatable by being associated with control of one's movements towards the heap. These considerations apply alike to capital and labour, and so far as this risk goes the question of which should exercise control must therefore be decided mainly on other grounds than those which underlie the golden rule.

The third type of risk seems at first to raise precisely similar considerations. Trade depression strikes capitalist and workman alike with blows whose relative force we have no direct means of measuring, but which certainly fall with very great severity upon the workman. Yet the causes of trade depression are so obscure and deep-seated that there is at present very little control over them for the workman to share, and at first sight little grounds for urging that his intervention in the government of industry would improve matters.

This, however, is not the whole truth. In some trades at least the capitalist has no very compelling motive to minimise instability and fluctuation. It may be that aggregate profits over good times and bad will actually be greater than if industry were perfectly steady : and the capitalist has at his fingers' ends the various devices of investment and of manipulation of reserves for equalising the flow of his personal income. And even if the interest of the whole body of capitalists is on the side of stability, an individual capitalist may further his own interests by taking decisions which are injurious to

the trade as a whole. If at a time of booming freights a ship can be made to repay its capital cost in three months, a new ship will be ordered and its construction pressed ahead even if the subsequent slump in the freight market is clearly foreseen and is evidently likely to be aggravated by the existence of the new ship. To the workman, however, these alternations of feverish activity and enforced stagnation of overtime and unemployment, come as an unmixcd evil—and there is little doubt that in this matter his interest conforms more closely to that of society as a whole. Here then is a direction in which control might on the face of it be wielded more satisfactorily if the golden rule were more strictly observed. And the secondary effect of such a stricter observance, in stimulating the workman to assume more readily the risks of learning a specialized trade, might also (as the chronic shortage of skilled labour in certain branches of the English building trade suggests) turn out to be of perceptible importance.

The conclusion of the whole matter may be thus stated. Our analysis of the working of the golden rule of Capitalism suggests that one of the current criticisms of that institution falls somewhat wide of the mark. That criticism is to the effect that 'under the existing system' the supreme control of industry rests with the idle owners of capital, instead of with the active doers of work by hand or brain. If that were so, the transference of control into more desirable hands would be a relatively easy task. But we see that it is not so—that control 'under the existing system' is associated not with mere ownership, but with the assumption of the risks of loss, and there is therefore some ground for

suspecting that no scheme for the transference of control will be watertight unless it makes provision also for the transference of risk. On the other hand, we find that Capitalism breaks its own golden rule in certain significant respects from which the industrial reformer may fairly draw some inspiration. First, the phenomenon of the joint-stock company shows that at any rate passable decisions are actually made by those who do not bear the predominant financial risks, and suggests that the spirit of trusteeship which here receives a real if limited application may be capable of further development. Secondly, Capitalism's own gospel gives some warrant for suspecting that Capitalism's worst malady—recurrent trade depression—is intensified by the exclusion of those who shoulder some of its ugliest risks from any participation in the government of industry.

§ 4. *The Social Consequences of Large-Scale Industry.* These considerations lead us on to the third characteristic of Capitalism which requires re-emphasis at this point on our journey—the sharpness of the differentiation which it entails between those who own and plan and control and those who execute orders. This distinction, indeed, in the form of the antithesis between monarch and subjects, general and troops, slave owner and slave, craftsman and journeyman, employer and employee, runs right through human history: but though it was not created, it has without doubt been sharpened and accentuated, by machinery and the factory system.

The vast economic advantages of the division of labour, even in its simplest form and still more in its advanced

form of elaborate standardization, have had to be purchased at the cost of a certain amount of social and spiritual loss. There has, in some trades though not in all, been loss to man as consumer from the substitution of uniform, ugly and shoddily-made machine-goods for varied and beautiful goods constructed solidly by hand. How far this loss is necessary is another matter: there seems on the face of it no reason why machine-made goods should not be at least as well constructed and even as beautiful as hand-made goods, even if the claims of standardization do not permit of their exhibiting such agreeable variety: and the great movement for solidifying and beautifying the products of massed industry which can be traced back to such eighteenth-century leaders as Wedgwood and Boulton, has no hopeless task in front of it. More fundamental and more difficult to counteract are the reactions of standardization on man as producer.

However beautifully and honestly made the final products of industry may become, they must inevitably, if advantage is to be taken of the immense power of modern machinery, involve the co-operation of numerous minute and monotonous processes; and this necessity applies also to the production of those intermediate goods, such as most iron and steel products, which are desired not as a source of enjoyment in themselves, but as a means for producing direct sources of enjoyment. Thus the modern developments of industry render it necessary, if the standard of comfort that they have made possible is to be preserved, that most people should spend the greater part of their working lives in the ceaseless repetition of some one more or less monotonous and

soul-destroying job, while at the same time the progress of education and democracy renders this necessity ever more and more unpalatable. It has been urged that there are compensations of various kinds. Thus orthodox economists have argued that while machine industry may have diminished the need for purely technical skill, it has on the whole increased the need for general intelligence and adaptability and strength of character. Critics of a very different school, the poets of Russian Bolshevism, have acclaimed the factory as the source not of the degradation of the proletariat, but of its unity, its inspiration and its power.¹ But whatever truth there may be in these contentions, Capitalism cannot be said to have solved the problem thus created. The latest and most logical extension of the factory system—Scientific Management—aims avowedly at taking from the workman the last vestiges of responsibility for and control over his work. Everything is to be settled by the stop-watch and the instruction card: the distinction between planning and execution, the division of labour between the brain user and the muscle user, becomes complete. But even where such thorough-going methods are not in force, the general effect of the progress of industrial technique seems to be to accentuate the divorce of thought from toil at the very time when

¹ Thus A. Gastev (quoted in *New Europe*, Nov., 1919, p. 113):—

“When the morning sirens sound in the working suburbs, it is not at all a call to subjection. It is the song of the future.

Some time ago we toiled in wretched workshops and began to work in the mornings at various times.

And now the sirens sound at eight o'clock for a whole million.

A whole million take up the hammer in one and the same instant.

Of what sing the sirens?

It is the morning hymn of unity.”

such a divorce has become, from the broader social and political point of view, most resented and perhaps most dangerous.

There are other aspects, too, of Capitalism which serve to widen the gulf between the giver and receiver of orders. The mechanism of the typical joint-stock company has certain economic drawbacks which have already been discussed : but it has also the social disadvantage that the effective leaders of industry, being trustees for their shareholders, are no longer entirely their own masters in their dealings with their workpeople, since they are necessarily on their guard against being too generous with other people's property. The old capitalist employer was not always sympathetic or popular with his men : but he was at least a person and not an abstraction ; it was at any rate possible that he should inspire feelings of personal loyalty and affection, and he frequently did and does so. But it is scarcely reasonable to expect, say, a railway worker to feel any intense devotion towards the shareholders of the Great Western Railway, most of whom he has never seen or wishes to see, and whom he rightly supposes to be profoundly ignorant of the problems which affect his life : and though such feelings may be in part transferred to the directors and managers with whom he has some kind of contact, that process is made more difficult by the fiduciary position in which they are placed. Their relations with their workpeople are apt to be refrigerated by something more strong and subtle than mere cupidity or lack of sympathy—the sense of professional obligation and of an allegiance owed elsewhere.

Finally, it must be remembered that the backwash

towards integration which we have detected in various tracts of the industrial ocean has reference only to the supreme business leaders. For the manual worker the current towards further and further differentiation rages almost unchecked: and the fact that somewhere far above him functions hitherto divided have been gathered up into a single powerful hand only serves to increase his sense of separateness from the forces which govern his life. The Napoleon of industry or finance is, like the shareholder, a remote and impalpable being compared with the familiar "employer" of earlier times; and though he may succeed in creating something of a Napoleonic legend and exercising something of a Napoleonic fascination over the minds of his subjects, his emergence has increased and emphasized the distasteful inequality in the distribution of industrial power.

CHAPTER VIII

INDUSTRY AND THE CONSUMER

The sheep took the money, and put it away into a box : then she said, " I never put things into people's hands-- that would never do--you must get it for yourself "

Through the Looking glass.

§ 1. *The Consumer's Grievances against Capitalism.*
Armed with these reflections on the nature of Capitalism, its strength and its limitations, we may proceed to an examination of the attempts which have been made, in imagination and in practice, to modify it, to supplement it, or to wipe it off the face of the earth. We may approach our task by dividing such attempts provisionally into two main classes, though we shall find as we proceed that the line of division tends to become blurred. In the first main class the motive force is supplied by the feeling that though under Capitalism the consumer is the ultimate king, to whose service even the most Olympian captain of industry must dedicate his days, yet in one way or another his interests are in danger of neglect. In the second main class the motive force is supplied by the considerations which have been developed at the end of the preceding chapter-- by grief or indignation at the utter exclusion of the ordinary worker in capitalist industry from all share in control over

the conditions and results of his work. It is with the first main class that this chapter and the next will be concerned.

The grievances, real or imaginary, of the consumer "under the existing system" may be tabulated in some such form as follows. First, there is the danger that he will not always be able to buy what he is trying to buy. According to the theory of Capitalism he expresses his desires to the middleman, who transmits them to the manufacturer and sees that they are satisfied. But in this process at its best there is room for delay and misapprehension. Further, both maker and dealer have a strong interest in selling what they have got, and in continuing to make and stock what they have made up their minds to make and stock. From every hoarding and newspaper and tube train carriage they explain vociferously to the consumer what he wants, until he almost—but not quite—comes to believe that it is true. Finally, it is not given to everyone to detect at sight, or at any rate to be able to prove, the difference between home-grown and imported beef, between milk of the plain and watered varieties, between the pill which is 100 per cent sugar and that which is really as efficacious as a small-tooth comb. On the whole the forces of competition and publicity prevent such grievances nowadays from reaching serious dimensions; but they exist.

Secondly, the average consumer is prone to suspect that the prices of the goods which he buys are unnecessarily loaded with payments for the services of superfluous middlemen. In this he may be judging hastily, but we have already indicated a limited sympathy with his attitude.

Thirdly, the consumer may suspect that the supply of certain goods which he buys is being curtailed and their price raised by the monopolistic action of producers or dealers. Enough has been said in the previous chapters of the concentration of industrial power, of the combine and the selling agency, to indicate that his suspicion may often be well founded: and it is important to be clear exactly wherein his grievance consists. It is not that he is being forced to pay a higher price for the goods that he buys than they are worth to him; for he is free to take them or leave them as he chooses. It is that the monopolist finds it to his advantage to sell a smaller quantity of goods at a higher price rather than a larger quantity at a lower, and restricts therefore the flow of goods below what it would be if competitive conditions prevailed, diminishing thereby the aggregate enjoyment of the consuming public.

The fourth grievance affects the consumer not of to-day, but of to-morrow and the day after. It is possible that self-interest is leading private capitalists to make reckless exploitation of certain natural resources—animal stocks or minerals or forest trees—to the great advantage of the present army of consumers, but to the prejudice of the interests of future generations, or even of existing generations in future years. In his individual capacity the present consumer is not likely to complain; but as a thoughtful citizen he may make the grievance of the future his own, or at least acquiesce in such action by others.

The fifth grievance is of a more far-reaching and subversive kind. Capitalism only bows down to the

consumer so far as his wants are interpreted to it in terms of a money offer. But they may be incapable of being thus interpreted, for either of two reasons. He may be unaware that he wants something, such as education for his children, and therefore never dream of offering a money price for it. In this case his grievance is unconscious, but, according to some views, none the less real; moreover, as in the instance given, his failure to realize his own wants may give rise to a grievance on the part of other people. Or, more simply still, he may want something very badly, such as bread, and be unable to offer a money price for it because he has not enough money.

Now some of these grievances are partially redressed by the use of the negative or inhibitory powers of the State (p. 3)—the first by legislation against adulteration and fraud, the fourth by restrictions on the cutting of timber, the slaughter of fish and game, etc., the third by a great variety of devices which will call for brief comment at a later stage. But the detailed study of such negative control lies outside the limits which we have imposed on our subject, and we must pass on to more thoroughgoing schemes for removing the consumer's disabilities. These all embody, in one form or another, the ambitious notion of undoing the great division of function which first took place when Eve picked the apple and Adam ate it, and reintegrating the consumer with the producer: not, however, by a return to the penurious self-sufficiency of the household system (p. 8), but by handing over the reins of industrial government to the appointed representatives of the consuming public.

§ 2. *The Methods of Consumers' Co-operation.* Within this imposing edifice we must enter in succession three rooms, each conveniently labelled with the consumer's own initial—Co-operation, Collectivism and Communism. Co-operation entails the voluntary banding together of consumers to acquire and manage some business on their own behalf. Collectivism entails the ownership and management of a business by those compulsory associations called States or their subdivisions, retaining the capitalist expedients of price and market. Communism entails the management of a business by the same methods as Collectivism, but without the exaction of full payment for the services rendered, and without regard therefore to the economic calculus of gain and loss. Roughly speaking, the attention of Co-operation is focussed on the consumers' first two grievances, of Collectivism on the next two, and of Communism on the fifth.

The word "Co-operation" is perhaps the most confusing in the terminology of economics. In a broad sense it may be used either to denote the mutual assistance of similar agents (as two workmen co-operate in lifting a weight or two shareholders in bearing the risks of a joint-stock company), or the mutual dovetailing of the functions of dissimilar agents (as labour and capital, or the merchant and the manufacturer, co-operate in the production of wealth). In its narrower sense it is used to describe a number of forms of industrial enterprise which are connected not so much by similarity of structure or specific purpose, as in virtue of the ideal which animates, or is supposed to animate, those who conduct them—an ideal which may be vaguely described

as mutual service by the relatively weak with the view of preserving their economic independence. It has been found convenient to mention Agricultural Co-operation and Co-operative Banking in connection with the analogous developments of ordinary Capitalism (pp. 55, 82); but the former in particular has strong affinities with the Consumers' Co-operation now to be discussed.

In the minds of its English pioneers, the co-operation of ordinary consumers for the purpose of conducting retail trade was only one aspect of that general vision of the self-sufficing and self-governing commune which exercised such a sway over the imaginations of the idealist reformers of the first part of the nineteenth century. But in their hands, and especially in the hands of the famous society of Rochdale weavers (1844) which became the model for the whole movement, it crystallized into a more limited but more practical and definite form of industrial organization, whose leading features can be very simply described. The members of the local co-operative society are both the customers and the owners of their own retail shop or shops. Membership is open to anybody on payment of a small capital subscription, and carries the right to a vote in the election of the committee of management and on other matters submitted at general meetings, as well as informal opportunities of criticism and suggestion. The manager of the shop is a whole-time salaried official, and is responsible to the committee of management, who are usually ordinary members of the society, giving only a fraction of their time to the business, and remunerated by small fees. The capital is raised entirely from the members, and is paid a fixed rate of interest. The

prices charged are usually about the same as those charged by other retailers, and what in an ordinary business would be called the profits are devoted partly to the extension of business, partly to various social and educational objects, and partly to the payment to members of a dividend proportioned to the value of their purchases, which is usually, though not compulsorily, reinvested in the business.

But Consumers' Co-operation has not stopped short at the retail trade. In all countries where it has obtained a firm hold it has been gradually led on to attempt, with varying success, a more or less comprehensive programme of *integration*. To achieve independence of the capitalist wholesaler, the local societies federate to form a central wholesale society, which is owned and managed by themselves on the same kind of principle as that on which they are owned and managed by their members. Both the retail and the wholesale societies develop productive departments, which like the selling departments are put in the hands of paid managers. The English Wholesale Society produces in its factories a vast variety of food, clothing and other household products, and owns also its own ships, farms and tea plantations, as well as doing banking and insurance business on a large scale.

§ 3. *The Merits and Limitations of Consumers' Co-operation.* Loyalty to the ideals of the movement and the attractive force of the dividend on purchases combine with the intrinsic merits of the co-operative retail store to secure for it the steady custom of its members, and it is thus enabled to dispense with expenditure on

advertisement and on keeping a wide range of goods a long time in stock to meet the caprices of casual demand. The same force of loyalty puts at its disposal the services both of general supervision and of detailed management at a rate lower than that which has to be paid by private enterprise. These are real advantages which have gone far to promote the success of the co-operative store in competition with the private retailer. But it has its weaknesses as well. The services of amateur committee-men may sometimes be dear at the lowest price; and to trade on loyalty to the extent of offering responsible managers and buyers a salary much less than they could command elsewhere may be poor economy in the end. It is tempting, too, to economise in stocking a shop by the simple process of eschewing variety and novelty of all kinds; and if the co-operative store succumbs to this temptation one of its main theoretical advantages that if the consumer buys from himself he is certain to get exactly what he wants - is found to be somewhat illusory, and the restless housewife turns to the private shop or market where she can "look and pick." Change and choice and ingenious refinement are, as human nature is constituted, desirable things, and the private trader and the advertisement agent do more for their livelihood than the consumer suspects till he tries to do without them. For these and other reasons (including its praiseworthy attempts to insist on cash payments) the victory of the co-operative store movement has not been overwhelming, even among the working-classes; and it has left the more prosperous classes almost untouched.

In the domain of wholesale trade and of manufacture

the natural advantages of co-operative enterprise are less strong than in retail trading. The scrutiny of well-meaning amateurs becomes less valuable as the operations on which it is directed become more complex and remote ; the dangers of unskilful buying, and of cramping the style of responsible managers, become more serious. Further, the relative smallness of the market makes it difficult to reap the full advantages of standardization. Nevertheless, in some countries considerable success has been attained, and the difficulties of government have not been found insuperable. The directorate of the English Wholesale Society, consisting of thirty-two full-time members (mostly ex members of local committees of management), with its elaborate system of sub-committees and tours of inspection and reports, is generally believed to be a very efficient organ of a rather bureaucratic and secretive kind, for the control exercised over it by the committees, and still more by the ordinary members, of the constituent stores is necessarily of the slightest.

Consumers' Co-operation can no longer be called an experiment: in Great Britain at least it is a very well-tryed and firmly established form of industrial organization. The goods sold by the retail societies reach one-third of the families in the country, and their value amounts to perhaps one-twentieth of the whole national income, about one-half of them being supplied by the wholesale societies, and about one-third being actually manufactured in the movement's own productive departments. There seems no reason why Co-operation should not extend its triumphs within the wide but limited range of

industrial enterprise for which it is suited. For the supply of transport services, of goods for export, of intermediate goods such as machinery, of new and special and exciting products, the principle of Co-operation does not appear to be well adapted. An interesting suggestion is that it should be applied to the supply of news, thus enabling the consumer to escape from the frying-pan of the newspaper king without falling into the fire of a press owned and inspired by the Government of the day. In any case in the heterogeneous patchwork of "the existing system" Co-operation finds an assured place and a fair field, and has no need of such a fantastic suggestion as that of one modern reformer to the effect that the State should forcibly buy out the great private trading establishments and commit them to its care¹.

What light does the success of Co-operation throw on the universal validity of the golden rule of Capitalism, associating the control of industry with the assumption of its risks? The answer is not very simple. In the first place, the element of trusteeship which we found in the administration of the joint-stock company is reinforced under Co-operation by the spirit of loyalty to a cause, so that its members are more than ordinarily ready to delegate their decision-taking powers to their servants, and those servants use them in the main carefully and faithfully, if sometimes with a little of the peremptoriness of the old family retainer. And, secondly, even the general powers of control reserved by the members are not exercised, as are those of the shareholders of a joint-stock company, in proportion to the resources risked.

¹ Cole, *Chaos and Order in Industry*, p. 195

for the rule is one member one vote, irrespective of capital holding. But the disproportion between risk and control is not as great as at first sight appears. First, the capital is guaranteed a fixed rate of interest, like the debentures of a joint-stock company, so that the only risk run is that of complete loss, which is rendered extremely unlikely by the nature of the societies' activities. Moreover, reinvested "dividends" are withdrawable on demand, and share capital on cessation of membership. Secondly, all members have an equal interest in the disposal of the reserves, benevolent institutions, etc., built up by the societies, so that their total interests are not so mutually disproportionate as their capital holdings. Thirdly, the device of sale at full market price and a dividend on purchases means that members run important risks which are proportioned not to their capital holdings but to their purchases.¹ Thus while Co-operation has gone a step further than joint-stock enterprise in divorcing control from the ownership of capital, its native shrewdness has saved it from attempting too ambitious a divorce of control from risk.

In one respect this shrewdness has been carried to disappointing lengths. The relations of the co-operative societies with their workpeople are almost precisely similar to those of capitalist industry. The workpeople, whether in shop or factory, have no share in the management, and are not even as a rule individually eligible for election to the management committees. Profit-sharing,

¹ This is recognized in the constitution of the British Wholesales, where the constituent societies exercise voting power in proportion to their purchases.

where it existed, has usually been abandoned; and while the societies are what is called "good employers," strikes have not been unknown. The building of the bridge between consumption and control has left the gulf between day-labour and control as wide as ever.

CHAPTER IX

COLLECTIVISM AND COMMUNISM

“ Well, not the *next day*,” the Knight repeated as before
“ not the *next day*. In fact,” he went on, holding his
down, and his voice getting lower and lower, “ I don’t
believe that pudding ever *was* cooked ! In fact, I don’t
believe that pudding ever *will* be cooked ! And yet it *was*
a very clever pudding to invent ”

Through the Looking-glass.

§ 1. *Collectivism and Monopoly.* A generation since, to the majority both of its advocates and of its intelligent opponents, the term Socialism practically meant nothing more nor less than Collectivism (p. 105). That is no longer so, and we now scarcely need to be reminded that to many of its French and English pioneers of a century ago Socialism did not imply the ownership and operation of the means of production by the State. As a result, however, of the powerful influence of the founders of German Socialism, the capture for the State of the apparatus of industry came to seem to many people the sole and sufficient condition for social regeneration : and in this at least the continental followers of Marx and the more moderate English socialists of the later nineteenth century appeared to be at one. And though Socialism has now a wider purview, the public ownership

and exploitation of the means of production is still, both in project and in practice, an important form of industrial organization.

The controversy over the merits of Collectivism is a well-worn one, and not such as is likely to be laid to rest in ten pages of an academic text-book. But especially if we bear steadily in mind our analysis of the consumer's grievances against Capitalism, we may perhaps agree upon certain groups of cases in which the public ownership of industry is most desirable, or least reprehensible, according to our point of view.

The first group consists of those industries which under modern conditions tend, for one reason or another, to fall into the hands of a monopoly. Within this group it is customary to distinguish further between what we may perhaps be allowed to call "octopoid" industries and others. The octopoid industries - rail and tram transport, the supply of water, gas and electricity, the telegraph and telephone - are those involving the use of a large and widely ramifying plant, which it would clearly be wasteful and inconvenient to duplicate, and whose installation, since it involves interference with public or private property, calls in any case for some intervention on the part of the State. This distinction is useful within limits, but it must not be pressed too far. Monopoly, however arising, whether from octopoid characteristics or from the combination of large-scale producers or from exclusive access to certain natural resources, is liable to oppress the consumer, and invites the attention of the State.

That attention, however, does not of course necessarily take the form of public ownership. Without radical

alteration of the structure of capitalist industry, the State may attempt to deal with the problem of monopoly by exercising its powers of *negative* control in various ways whose detailed discussion lies outside the scope of this book, but which must be briefly mentioned here, since the strength of the case for Collectivism turns partly upon the question of the effectiveness of alternative methods of interference.

In the first place, then, the State may attempt directly to prevent the emergence of monopoly by prohibiting and punishing actions and arrangements which operate "in restraint of trade." This is the policy which has been pursued for thirty years in the United States, with results which are not encouraging — for it is a policy extremely difficult to carry into effect, and it has been found much easier to prevent monopolistic combination taking certain specified forms than to prevent it occurring altogether (Ch. VI, § 3). Further, monopoly is in the octopoid industries the only sensible method of supply, and in many others it brings economies in production, and improvements in the quality and stability of supply, of which it would be a back-handed kindness to deprive the consumer.

Secondly, the State may indirectly foster competition by prohibiting certain practices which are powerful weapons in the hands of aspirants to monopoly power, such as bringing pressure to bear on retailers to buy out their rivals' products, and running a weaker competitor by cutting prices to a level which could not and is not meant to be retained. In the United States such "unfair methods of competition" are declared illegal, and this seems a desirable policy to adopt — but it has

not been found easy to enforce, and it is not very likely of itself to preserve or reawaken competition in the face of a wealthy and well-established combination.

Thirdly, the State, while accepting the fact of monopoly, may attempt to protect the interests of the consumer by the prohibition of "unreasonable" prices, the fixing of "reasonable" prices, or the limitation of profits—methods each of which presents considerable difficulties, but one or other of which has perforce to be adopted in the case of "octopoid" industries, and may well be held in reserve as a last resort in the case of other industries as well.

Fourthly, the State may take the view that "light is the sovereign antiseptic and the best of all policemen," and claim special powers of investigation into the affairs of producers suspected of monopolistic action. Such powers must of course be possessed by any authority, such as the United States Federal Trade Commission or the British Railway Rates Tribunal, which has further powers of the more active kinds just mentioned: but they may also be accorded without carrying any further powers, as they were to the British Board of Trade under the Anti-profiteering Act from 1919 to 1921—a provision which it would seem highly desirable to restore in a permanent form, even if no more drastic steps are taken.

In estimating the strength of the arguments for Collectivism in monopolistic industries, the merits and limitations of these alternative devices must be taken into account as well as the intrinsic merits and limitations, to be considered presently, of the public conduct of industry.

§ 2. *Collectivism and Conservation, Security, and Social Progress.* Secondly, the argument for Collectivism is strengthened when there is a clash of interests not between producer and consumer, but between present and future consumers, occasioning the need for what is called in the United States a policy of "conservation." The State can, at any rate in theory, regard itself as immortal in a way in which a private person or even a joint-stock company can hardly be expected to do, and there is therefore a *prima facie* case for the collective exploitation both of those natural resources, such as coal and oil, which cannot be replaced at all, and of those, such as fisheries and forests, which cannot be kept intact except by a policy looking many years ahead.

There is here a curious paradox—States are notoriously bad savers, and spend riotously the savings of their subjects; yet when it is a question of saving not current income but the permanent sources of wealth, we credit them with a conscience which we do not individually possess, and turn to them because we have nowhere else to turn. It does not of course follow that such State enterprises cannot be conducted on an ordinary paying basis: but it does follow that the token of the State's success may be not, as in our first group of industries, an increase of output and a lowering of prices, but the very reverse. And in their early days, if the State's policy of working for the future is conscientiously pursued, such enterprises as afforestation may even involve an element of Communism—that is, a temporary subsidy to the selected industry at the expense of the general community. On the other hand, there are cases in which the State may be able to

eliminate types of waste which are benefiting nobody, not even the present consumer, and in such instances it may be able to increase immediate output without sacrificing those future interests which are the *raison d'être* of its intervention. Thus there is reason to think that in the British coal industry the practice of leaving unworked coal as barriers between adjacent mines, the difficulty of obtaining way-leaves for the transport of coal underground, the lack of co-operation in drainage, and other difficulties incidental to the multiplicity of ownership of the mines, lead to a permanent loss of coal which injures both present and future generations. It is these considerations which furnish the main strength of the proposals for the nationalization of this industry: and since they can only be rendered obsolete by the establishment of partial or total monopoly, which even if it were held to remove the industry from our present group of "special cases" would establish it in our first, it seems pretty certain that that proposal will some day be seriously revived.

Thirdly, the argument for Collectivism is strengthened when the abandonment of an industry to private enterprise involves certain incidental political or social dangers. The strongest instances arise when the State is itself a large consumer, actual or potential, of the product supplied. Thus fighting is a trade, but the Norman kings made it plain many centuries ago that it is not a trade which individuals can be allowed to follow on their own account, except perhaps under National Sporting Club rules. Pacifist and militarist may shake hands on the proposition that it is not good for a country to depend on private enterprise for its

poison gas and its heavy guns. The Prussian Government developed its own railways, and the British Government set up in the canal business for strategic purposes; and the one is an owner of coal mines, the other of oil wells.

Again, a county or a municipality may run its own drink trade to make its inhabitants more sober, as the Government has done in Carlisle with great success; or its own slaughter-houses, to make them more healthy; or even its own theatres and opera houses, to make them more high-browed.

For the most part there is no reason why such enterprises should not be conducted on an ordinary paying basis, even if the State is in fact the chief consumer. But where (as in the case of the fighting services) the product has no market value except to the Government, or where for other reasons the economic aspect of the business is entirely subordinated to the political or social aspect, such enterprises involve the principle of Communism, and their further consideration must be deferred for the present.

§ 3. *Collectivism and the Assumption of Risk.* Some of the time-honoured arguments against the public operation of industry wear rather a faded air in the light of the proved success of the joint-stock company: for many of the features of the two forms of enterprise are the same. Both under modern conditions can hire the services of efficient managers, and the advantage in this respect rests perhaps with the public enterprise, since it can enlist in its employ a greater measure of the spirit of public service: for example, the integrity and

capacity of the bulk of the borough engineers who administer the English municipalized industries is beyond question. With regard to general supervision, however, as distinct from detailed management, the public enterprise is at a disadvantage. If the directing body is a committee of politically elected persons (as in municipal industry), it may suffer from lack not merely of expert knowledge, but of those general business qualifications which are usually, if not always, possessed by the directors of a company, as well as from an unwholesome fear of offending certain sections of its electors. If (as in nationalized industry) it is a Government department, its whole organization, personnel and procedure, its mechanism for controlling expenditure, its methods of appointment, promotion and dismissal, may be far less suitable for the conduct of business than of political administration, and impair the efficiency of management throughout.

As in the democratically owned joint-stock company, so in the public enterprise, there is a danger that the divorce of active control from the shouldering of the main risks will lead those who wield the former to be at once less rigorous in the avoidance of waste and more reluctant to adopt anything which might be represented as a rash or speculative policy than if they were working for their own hand. But the latter danger is greater in the case of public enterprises, for several reasons. Whether the capital employed in them has been accumulated by the public authority or (as is more usual) has been borrowed in the market at a fixed rate of interest, the risks of loss fall on the general tax-payer or rate-payer. Now in the first place these risks are greater

than those of an ordinary shareholder, for they are unlimited : if a company fails, its debenture holders can take over the property, but they can do no more ; whereas if a public enterprise fails, the creditors of the public authority can still demand the interest on and repayment of their loans out of the proceeds of taxation. Secondly, these risks are borne by the taxpayers in accordance with their wealth, while each of them wields one vote only : thus there is a disharmony, more real than in the co-operative society, between the distribution of risk and the distribution of the residual powers of control. Thirdly, whatever view may be taken of the effectiveness of majority rule in expressing the general will, it must be admitted that there are many individuals who bear the risks of collective enterprise involuntarily, and are therefore critically disposed towards it. For all these reasons those in control of public enterprises rightly pursue more timid and unadventurous courses than even the directors of a joint-stock company. The infraction of the golden rule of capitalism brings its own penalty ; and the device of compulsorily imposing unlimited risks on the tax-payer partially stultifies itself by restraining those responsible for policy from making full use of the risk-taking powers thus put into their hands.

For these reasons Collectivism does not seem well adapted to industries where difficulties of marketing, especially of marketing abroad, call for quick and bold decisions : and the difficulty of disentangling this side of the British coal trade from its purely productive side is one of the strongest objections to the nationalization of that industry. For the same reasons, Collectivism is generally admitted to have the best chance of success

in those industries in which the pioneer work has been already done by private enterprise, and the work of administration completely reduced to routine. It happens that these industries largely overlap with those octopoid industries in which the case for Collectivism is especially strong on other grounds ; but the correspondence is not always so close as at first sight appears. Railway transport, for instance, is an octopoid industry ; but though it is also an old industry whose routine administration is thoroughly well understood, the occurrence of a revolution in technique, such as the substitution of electricity for steam, may call for the exercise of precisely those qualities of initiative and bold judgment in which public enterprise is likely to be lacking. Further, the game of waiting till private enterprise has made a success of an industry and then taking it over is not one that can be played an indefinite number of times, since if it is known that this is the settled policy of the public authority, the inducements to private enterprise to undertake pioneer work are sensibly diminished. This is especially obvious if private enterprise is hampered by definite provisions for the surrender of its plant and working rights to the public authority at the end of a certain number of years, as occurred in the case of tramways and electric lighting in Great Britain.

§ 4. *Further Difficulties of Collectivism*—There are certain further dangers about public enterprise. Even if nominally conducted on a paying basis it is liable to involve an element of concealed Communism ; for a public authority has at its disposal various devices for

rendering services at less than their full economic cost, such as charging against the general tax-payer expenditure which ought properly to be charged against some particular publicly operated industry. Again, even if a public enterprise starts on a paying basis, it is sometimes allowed to come frankly on to the taxes to save it from complete abandonment. Now the deliberate practice of Communism may, as we shall see presently, be a very good thing, and win general approval: but a resort to Communism in order to give a fictitious demonstration of the success of public enterprise, or to save the *amour-propre* of officials and avoid the resentment of discharged workmen, is obviously undesirable.

If the public authority is one of several competing producers, such "unfair competition" may make the position of its competitors untenable, and it may be obliged sooner or later to assume the sole duties of supply—an issue for which it may be totally unprepared. This is a fairly strong argument against public authorities engaging in competitive business except for some special object: for example, to bring an oppressive combine to its senses, or to set a standard of quality in some service, such as milk supply, in which private enterprise needs bringing up to the mark. It is, for instance, not surprising that the entry, as a result of the war, of the Governments of the United States, Australia and Canada into the shipping trade has caused a good deal of ill-feeling and alarm.

Even, however, if the public authority is already in a position of monopoly, the disadvantages of maintaining a public enterprise on an uneconomic footing, except for good and deliberately chosen reasons, must not be over-

looked. The fact is that while Collectivism, by its device of the open-market loan coupled with the imposition of compulsory risk on the tax-payer, has solved after a fashion the problem of drawing resources in the directions indicated by rising demand, it does not provide any alternative to Capitalism's brutal solution of the correlative problem of repelling them from a demand that is falling away. When only a few industries are publicly operated, the matter is not very serious but in a completely Collectivist State it might well become so. Such a State would not, like the Communist State to be discussed presently, be without any automatic register of the movements of demand, for it would (by definition) retain the expedients of sale and market-price; but it would probably find great difficulty in responding with alacrity to their movements. The pioneers of British Collectivism have admitted¹ that it might be forced to offer different wages in different occupations for work of the same difficulty and skill in order to promote the easy migration of labour—an arrangement which does not seem, from the point of view of abstract justice, a great improvement on "the existing system." It may, however, be fairly urged that a certain slowness in the adaptation of industry to changes in demand and technical method would not be too heavy in price to pay for a mitigation of the savage swiftness with which Capitalism hustles obsolescent skill and capital apparatus to the scrap-heap.

Another difficulty of Collectivism is that the most suitable unit for political government is often not the

¹ Mr. and Mrs. Webb, *A Constitution for the Socialist Commonwealth of Great Britain*, p. 297.

most suitable unit for the exercise of economic power ; thus where the use of electricity is concerned, whether for lighting or for tramways, the municipality has been found a unit undesirably small. In other instances, however, notably railways and coal mining, Government enterprise might succeed in establishing a desirably large unit of working where the *vis inertiae* of private enterprise has preserved an uneconomically small one. In any case this difficulty can be met by the establishment of a special body, composed of representatives of several ordinary public authorities, for the conduct of a particular industry over the area most suitable to it—a device well exemplified in the London Metropolitan Water Board.¹

The device of the *ad hoc* board may also be used for solving or mitigating some of the more fundamental difficulties of Collectivism. So far as national as distinguished from municipal undertakings are concerned, the older notions of the meaning of Collectivism are generally out of fashion. Latter-day experiments in and proposals for nationalization generally involve the handing over of the control of the industry to a specially constituted expert body, more or less completely independent both of the Government of the day and of any existing Government Department, and working on the

¹ Mr. and Mrs. Webb have suggested (*op. cit.*, pp. 224 ff.) that the whole country should be divided up into a number of wards, or tiny cells of local government, each electing one full-time councillor: these councillors would sit together in smaller or larger numbers according to the public service to be administered. This plan would do away with the difficulty here under consideration, as well as with the present cumbersome multiplicity of local bodies, at the cost of sacrificing some of the expert knowledge at present acquired by the members of *ad hoc* boards and of specialized committees of county and borough councils.

lines of an ordinary business establishment rather than of a branch of the Civil Service. This is the plan which has been adopted in the United States and Canada for the operation of the State-owned merchant fleets. Proposals for nationalization of this kind frequently contemplate that this governing body should be in some way representative of those engaged in the industry, and we must therefore return to them when we have explored the second main avenue of social reconstruction (p. 101), that leading through the association of the worker with control of his own work. But it is obvious at once that a well thought-out scheme of this kind might go far to remove those objections to Collectivism which are based on the unsuitability of Government Departments or politically elected bodies for the business of conducting industry. It would not, however, remove the inherent difficulty of thoroughgoing Collectivism, that if the State is to be the supreme industrial authority, it must, even if it keeps itself as a rule discreetly in the background, assume the ultimate responsibility for regulating the flow of productive resources between different industries.

§ 5. *The Extent of Collectivism and quasi-Collectivist Arrangements.* Collectivism, like Co-operation, is now within its limits a well-established form of business organization. All national States own and operate their own postal systems, and most of them the whole or part of their railway systems and forest lands, as well as conducting directly a great number of industrial establishments incidental to the service of government. On the other hand, there are few instances outside

Russia of the State engaging in ordinary manufacture on a large scale, except sometimes, as in the case of the French tobacco industry, for the avowed purpose of raising a monopoly revenue in lieu of taxation. Many municipalities own and operate their own octopoid industries, and in Germany in particular have tried their hand successfully at a great variety of other enterprises. Even in England the products of municipal industry form a substantial proportion of the national income, and there is no reason to think that this form of enterprise has yet reached its limit; though it can scarcely be said, as it can of Co-operation, that it finds a perfectly open field within the structure of "the existing system," since Parliament exercises a strict control over the kinds of trading in which a municipality may engage, and the conditions with regard to the raising of loans, etc., on which it may engage in them.

But besides these instances of full-grown Collectivism, there are in existence a number of intermediate devices for giving the public authority an active share in the government and in the proceeds of industry without undertaking its full responsibilities. Thus it may construct and own its own railways or tramways, but lease them out for operation to private companies, retaining certain powers of control,—an arrangement which has worked satisfactorily in some instances, but is apt to break down, as it did on the Italian railways, owing to disputes about liability for capital improvements or similar causes. Again, the State may hold a sufficient number of shares in an ordinary joint-stock company to exercise, if necessary, a decisive influence

in matters of policy without saddling itself with the detailed conduct of the business. This is the policy which was adopted by the Mexican Government with regard to railways, and by the British Government with regard to dye works and oil fields.

Finally, there are a few cases of great importance in which the State has set up a body directly representing its own interests and endowed it with very great positive powers of government over a number of undertakings which are left in other respects to the ownership and operation of private enterprise. Such are the Federal Reserve Board (1913) and the Interstate Commerce Commission (reconstituted 1920) in the United States, bodies consisting respectively of seven and eleven members appointed by the Government, and neither representative of nor financially interested in the vast assemblage of private banking and railway companies grouped beneath their respective sways. Yet the former directs in effect the whole banking policy of the United States: while the latter is entrusted with powers not only of fixing rates, but of consolidating the railway companies into groups, regulating their issues of shares and prescribing their allowances for depreciation, ordering them to construct new lines, controlling their traffic in times of emergency, and administering in the general interest part of their (at present hypothetical) surplus profits—provisions which have been partially imitated in the recent Act (1921) defining the status of the British railway companies. Thus the home of free enterprise has furnished us with experiments in positive State control on a scale which finds no parallel outside Communist Russia.

Such arrangements on the face of them seriously infringe the golden rule of Capitalism.¹ The practical good sense of Anglo-Saxondom has so far enabled them to operate without serious friction, but it is perhaps too early to judge whether they represent a stable form of business organization, or whether the State, having assumed such gigantic powers of control, will not ultimately have to assume also the risks of ownership.

§ 6. *Communism.* Much that has been said of Collectivism applies to Communism as well, but the latter raises also some fresh issues. Let us analyse the reasons for which Society may decide to make a partial application of the principles of Communism— that is, to supply its members with certain services either free of charge or at less than their full cost. First, the public authority may be providing on general grounds some service for which the exaction of specific payment in accordance with the quantity consumed would be impossible (how much of a battleship's services do I consume?) or inconvenient (toll-gates on roads are an intolerable nuisance) or unjust (it is not those whose pockets are picked who derive most benefit from the vigilance of the police), and the service must therefore be rendered gratis. Secondly, since people do not always know what is good for them, the price which they will offer

¹ Though not always so seriously as would appear. Thus the decisions of the Federal Reserve Board have reference rather to those risks which fall inevitably on the general public in the shape of price-fluctuations, financial panics, etc., than to those, such as the involun-
 tary of particular creditors, which fall mainly on the individual bank
 itself.

for a thing (such as a cesspool or a good look at a *Diplodocus*) is not always a measure of their real need for it as compared with their need for other things ; and since private enterprise cannot be expected to take this into account, their real enjoyment of life is less than it ought to be. If such errors injured only those who made them, a society which set a high value on liberty might not be prepared to go very far in setting them right ; but, in fact—and this is the third point—they frequently injure other people also ; thus the neglect of a man to provide his house with drains may damage his neighbours as well as himself. Even in a society in which wealth was equally distributed, it could be argued that for one or more of these reasons people ought to have sanitation and soldiers and parks and policemen and libraries and a minimum standard of education for their children thrust down their throats, or at any rate dangled in front of their noses, without the exaction of full payment ; the cost of course being defrayed out of taxation.

But in society as we know it there is a further point. Owing to the unequal distribution of wealth, the comparative prices offered for different goods by different people may fail entirely to indicate the comparative real urgency of the needs which those goods satisfy ; and since, under any modern system of taxation, more is taken in taxes from the rich than from the poor, the machinery of public finance and collective enterprise offers an opportunity of partially correcting this defect. It would be possible, of course, simply to take money from the rich by taxation and hand it over to the poor, and in certain cases this is done ; but on the whole

the money is less likely to be wasted or to have a demoralizing effect if it is spent in providing for the poor, free or at less than full cost, services which otherwise many of them would refrain from demanding, with results especially damaging both to themselves and to other people. Thus the arguments for a partial application of the principle of Communism are strongly reinforced.

On the other hand, there are good grounds for walking carefully. There are, first, the general objections to Collectivism already discussed. It is true that the Communistic principle can be applied not only through Collectivism, but through a policy of subsidies to private enterprise—for instance, it is happily possible for the Government to endow the University of Cambridge without making it a State concern; but on the whole this alternative is not likely to be carried very far in ordinary times. Secondly, high taxation for the maintenance of Communist undertakings discourages enterprise and the accumulation of wealth. Thirdly, there is a chronic danger of the Communistic principle being misapplied. There is, for instance, no special reason for supposing that people's expenditure on travelling by tram is less than it ought to be in comparison with their expenditure on other things, and no particular justification therefore for running a municipal tramway system at a loss; yet this sort of thing is very liable to occur.

The merits and dangers of partial Communism are well exemplified in the policy of State provision of housing for the working classes. Here is a service of which the consumers are poor, and in the purchase of

which they are peculiarly apt to neglect their own interests, to the prejudice of themselves, of their neighbours and of posterity (for a jerry-built house, unlike a jerry-built pair of boots, is an incubus on succeeding generations): thus the arguments for Communistic enterprise are very strong. On the other hand, a Communistic policy to be successful must be very comprehensive, for the competition of tax-fed Government building will make private enterprise impossible; and a comprehensive policy will be enormously expensive. It is not surprising that in Great Britain the result of these conflicting considerations has been vacillation and confusion.

A system of complete Communism implies, of course, a complete rejection of the mechanism of price and exchange. In an infinitely wealthy society everybody would no doubt be allowed to take out of the State's storehouses as much of everything as they wanted: but in a society of limited wealth, such as those we know on earth, the State would have to ration the consumption of individuals in every particular, and to arrange the flow of productive resources into the several industries in such a manner as to produce continuously the standard budget for the whole population,— a budget which many individuals would certainly find inappropriate and distasteful. It appears to have been nothing less than this gigantic task which was envisaged by the Communist Government of Russia in its "orthodox" period, though the vision was never completely translated into actuality. But it seems evident that in the strict sense Russia is Communist no longer, even in theory, and is settling

down instead to a regime of highly centralized Collectivism, conducted according to the ordinary methods of accountancy, in the leading industries—textiles, transport, iron and steel and so forth—coupled with small-scale private enterprise in agriculture, and more or less strictly regulated Capitalism in the other departments of economic life. The Russian experiment involved so many different kinds of change and was conducted under such peculiar conditions that it is dangerous to draw detailed inferences from it on particular points: but it certainly suggests that even among a population with simple and uniform needs the wholesale administration of industry by the State, difficult enough in any case, becomes an impossible task if the touchstone of price in relation to cost of production is cast to the winds.

CHAPTER X

WORKERS' CONTROL

"I'll tell you how I came to think of it," said the Knight. "You see, I said to myself, 'The only difficulty is with the feet: the *head* is high enough already.' Now, first I put my head on the top of the gate—then the head's high enough—then I stand on my head—then the feet are high enough, you see—then I'm over, you see."

"Yes, I suppose you'd be over when that was done," Alice said thoughtfully; "but don't you think it would be rather hard?"

"I haven't tried it yet," the Knight said gravely: "so I can't tell for certain—but I'm afraid it *would* be a little hard."

Through the Looking-glass.

§ 1. *Productive Co-operation.* Neither Consumers' Co-operation nor Collectivism nor Communism solves the problem of the status of the worker raised in Chapter VII, § 4: and since all of them must, under modern conditions, work within the framework of the "factory system"—of Capitalism considered as a technical method of production and not as a system of property rights and industrial government—the fact is not surprising. Dreamers of dreams have, indeed, suggested from time to time that we should scrap the factory and the machine, and become again a community of independent

craftsmen. Readers of Samuel Butler's *Erewhon* will remember how that imaginary nation, alarmed at the growing wisdom and power and voracity of the machines, finally decided to destroy all those which had been invented in the last 271 years, "a period which was agreed upon by all parties after several years of wrangling as to whether a certain kind of mangle which was much in use among washerwomen should be saved or no. It was at last ruled to be dangerous, and was just excluded by the limit of 271 years." But the common sense of mankind outside *Erewhon* has generally decided that this course is impracticable; and the efforts of reformers have been directed to trying to find some method of combining the subordination and regimentation necessitated by the factory system with the exercise of self-government by those who are entangled in its coils.

It was on this aspect of social reconstruction that the early French and English Socialists laid most stress, and the 'twenties and 'thirties were prolific in schemes for self-governing workshops and communities. Then in most countries these rather fragile projects were submerged beneath the rising tide of Collectivism, to reappear in the twentieth century, and especially in the great social upheaval of 1917-20, in a more militant and imposing form. Of late years the consumer has become suspect, for he may be a mere drone, living on rent and profits, and so not entitled to consideration: the State has become suspect, for it is a tyrannous organ that makes wars and brews lies and destroys freedom. It is the worker *qua* worker who must rule.

In following out the development of this line of

thought and experiment we must glance first at the humble relics of the co-operative enthusiasm of the 'thirties. Most of those early "workers' societies" were short-lived, but there have been occasional revivals of the movement, and there are in Great Britain at present about seventy such establishments—mainly in the boot, clothing, textile and printing trades—at any rate partially owned and directed by those who work in them. But the genuine productive society has obvious difficulties to face. There is difficulty in obtaining enough capital for extensions of business or even for current needs, and in securing and retaining markets. But the greatest difficulty is the question of management: it is not easy to bring oneself to vote for the most capable man among one's shopmates as manager, rather than the best talker or the best fellow, nor to vote him a large enough salary, nor to allow him a free enough hand when elected and to obey his orders in the shop. Hence not many of these societies have remained true to the early ideals of the movement. In many of them a large part of the membership and the capital holding lies outside the factory (sometimes partly in the hands of the Co-operative Stores), and within the factory there are many employees who are not members of the society; and in only about a third of them do employees constitute a majority on the managing committees, while in some they are definitely excluded from sitting thereon.

Thus "Productive Co-operation" has not revolutionized industry, nor is it likely to do so. The main stream, not only of Capitalism, but of Co-operation and of Socialism, has swept past these gallant little craft;

but in their limited sphere they have a vitality and an experimental value of their own.

§ 2. *Syndicalism and Sovietism.* It seems a far cry from these peaceful little cells of industry to the red flag and the barricades: yet in its original form the doctrine of Syndicalism, which a few years before the war began to terrify the country houses of England and to make Socialism sound respectable by comparison, appears to have been directly derived from the French counterparts of the workers' society. France is still in the main, by comparison with England and Germany, a country of small-scale and decentralized industry; and the great national trade unions, now familiar in England for three-quarters of a century, were slow in making their appearance. The original idea of Syndicalism was that in each locality the association of workmen in each trade should take over the control of the means of production; but the general good—or at least the general good of the working class—was not to be altogether neglected, for the local *Bourse du Travail*—a sort of common council or clearing house of the local trade unions, corresponding roughly to the English Trades Council—was to exercise a kind of general control, and adjudge between the claims of the various trade associations, where these came into conflict.

But with the turn of the century came at last the growth of the great national trade unions, which adopted the doctrines of Syndicalism; and on the national scale, the State being suspect, there was no body in sight to exercise even that limited protection

of the consumer's interest which had been entrusted in imagination to the Bourse du Travail. Hence it does not seem unjust to say that Syndicalism, in the form in which it became articulate to the world at large, advocated the reorganization of industry purely from the standpoint of the producer, and contemplated the erection of a number of vast and independent Workmen's Trusts in place of the mingled competition, combination and collectivism of "the existing system." "The mines for the miners, the railways for the railwaymen—and the dust carts for the dustmen," such is the common criticism of the implications of Syndicalist doctrine, and it does not seem an unfair one; though no doubt in the minds of its advocates that doctrine was mingled with a vague kind of Communism which reduced the question of ownership to unimportance. But, indeed, it is difficult to analyse correctly a doctrine which has never been put into practice, and has not been expounded with very great lucidity; for it is part of the theory of Syndicalism that the proletariat must not bother too much about the consequences of its own actions or the form of government which will eventually result from them, but act at all costs. And it is not surprising that it should be this part of the theory, with its corollary of the general strike, that chiefly captured the attention of the public.

When, under the dissolving influence of the Great War, revolution swept over Russia and Germany, and flared up in the streets of Milan and Turin, and simmered on the Clyde, it was ideas akin to those of French Syndicalism in its earlier or local phase that first found embodiment in propaganda and in action. For the

modern revolutionary, another name must be added to those of the Consumer and the State on the list of suspects—the name of the great national Trade Union itself, so long the bulwark of the working class, but now fit only for the guillotine—a monster slow in action, bureaucratic in method, an accomplice too often in the dark deeds of the State. Not the association of workers in each trade or even in each locality, but the workers themselves in each works, must seize from the capitalist the instruments of production which they themselves operate. Union no doubt will come later—the solidarity of the working class will not be impaired, but it must be a solidarity built up from below by the free federation of self-governing groups, not imposed from above by any authority whatsoever. Such seems to have been the gospel of the Soviet or Workers' Council, as blazoned forth in the early days of revolution.

It is a melancholy task to trace in each country the evaporation or contamination of the pure milk of the Soviet word as revolution either succumbs to the forces of reaction or settles down and becomes respectable. In Russia the powers of the factory soviet seem to have been conditioned from the first by the existence of the local soviet, organized on a territorial and not on an industrial basis, and to have been exercised even so with such a reckless disregard for the common weal that so soon as the central government could get to work other elements were speedily introduced into the directive body of each individual factory, while the factories themselves were brought within the fold of a highly centralized system. The real powers of

appointment and administration were gathered up into the hands of Moscow, while the formation of a centralized trade union for each industry constituted a further check on the independence of individual groups of workers.

The Bolshevik organization of industry presents, on paper at least, a picture of bewildering complexity. At the head of each trade there was instituted a powerful directive body or "Central," beneath it came a ring of local Trusts, and beneath them again the individual factories. Each factory was provided with two directors appointed by the Central, one for technical the other for administrative purposes, the latter being assisted by an administrative council, nominally—but apparently not in reality—composed of representatives of the workmen and clerical staffs, the higher technical and commercial staffs, the trade union of the industry concerned, the local council of trade unions, the regional economic council, the local soviet, the local peasants' soviet and the local co-operative society. Each factory had also its committee of workers only, with rights of appeal against the technical director. A rather complicated form of factory government, this, and one not easy to bring within the framework of any cut-and-dried analysis: but there is the less reason for the reader to tear his hair over it in that the author is in no position to explain how it, and the analogous complexities in the constitution of the Central and the Local Trusts, worked out in practice. One thing only is plain, that under the pressure of war and want, centralized autonomy speedily pruned and curbed the efflorescence of the self-governing factory.

In Germany, as the dreams of a Soviet Republic faded away in 1919 beneath the heel of the Bourgeois—Socialist Coalition, the works councils, after several stirring bids for power, shrank away into appendages of capitalist and cartellized industry. In Italy, the dramatic capture of the metal factories by their employees in the autumn of 1920 ended in the restoration of capitalism, and the accord by statute of limited powers of inspection and inquiry to central committees representing the workers in each trade. In Great Britain the shop committee, with its member the shop steward, has been absorbed fairly digestibly into the main structure of the Trade Union movement.

§ 3. *Guild Socialism.* But the idea of self-government in industry has not perished. Blended with various elements both of Capitalism and of old-fashioned Trade Unionism, it survives in certain notable projects and experiments which, if disillusionment and trade depression have thrust them temporarily into the background, are not to be permanently ignored. Let us consider, first, those that are clean of compromise with Capitalism, reserving for a final chapter the attempts which have been made to engraft the principles of self-government on to the trunk of capitalist industry.

In England, the idea of workers' control has been much bound up with a cult, not always very intelligent or well-grounded in historical knowledge, of the mediæval craft guild. Now the mediæval craft guild was a product of the handicraft system in its third or highly-developed town period (p. 9): it was an

association of independent master-craftsmen in each trade, each working at small-scale industry on his own account, but uniting to regulate certain matters, connected chiefly with the quality and methods of work, which were of interest to the trade as a whole. Its modern analogy, therefore, is to be found rather in such loose associations of independent employers as the National Federation of Iron and Steel Manufacturers than in the trade union, and the manner of its working throws little direct light on the problem of achieving self-government for the workman in large-scale regimented industry. The relevance of the mediæval guild to modern problems lies rather in the general notion of a body which is not an organ of State, but is yet charged by general consent with the execution of public duties and the regulation of an industrial service; and also, be it said, in the warning that the arrogance and exclusiveness of such bodies may throttle the development of industry and lead to their own disruption and decay. But so long as false historical analogies are avoided, we need not quarrel with the name which the Guild Socialists have given to their theory of industrial reconstruction.

That theory, naturally enough, is not expounded alike by all its advocates, but it will not be profitable to probe here too deeply into their domestic controversies. The main idea is that each industry should be reconstituted as a public service, under the control of those who actually work in it, whether with hand or brain. Thus Guild Socialism seeks to avoid the dangers of bureaucratic and ignorant administration

associated with ordinary Collectivism, and it seeks also to avoid the cruder defects of Syndicalism by vesting the final rights of ownership of each industry in the State, by recognizing the claims of brain labour, and by setting in the forefront of its programme the idea of the service of the consumer.

How far this profession of disinterestedness is a sufficient guarantee of the consumer's interest is a subject of controversy, revealed in the diversity exhibited by concrete Guild Socialist and quasi-Guild Socialist proposals in the matter of the representation of the consumer and the State in the government of industry. Thus the miners' own scheme for the nationalization of the British coal mines provided for a governing body of which half the members were to be appointed by the Miners' Federation, and the other half, while appointed by the State, were to represent only the technical and administrative sides of the industry itself. Mr. Justice Sankey's famous rejected proposals (1919) for the same industry placed the chief power in the hands of District Councils, of which four members were to be elected by the workers and eight appointed by a superior National Council—four to represent the technical and commercial sides of the industry, and four to represent the great coal-consuming industries and the consuming public, while the Chairman and Vice-Chairman were to be appointed directly by the State. The abortive "Plumb plan" for the reorganization of the American railways contemplated a directorate composed of five representatives of the workers, five of the managing staff, and five of the State. A similar variety in proposals for the fixing

of prices and the disposal of surpluses indicates the inevitable difficulties of harmonising the interests of the various partners in the exploitation of industry by Guild Socialist methods.

An ounce of experience is said to be worth a ton of theory, and we must therefore glance briefly at the one important experiment in Guild Socialist organization which has been actually made. In 1920 the building operatives of Manchester and London took the lead in the formation of guild committees to undertake contracts with the local authorities for the building of working-class houses, and the movement spread rapidly in other parts of the country. In its final shape the organization was roughly as follows. The National Building Guild is for legal purposes in form, but in form only, a joint-stock company, and undertakes certain centralized work of finance, insurance and supply: but the making of contracts is in the hands of Regional Councils, which are elected partly by the craft organizations of the region (including professional organizations of architects, engineers and clerks), and partly by the local guild committees. These local committees are elected by the building trade unions in each small area, and are responsible for the supply of labour on building contracts undertaken in that area. Each regional council appoints a manager and headquarters staff, while the foreman on each job is appointed by the local committee, and is thus not directly responsible to or removable by the particular workmen to whom he gives orders. Capital is borrowed at a fixed rate of interest, and full trade union rates of wages are paid during the currency of the contract, in

sickness and in health, in good weather and in bad. Surpluses are to be used for various kinds of improvement and development, and in no case distributed to individuals.

Thanks to the inspiration of the Guild idea and the legitimate attractions of the device of continuous pay, a high standard of efficiency and quality of work was apparently for a time attained. The experiment indeed was born under peculiarly favourable conditions. Building is a trade which requires little fixed capital, and the Co-operative movement gave valuable assistance in the supply of materials and in guaranteeing the fulfilment of contracts, while the urgent and tax-fed Government demand for houses provided a most favourable market. But trade depression and the curtailment of the housing programme, combined with serious faults of internal administration led in the end to complete and ignominious failure. It has yet to be proved that Guild enterprise of this kind can find an assured place in the mosaic of "the existing system."

If moreover, the whole of our industry should come to be reorganized on Guild lines the problems suggested by the golden rule of Capitalism would assuredly become pressing. Would capital be forthcoming on such a scale unless those who ventured it were allowed some share in controlling its use? Under Capitalism the debenture holder is content to forego rights of control because his debentures are, as it were, covered under a fat layer of ordinary shares, and it is not till every ordinary share has become worthless that he runs any risk of capital

loss. Under Co-operation, the shareholder has at any rate a voice, even if its loudness is not proportionate to the size of his holding. Under Collectivism, the bottomless pocket of the tax-payer stands between the creditor of the State and disaster. But to finance a whole industry with blindfolded and impotent capital is likely to prove a stiff proposition; for unless such capital is to be secured, both against total loss and against fluctuating returns, it is likely to be shy in coming forward, and if it is to be so secured, its maintenance might well become an intolerable burden on an industry exposed like any other to the fluctuations and uncertainties of trade. And the difficulty is increased by the fact that the transference of control to the workers is to be accompanied by a marked diminution of their individual risks: for it is the hope of Guild Socialism so to extend the system of "continuous pay" as to guarantee a livelihood to every man on the strength of an industry, irrespective of whether there is work for him to do or no. Moreover, in such an eventuality the question of price and output and the rights of the consumer, solved in the building trade experiment by the formidable competition of private enterprise, would become acute. A country whose industry was entirely conducted by Guilds would still have to solve the root problems of Collectivism—the problems of reconciling a diversity of vested rights and of promoting the ebb and flow of productive resources between different occupations. The Guild system does not seem to furnish a short cut to economic salvation: but where a policy of Collectivism

is adopted on other grounds, it seems desirable that the Collectivized industry should be managed in accordance with some, at least, of the ideals and methods which Guild Socialism propounds.

CHAPTER XI

JOINT CONTROL

The Dodo suddenly called out, "The race is over!" and they all crowded round it, panting, and asking "But who has won?"

This question the Dodo could not answer without a great deal of thought, and it sat for a long time with one finger pressed upon its forehead (the position in which you usually see Shakespeare in the pictures of him), while the rest waited in silence. At last the Dodo said, "*Everybody* has won, and all must have prizes."

Alice's Adventures in Wonderland

§ 1. *The Case for Joint Control.* For the diehards of industrial reconstruction, the transfer of governing powers to the workers must be absolute and complete, or it is illusory and useless. If this consummation is not at present in sight, working-class effort must continue along the well-established lines of negative or inhibitory control, while preparing itself, by organization and education, for the assumption of positive powers of government at some future date. Any proposals for association with the forces of Capitalism in the conduct of industry must be rejected as a trap. There must of course be joint machinery for the settlement of disputes, but "joint machinery, whatever its character, has

nothing to do with the working class demand for control."

Many members of the employing class, actuated by other considerations, arrive in practice at the same conclusion. In England at any rate Trade Unionism is generally accepted, by some grudgingly as a necessary evil, by others with a genuine appreciation of its generally beneficial effects on character and of the superiority of intelligent and organized opposition over incoherent and subterranean revolt. Its attempts to maintain and improve the standard of life of the working classes, while they may be strenuously resisted in detail are not resented in gross. But such attempts are held to mark the limit of its functions, and no working class ambitions or aspirations are to be allowed to interfere with the liberty of the employer to "carry on his own business in his own way."

To many outside enquirers also, detached from the practical conduct of industry, there is much that is attractive about this point of view. It seems to them simple and familiar and well grounded in the experience of the past. They are impressed with the difficulty of severing the government of industry from the assumption of its risks, and with the strength of the argument for leaving the control over the use of resources in the hands of those who provide and venture them, or of their appointed representatives. Their casual acquaintance with the working class leads them to doubt whether the average workman is in fact actuated by any passionate impulse to sit on committees and take decisions, and not rather by a desire to be let alone in the enjoyment of such comfort and leisure as can be

procured for him. In the enforcement of standard wages and conditions of employment, and in the prevention of oppression of individuals, they see ample scope for the exercise of all the statesmanship that Trade Unionism is likely to be able to command. Now that the flames of revolution have died down and the visions of the New Jerusalem receded, cannot we have done, they ask, with this cant about Workers' Control, and set the old horse Industry on the road again in the old way, with Capital in the saddle, and Labour barking when necessary at his heels?

Yet this philosophy of industrial relations seems to leave certain matters out of account. In the first place history seems to show that strength without responsibility is always liable to be recklessly used. Now nothing can prevent the organized working-class from possessing strength—a strength whose magnitude will vary with the state of trade and other conditions, but which can never again be totally destroyed. If this strength is to be exercised always in Opposition, the temptations to use it heedlessly will always be great and on occasions irresistible; if it can be associated in any way with responsibility for the actual conduct of affairs, it is likely to be more moderately and thoughtfully employed. This profound platitude is the burden of the famous Report¹ which laid the foundations of self-government in the British dominions. In Canada before 1838 there were in existence powerful popular assemblies with considerable facilities for irresponsible criticism and obstruction, while the initiation and execution of policy lay in the hands of a governor

¹ Lord Durham, *Report on the State of Canada*, 1838.

appointed from England: and the result was chronic conflict and confusion, till the deadlock was solved by making the popular assembly responsible for providing a ministry to conduct the government of the country. The analogy between political and industrial affairs must not be pressed too hard, but it is close enough to give occasion for reflection.

Secondly, even if the powers of negative control are employed for reasonable ends, they are often an expensive and roundabout method of attaining objects which might on the face of it be attained more speedily and cheaply by direct means. The liberty of the employer to "conduct his own business in his own way" is very far from being absolute as things are at present. By obstruction culminating in sabotage and strikes, a body of workmen can, in favourable circumstances, ensure that they shall not be obliged to work under such and such conditions, or with such and such workmates, or *without* such and such a workmate (there have been many successful strikes against victimization and arbitrary dismissals), or even under such and such managers and foremen. Thus much effort is spent in making decisions unworkable which might, it would seem, be saved if those who are driven to make it had been partners to the decision in the first instance. Here again analogies are suggestive, if inconclusive. Bodies which are set up to prohibit "unreasonable" prices are generally driven in the end to save time and litigation by prescribing "reasonable" ones and the method sometimes employed by benevolent rustics of directing the traveller by indicating exhaustively the roads which he must *not* take, wastes time and breath.

Thirdly, whatever may be true of the "average workman," there is little doubt that at present much constructive talent among the working class is allowed to go to waste. It is true that many men have risen from that class to attain responsible positions in industry; but others have found no such opportunity, and others again would scorn it if it arose, preferring to use their abilities in the service of their own class. At present, the service of industry and the service of their own class are disconnected and even conflicting ideals. Need they be ?

Fourthly, even the psychology of the "average workman" is perhaps not so simple as some would have us believe. It may be hazarded that in his scale of values two other things besides reasonable comfort and leisure find a high place—a sense of security and a sense that he is not being done by somebody in the eye. Political analogy suggests that these sensations are not easily generated except through the machinery of self-government. If the desire to take an active part in affairs is confined to a small minority, the desire to be a *member* of something, with a status and a place in the sun, is surely much deeper and more widely spread; and, even those to whom committees are a form of slow torture, like to cast, or to feel that if deeply stirred they have the right to cast, an occasional vote.

For these reasons those who see no alternative to preserving in its broad outline the framework of "the existing system" may be wise to consider sympathetically proposals for associating the worker in some way with the government of industry. And those who

desire to destroy it altogether may well consider whether half a loaf is not better than no bread.

§ 2. *Joint Control in Individual Firms.* One obvious device at once suggests itself—that the workers in any concern should receive special encouragement to acquire a share in its ownership and therefore in its control.¹ Here are the particulars of two celebrated instances of this expedient of "Labour Co-partnership." In the South Metropolitan Gas Company of London, the employees receive a share of the profits in the form of a bonus on their wages, part of which has to be invested in the stock of the company, with the result that they now hold nearly 6 per cent of the voting power. This, however, does not measure the full extent of their influence, for the workmen are entitled to elect two and the office staff one, out of the ten directors; and further, the joint committee which administers the co-partnership scheme exercises also an informal but real influence in the internal government of the works. In the Leclair house-painting establishment in Paris, about five-eighths of the capital is now owned by a Mutual Aid Society to which about one-sixth of the workers belong, and which is a sleeping partner (p. 64) in the firm; while the two active managing partners, who own the rest of the capital, are elected for life by a kind of senate nearly coextensive with the Mutual

¹ The financial obstacles to the workmen acquiring the ownership of a business are not so great as is often imagined. The saving of a very few hundred pounds per head would enable the employees of (say) an integrated coal and iron and steel company to purchase the whole of its ordinary shares. But such a development is extremely unlikely to occur except as the result of a deliberate scheme.

Aid Society, which fills up vacancies in its own ranks and which possesses certain powers of government, such as the appointment of foremen. Examples could be multiplied, differing indefinitely in detail; but they all have this in common, that they owe their origin to the energy and vision of a successful man of business. And in consequence, even when the co-partnership scheme is of so advanced a kind that the result bears a strong resemblance to "productive co-operation" (Ch. X, § 1), the executive powers of the management are generally very carefully safeguarded.¹

But it is also possible that the workers should be associated *qua* workers, and not *qua* owners of capital, in the government of the business in which they work. Thus the workmen in a joint-stock company may acquire the right to nominate one or more members of the board of directors, without regard to their share, if any, in the ownership of the capital. This plan was suggested by the British Government in 1919 for adoption on the railways, but was fiercely opposed by the directors of the railway companies, and apparently not strongly pressed by the Trade Unions, and except in connection with co-partnership schemes, the specifically

¹ An interesting and anomalous industrial constitution is that of the famous Zeiss optical glass works at Jena. Under the disposition of the late proprietor, Ernst Abbe, the bulk of the capital is owned under a Trust deed by the establishment itself. The trustee is a Government department, the consent of whose representative is required to important decisions. Subject to this, the control is in the hands of a co-opted Board of Management of four, though there is also a council of workmen with the right to make representations. The self-contained nature of this organization, and some of its provisions for continuous pay, etc., recall the Guild ideal: the difference seems to be in the frank recognition of the rights of *ownership* possessed by the employees, who participate individually in the profits.

elected employee-director appears to be in England non-existent, though of course in some companies (such as Lever Brothers) many of the directors are ex-employees. In Germany, under an Act of 1922, one or two members of the Works Council are entitled to seats with full voting rights on the board of supervision of joint-stock companies and other corporate organizations (a body with rather less executive power than the English board of directors) but it seems evident that this provision has not been very effective since it tends to be evaded by the transaction of really important business elsewhere than at formal meetings of the board.

Of more immediate interest is the movement for the transference to a council or committee of workers of a share in the government of the business in which they are employed. Isolated instances of this development have long been familiar, but it received, in theory at any rate, a great stimulus from the outburst of the demand for pure "workers' control" during the revolutionary period, 1917-20. In Germany the Workers' Councils which failed to achieve the social revolution (p. 141) remain established by the Constitution (1919) and by specific statute (1920) as an integral part of the organization of industry. In England the general establishment of joint works' committees, representing employer and employed, was recommended by the famous Whitley report (1917), with results which have so far been disappointing both in quantity and quality.

Whether we consider achieved facts or probable future developments, we are here on the threshold of

a thorny and intricate subject, which can only be dealt with in this book in the most summary fashion.¹ There is an almost infinite gradation both in the matters to which the competence of such bodies may extend, and in the degree of influence which they may exercise. Are they to be concerned merely with the administration of bonus, pension and welfare schemes, and with minor matters of workshop comfort and hygiene, or are their powers to reach to matters of discipline and organization, of productive method and technique, of commercial and financial policy? Again, are their activities to take the form merely of criticism and protest, or of giving advice when called into consultation, or of suggesting and advising on their own initiative, or finally of actually taking part in executive decisions? The line between positive and negative control is indefinite and blurred; the teaching of past experiment is difficult to summarise and interpret, and the course of future experiment impossible to forecast. Two general reflections must suffice. First, the control which can be exercised by such bodies over commercial and financial policy is almost purely negative: but it is not therefore to be altogether despised. It was perhaps a profound political instinct which led the wary old Italian premier, Signor Giolitti, in his settlement of the Italian factory war (p. 141), to interpret the word "controllo" in the rather unexpected sense of "powers of financial enquiry." There is no question that the secrecy of private enterprise, the suspicion that large

¹ The reader should consult Goodrich, *The Frontier of Control* (1920), and Guillebaud, *Works' Councils in Germany* (1928).

profits are being made, the sense that the worker is being "got at," are among the root causes of "industrial unrest." In England the whole financial position of a huge privately owned industry, that of coal mining, is now exposed to the workmen month by month in connection with the scheme of wage payments; but such arrangements are still unhappily rare. The statutory powers of investigation possessed by the German Works Councils, or even the administration by a committee of a mere profit-sharing scheme, may have the enormous advantage both of impelling the employer to lay his cards continuously on the table and of inducing the workmen to subject them to intelligent scrutiny.

Secondly, the real crux of the question of positive control lies in two groups of questions—those connected with (a) discipline and (b) technique. (a) Successful experiments have been made in the devolution to works committees of minor disciplinary powers with regard to timekeeping and similar matters, though mainly under war-time conditions and with the fear of worse alternatives in the background. More important is the question of control over the "right to sack." The German Works Councils can hear appeals against dismissal for other than trade reasons, the final court of reference being a district conciliation committee; but in any case only the payment of compensation, and not reinstatement, can be enforced. One branch of the British Commission on Industrial Unrest (1917) went so far as to recommend that "no workman should be liable to be dismissed without the consent of his fellow-workmen as well as his employer", but

this remains for the most part a pious aspiration, and it would seem that in any case a distinction must be drawn between dismissals on grounds of the state of trade or a man's industrial efficiency, and dismissals made on disciplinary grounds or actuated by disapproval of a man's personal conduct. In times of trade depression and unemployment this distinction is peculiarly difficult to establish; but the sharing of control over dismissals seems an obvious line of advance for more prosperous times. Control over the appointment and behaviour of foremen remains purely negative, and the care with which in Guild and similar experiments the election of officials by their immediate subordinates is avoided suggests that it is likely to remain so: though Messrs. Rowntrees' device of preliminary discussion of appointments by a committee of workers without executive powers seems worthy of imitation.

(b) The German Works Councils are specifically enjoined (so far apparently without much result) to assist the management of the works by their advice. In England a number of works committees are reported to have made valuable suggestions on questions of technique and the organization of work, the most remarkable instance being a memorandum by the shop stewards' committee of the British Westinghouse Company on foundry management, which caused the company to rescind its decision to close down its foundry. Such committees may also bring forward the inventions of individuals and see that they are duly considered and justly rewarded. The feeling that inventive power is allowed to go to waste by unreceptive officials, and that production and earnings

are kept down by inefficient organization, seems to be among the strongest elements in the demand for "workers' control"; and it would appear that there is here a large field for the acquisition by works committees of a real positive and constructive part in the government of industry.

With all these forms of joint control within the individual firm—Co-partnership, the employee-director, the joint committee—it is desirable that more and bolder experiments should be made. But it is useless to shut our eyes to the difficulty which besets all of them—the difficulty suggested by Capitalism's golden rule. There is, as we have seen, a real infraction of that rule in so far as directors and managers administer the property of shareholders: but the infraction is a limited one, because even if the motives for bold and efficient action on the part of directors and managers are weakened, their general aim is substantially the same as that of those for whom they are acting—namely, the prosperity of the individual company. But in the mind of the workman-director or committeeman this aim is almost necessarily in competition with another and in many respects a nobler one—the well-being of his fellow-workmen in the trade as a whole. The whole impulse of modern Trade Unionism is towards achieving and maintaining the solidarity of labour throughout the whole of each industry—a policy the pursuit of which may well call for a certain indifference on the part of the individual workman to the financial prosperity of his own firm, while at times of crisis the conflict of loyalties thus engendered may easily lead to an impasse. For this reason the

path of joint control is likely to be rougher in the great staple competitive industries than in those, such as gas or railways, where the individual firm covers the whole industry in its area, or in a small trade, such as cocoa manufacture, which is dominated by a few exceptionally enlightened firms.

With this difficulty is intertwined another—the objection (based on a mixture of right feeling and defective analysis) which is felt by many members of the working class to Capitalism's obvious test of business efficiency and success—the making of profit for individuals. Here, indeed, it is possible to detect signs of a *rapprochement* between conflicting points of view. On the one hand we find a particularly advanced body of Trade Unionists, the British miners, accepting (it is true, under the stress of defeat) the most elaborate and far-reaching scheme of profit-sharing yet devised. On the other hand, "the modern professional director may be almost as reluctant as the workman himself to see the proceeds of the year's trading slopped away in dividends." His test of success is still indeed profits, but profits to be used not for the immediate enrichment of individuals, but for the increase of the power and stability of the whole undertaking. "The undertaking itself, now grown into an objective personality, creates its own means just as it creates its own tasks."¹ It does not seem too fanciful to hope that the "Guild spirit" may progressively permeate private enterprise to this extent—that the desire of the leaders for financial results and the desire of the rank and file for personal independence from the capitalist may find a partial

¹ Walter Rathenau, *In Days to Come*, p. 123.

reconciliation in an impersonal loyalty to the institution of which both are servants.

§ 3. *Joint Control on a National Scale* Even so, however, the permanent distinction and the occasional disharmony between the aims of the national Trade Union and those of the individual enterprise remain unresolved. We must turn, therefore, for a moment to the other branch of the celebrated "Whitley scheme"—the establishment in each trade of joint councils of employers and employed representing the trade as a whole. Full-blown councils of this character are in active operation in Great Britain in about sixty trades, including wool, pottery, printing, boots and the mercantile marine, while the four great railways and the departments of the Civil Service each possess organs of a similar kind. Some of these councils, as was to be expected, have tended to degenerate into a new form of machinery for wrangling about wages and hours, but others have attempted to take their constructive duties seriously.¹ The promotion of research, the development of scientific accounting, the study of tariff policy, "the safeguarding and development of the industry as a part of national life"—such are among the declared objects of these institu-

¹ "The Pottery Industrial Council, at a meeting on 12th October, had before them a variety of subjects, including statistics of unemployment amongst pottery workers, steps to be taken to procure lower railway freightage rates, statistics of profits and turnover in the pottery industry, the effect of industrial conditions on the health of young persons, the interrupted apprenticeship scheme, . . . pottery scholarships and Works Committees" *Labour Gazette*, Nov., 1922

The Building Council was also exceptionally active until in 1922 the employers' side withdrew *en bloc*

tions. It is not to be expected that in such high matters the initiative should often come from the workers' side. Even in appraising the most remarkable instance of joint control which has hitherto appeared in British industry the Cotton Control Board which ruled the Lancashire cotton trade during the war—we must take heed of the authoritative statement that “the operatives' leaders fulfilled essentially the role of a friendly opposition, now pleading for concessions, now issuing warnings, but at no time playing an equal part in the determination of policy.”¹ We must expect, too, that such bodies should sometimes show a somewhat unhealthy interest in questions of price maintenance and tariff concession. But these seem inadequate grounds for condemning the whole movement out of hand as a failure and a sham.

There are in particular two problems with which it would seem that such councils are, or may come to be, peculiarly fitted to deal. The first is the problem of the trade cycle. We have suggested (Ch. VII, § 3) that in this matter the exclusion of the worker from any share in the government of industry constitutes a real grievance, since he runs herein risks which are inevitably great, and which are rendered greater by the relative indifference of the capitalist to the fluctuating character of industrial activity. Further we have suggested that in times of boom the immediate interest of the individual firm is frequently opposed to the permanent interest of the trade as a whole, so that the matter is emphatically one for joint action. There is at present a strong body of opinion in favour of dealing with the

¹ Henderson, *The Cotton Control Board*, p. 11.

problem of unemployment, when once again it assumes normal and manageable dimensions, so far as possible trade by trade, thereby increasing the efficiency of administration, furnishing each trade with an incentive to reduce its own fluctuations, and throwing the residual burden (in the form of increased price) on the consumer of "fluctuating" products rather than on the general tax-payer. At present the grave condition of coal-mining and other industries, and the urgent need to encourage the mobility of labour, form an overwhelming obstacle to the adoption of this policy. But if it should become possible to adopt it in the future, here is a fruitful field for the joint industrial council. Whether by compulsory levies and self-denying ordinances in times of boom, or by the milder methods of mutual publicity with regard to contracts accepted and the scientific study of the movements of demand, it should not be beyond the bounds of possibility for each well organized trade to make a serious effort to deal in common with the worst evil of Capitalism, and in this matter the compelling interest of the working class in stability may be expected to bring a wholesome influence to bear on industrial policy.

The second problem which in some trades calls for continuous joint action is that which led in 1922 to disastrous conflict in the British engineering industry—the progressive supersession of certain kinds of technical skill by increasingly fool-proof machinery. Obstructive action by the skilled workmen in an individual firm is clearly futile: no firm can afford to be left behind in the adoption of the most economical methods of production. Obstructive action by the Trade Union throughout the whole trade is equally doomed to

failure in the long run, for the interest both of Society as a whole and of the unskilled worker is in this matter on the employer's side. But it does seem reasonable that by joint action for the gradual introduction of inevitable changes and for the re-training and re-absorption of the labour thus superseded, a well-organized trade should make a strenuous endeavour to minimize the wreckage of legitimate expectations which is caused by the fevered progress of industrial technique.

In Germany an attempt has been made to associate the consumer in the joint government of industry. The constitution imposed by statute upon the coal industry in 1919 is an extraordinary farrago of cartellised Capitalism, Syndicalism, State Socialism and Consumers' Co-operation. The nominal head of the industry is the Coal Council, a body of sixty persons, comprising representatives of the State, the co-operative societies and the consuming industries as well as of employers and employed. It seems generally agreed that this body is a mere phantom, and that the real power has lain in the hands of the Coal Association, which, while nominally the executive organ of the Council and containing representatives of the workmen and consumers, is in reality a kind of central office of the independent capitalist cartels. This grandiose chimera, with its counterparts in the electrical and potash industries, is almost all that is left of the gigantic plan for the reorganization of German industry under the joint management of employers, employed, consumers and State which was launched by Herr Wissel, the Federal Minister of Public Economy, in the early days of 1919.

Almost all—for there is one very important element of his scheme which has survived and flourished. In pursuance of Article 165 of the Constitution of the German Republic, there met for the first time on June 30, 1920, the Federal Economic Council—"the world's first Parliament of Business." "The Council's competence extends over every branch of finance, industry and trade, and over all social and labour questions connected therewith. Its 320 members have Parliamentary immunity, and are paid salaries. They are elected, mainly by private associations of the respective interests, in eight groups, which represent agriculture, forestry, gardening and fisheries, industry, trade banking and insurance, communications, hand-work, consumers (house owners, tenants, housekeepers [? hotel-keepers], domestic servants, restaurant keepers and the Communes), officialdom and the liberal professions, and there are two other groups, one chosen by the Reichsrat to represent specific local interests, the other by the Government from among citizens qualified to serve the national economic cause."¹ The present Council is provisional only, and neither its composition nor its powers are precisely as contemplated in the Constitution. All bills involving social and economic policy have to be submitted to it for discussion before they are presented to the Reichstag; and the Government must consult a committee of the Council before taking administrative action on economic matters. The right laid down in the Constitution of initiating economic bills, which must then be introduced into the Reichstag even if the Government does

¹ *Economist*, July 10, 1920, p. 52.

not approve of them, has not been conferred on the existing Council: but even so it has considerable opportunities, which seem to have been actively employed, for the exertion of influence.

In England the great Industrial Conference which was summoned to advise the Government in the troublous days of 1919 bid fair at one time to develop into just such an economic annexe to the British Constitution, and then suddenly vanished into thin air. It may be hazarded that sooner or later we shall be driven to take a leaf out of the German book. The apologists of Guild Socialism have ransacked mediæval political theory for support for the view that there are human associations prior to and independent of the State, entitled to deal with the State on equal terms. Their extreme conclusions would be subversive of political democracy as ordinarily understood, and cannot be accepted. But the growing congestion of the Parliamentary time-table and the deep-seated resentment of the business world against Governmental interference combine to make it desirable that not only each separate industry, but also industry as a whole, should be encouraged so far as possible to settle its own affairs.¹

§ 4 *Conclusion.* The high hopes widely cherished only a few years since of the speedy establishment of a new order in industry have faded and shrivelled away. Capitalism to all appearances has been re-established on its throne, largely, by a curious irony, through the agency of a most patent proof of its own shortcomings—the occurrence of a prolonged and

¹ The proceedings of the Mond Turner Conference (1927) are an encouraging sign that this view is gaining ground.

severe depression of trade. At such a time there is a real danger lest in those who desire change disappointment should breed despair, and in those who detest it victory should breed insolence. It would be as unreasonable and dangerous now to suppose that the new ideas have vanished for ever from the world as it was a few years ago to suppose that they could instantaneously transform it. It seems certain that for many years to come Private Enterprise will remain the dominant form of industrial organization, but it seems also reasonable to hope, and to insist, that Private Enterprise should become less chaotic, less secretive, less tyrannical than in the past—more determined to achieve a real control over the blind forces that make for economic instability and dislocation, more ready to lay its financial cards upon the public table, more willing to respect and to use in the service of industry the self-governing instincts of the millions who carry out its commands. And by its side there is plenty of room for Collectivism in selected cases, as well as for the Co-operative Society and the self-governing league of producing units on the Building Guild model.

Let us in conclusion indulge our fancies a little, and with the help of a few quotations and our old watch-words of differentiation and integration take a farewell survey of the economic philosophies of the world. Hear first Adam Smith on the virtues of natural liberty. "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage indeed and not that of the society which he has in view. But the study of his own advantage naturally, or rather

necessarily, leads him to prefer that employment which is most advantageous to the society." Here is the gospel of differentiation—the philosophy of the academic individualist.

Now hear once more our old friend the Chairman of Amalgamated Industrials (p. 34) on his ideals. "There is not a string that we are neglecting in this great aspiration of ours that we should be self-contained, and be able to carry on the business in such a way that in cycles of depression and prosperity it will give a constant regular dividend to the shareholders and secure their principal." Here is the gospel of integration for power—the philosophy of the business boss.

Now for one more voice—the voice of Rupert Brooke, describing Communism as he found it, or thought he found it, in the islands of the South Seas. "In my part of the world, if we want to build a canoe, we all put flowers in our hair, and take the town hatchet, and Bill's axe, and each his own hunting-knife, and have a bit of pig each for luck, and a drink, and go out. And as we go we sing. And when we have got to a large tree we sit round it. And the two biggest men take the axes and hit the tree in turn. And the rest of us beat our hands rhythmically and sing a song saying, 'That is a tree—cut down the tree—we will make a boat,' and so on. And when those two are tired, they drink and sit, and other two take their places. . . . And when all's done, we go home and sing all night, and dance a great deal. For we have another canoe. And when you have got a lot of other Goddites together and started to build a Cathedral, why, you'll see what fun it is working together, instead of in a dirty little corner alone, sus-

icious, greedy, competitive, hating all the world, like a modern artist or a French peasant or a moneylender or a golfer." Here is the gospel of integration for fun—the philosophy of the poet.

The philosophy of the academic individualist does not fit all the facts: the philosophy of the business boss will not permanently satisfy the heart of man: the philosophy of the poet is not at present a workable proposition. Fettered by the insufficiency of the earth and the chronic disappointingness of human nature, Society stumbles clumsily forward on the only half-realized quest for a more sensible and kindly way of conducting its affairs. In the economic world, as in the spiritual world with which it is so perplexingly intertwined,

There is no expeditious road
To pack and label souls for God
And save them by the barrel load.

But if we are neither false to our visions nor moderate in our hopes we need not despair of witnessing the slow growth of something worth calling Freedom in industrial affairs: even though we know that in any society which we are likely to live to see, old Bill Bailey will continue to think more about his early broccoli than about the mysteries of cost-accounting, and young Alf Perkins to take more interest in the prospects of Manchester United than in those of cotton cultivation in equatorial Africa.

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