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INDUSTRIAL PEACE IN OUR TIME

INDUSTRIAL PEACE IN OUR TIME

BY

HUBERT SOMERVELL

M.A.

With an Introduction by

ELTON MAYO

LONDON

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DEDICATED TO
H. L. N
WITH AFFECTION AND
GRATITUDE

. . . For discontent comes of the imagination . . . poverty may produce such a state of imagination; injustice may produce it; but we may find a society enduring great poverty, suffering what seems to be great injustice, living under conditions so unequal as to look as if they were deliberately designed to provoke envy, in which discontent is unknown. . . . We look back over history and see that almost every sort of government has been made tolerable to human nature, and that men and women have lived with equanimity under political systems which left them not merely without political rights, but without any pretence of personal liberty. In such cases, it is clear that in some way or by some device these excluded men and women were given a sense of *sharing* in the life of this society. . . . For if men and women are to be attached to any society, they must look on it as something in which they have a part, . . . in which distinctions of class and fortune, however hardly and sternly drawn, do not forbid all ties of sympathy, all unity of sentiment.

From *The Age of the Chartists* (page 4)

by J. L. and B. Hammond

PREFACE

In the original draft of this book I had devoted as much space to Part I, which deals with the origins and development of industrial disharmony, as to Parts II and III which are devoted to analysis and synthesis. But friends who had been kind enough to read the manuscript felt that this made the book too long for the average man engaged on a full-time job in industry to read. I have, therefore, somewhat reluctantly, shortened this Part to that of a summary.

I say "reluctantly" not because I enjoy being verbose, but for three good reasons. First, because I am aware that my conclusions as to the origin of industrial disharmony differ somewhat from those usually accepted and, therefore, require the support of that more historical treatment which, for the sake of brevity, I have had to omit. Second, because a full study of the subject during the eighteenth century has had to be omitted. So much has been written on the industrial disharmony of the nineteenth century that few realise that a study of the incubation period of the eighteenth century is of equal importance to those who would seek a cure. Thus a deal of research into the writing of eighteenth-century writers and pamphleteers has had to be left out in spite of the interesting light it throws on the whole subject. Third, this eighteenth-century period is of particular interest to us to-day since it, too, was a period of economic nationalism, and therefore holds important lessons and warnings for our day—none more so than in relation to the national treatment of the Labour problem.

However, in order to provide something more solid than a summary, I have made a selection of authoritative references from the longer version in a number of appendices which will be found at the end.

Perhaps the Preface is the best place in which to answer the question: for whom has this book been written? Primarily for those who manage industry and for those who represent labour interests. But, in addition to these, I would also include all those who hold fast to the ideal, so worn, battered and assailed by the hideous forces of Communist totalitarianism, of a free, democratic society. And it may well be argued that this ideal would not have found itself in its

PREFACE

present position of desperate defence had its advance in the political sphere been accompanied by a corresponding advance in the economic. This failure is the best justification for writing a book of this sort.

Finally I would like here to thank three friends : Elizabeth Loudon, for reading through the manuscript and for making a number of valuable suggestions ; J. F. Thompson for his advice as to the presentation of various economic arguments ; and H. F. Lock for his help in reading and correcting the proofs.

HUBERT SOMERVELL

April, 1948

INTRODUCTION

Mr. Somervell's book is certain to rouse much comment. It is a thoroughgoing piece of work, involving not only much study but also considerable industrial experience. From these two sources he derives the very proper thesis, that whole-hearted co-operation between all the various workers in industry is the only pre-condition of industrial efficiency and service to the community.

He proceeds by examining the evidence of industrial history and its outcome, all too often, in a species of latent or overt hostility of the various participants. Then he finds that in England, the United States, Canada and elsewhere there are already industries that recognise the psychological and social nature of the problem and have devised methods of dealing directly with the issue. The evidence he puts forward is well stated, well supported. Where possible, statistics are the basis of his comment, the figures derived from official and trustworthy sources. There is, I think, no doubt that all students of the subject, whether academic or industrial, will need to consider what he says. The practical industrialist may not agree wholly with Mr. Somervell's conclusions. The psychologist and sociologist—to whom he appeals—may feel that he assumes that a certain type of system will, of itself, produce whole-hearted collaboration. But for all those actively concerned, the book is one that demands to be read.

ELTON MAYO

CONTENTS

PREFACE		page VII
INTRODUCTION BY ELTON MAYO		IX
<i>PART ONE</i>		
CHAP.		*
I. THE NATURE OF THE INDUSTRIAL PROCESS		3
II. MEDIAEVAL INDUSTRIAL ORGANISATION		6
Ideals and Conditions of Mediaeval Economic Life	page 6	
The Industrial Establishment	7	
The Harmony of the Mediaeval Industrial System	9	
The Breakdown of the Craft Guild System	10	
III. EARLY CAPITALISM—THE DOMESTIC SYSTEM		11
Early Attempts to Re-integrate the Worker	13	
The Industrial Revolution	15	
IV. REMEDIES AND REFORMS		16
Political Philanthropy	16	
The Labour Movement	17	
V. THE TRADE UNION MOVEMENT		18
The Forging of an Orthodoxy	18	
Some Exceptions	19	
VI. REVOLUTIONARY INDUSTRIAL MOVEMENTS		22
Co-operative Production	23	
Syndicalism	24	
The Shop Steward Movement	25	
<i>PART TWO</i>		
VII. IS LABOUR A COMMODITY?		29
Remuneration and Status	29	
Earnings and Money Wage-Rates	30	
Work Sharing in Times of Depression	34	
The Management Objective—A Low Cost of Work	36	
Cause and Effect?	39	
VIII. THE NATURAL REMUNERATION OF LABOUR FROM THE FINISHED PRODUCT		41
Annual Wage Income and Values of Production	41	
U.S.A. All Manufacturing	42	
British Manufacturing	43	
Canadian Manufacturing	44	
Industrial Groups—U.S.A.	45	
British Statistics	48	
Individual Companies	48	

IX. SOCIAL IMPLICATIONS OF THE ARITHMETIC OF WAGES		50
The Arithmetical Evidence of the Status of Labour		50
The Arithmetical Evidence for the Identity of Interests		53
The Public and Labour		54
The Public and Prices		55
Conclusion		56
X. THE PALLIATIVE OF PROFIT-SHARING		58
Profit-Sharing		58
An Analysis of the Profit-Sharing Principle		59
Profit-Sharing and Trade Disputes		63
Profit-Sharing Pension Plans		64
Conclusion on Profit-Sharing		64
Co-Partnership and Employee Shareholding		65
The State and the Profit-Sharing Movement		67
<i>PART THREE</i>		
XI. A NEW INDUSTRIAL SOCIETY		71
Tests of a true Social Design		71
Capitalism		71
Profit		74
Profit as a Test of Efficiency		75
Profit as a Source of Financing Risk and Expansion		75
The Profit Motive		76
Conclusions Regarding the Capitalist's Reward		79
Function and Property		80
The Reality and the Obligations of the Management Function		81
Control by Obligation		83
The Obligations of Management to Labour		83
Functional Ownership		84
The Means and the End		85
Industrial Organisation and Civilisation		86
XII. THE OUTLINE OF A NEW INDUSTRIAL ORGANISATION		87
Terminology		87
The Development of the Federal Share Production Company by Stages		88
Labour to Belong		88
Labour to Share		89
The Independent Group Status of Labour		91
Independence and Co-operation		92
The Second Stage, The Alignment of the Managerial Group		93
The First Vital Step		94
XIII. THE STATUS ORGANISATION OF THE LABOUR FORCE		96
Industrial Classification		96
Social Classification		96
Women and Girls		98
The Organisation of Privilege in Four Groups		99
Privilege of Each Status		100
Further Sub-Divisions		101
Qualifications and Promotion		101
The Power of Discharge		102
Conclusion on the Principles of Security		103
Security Limitations		104
Pensions		104

XIV. SALARIED SHARE PRODUCTION SYSTEM OF REMUNERATION		107
Early History of the Nunn-Bush Plan	107	
The Gross and Net Values of Production	109	
Fixing the Percentage	110	
The Price Factor and Labour Income	112	
Division of the Group Fund—Differential Rates	113	
The Fourfold Incentive	114	
The Weekly Salary System	114	
Alterations in the Drawing Rate	116	
Comparison between Sharing Losses on Production and on Profits	117	
Personal Reserves	119	
Other Companies Running Share Production	119	
The Application of Share Remuneration to Other Industries	120	
Conclusion	123	
XV. SALARIED SHARE REMUNERATION—THE ACTUAL RESULTS		124
Labour Relations and Industrial Efficiency	124	
Joint Consultation	127	
The Company's Accounts	127	
The Comparison of Economic Results	128	
XVI. THE ABILITY OF THE MANAGEMENT TO PROVIDE REGULAR EMPLOYMENT		131
Stabilised Employment—The Proctor & Gamble Plan	131	
Stabilised Employment—Nunn-Bush	132	
Stabilised Employment—Geo. A. Hormel, Meat Packers	134	
Conclusion	135	
XVII. THE SECOND STAGE—THE INTEGRATION OF THE MANAGERIAL GROUP		137
The Scope of the Three Plans.	137	
Developments	138	
XVIII. THE THIRD STAGE—THE ALIGNMENT OF THE CAPITAL INTERESTS		140
The Control of Dividends	140	
The Valder Plan	141	
Risks of Capital	143	
The Elimination of Risk	144	
Capital Accumulation	146	
Speculation and Experience	146	
The Problem of Inflation	147	
Voting Power and Company Law	149	
<i>PART FOUR — WIDER ISSUES</i>		
XIX. THE STATE AND FEDERAL SHARE PRODUCTION		153
The State and Economic Transition	154	
Unemployment Insurance	155	
U.S.A. Unemployment Compensation and Guaranteed Employment	155	
Linking Unemployment Insurance with Guaranteed Employment	156	
The Obligations of the State in the Control of Profits and Dividends	157	
The Non-Industrial Wage Earner	158	

XIX.—contd.

	Legislation and the Unification of the Labour Force	159
	Labour in a National Economy	160
	Labour Mobility	160
	Mobility and National Share Unions	161
	A National Wages Policy? Point Rating	161
	Point Rating and Federal Share Production	162
XX.	LABOUR AND FEDERAL SHARE PRODUCTION	166
	British and American Conditions	166
	The Advantage of British Managements over American	169
XXI.	MANAGEMENT AND FEDERAL SHARE PRODUCTION	171
	Management and The Slump	171
	Conclusion	176
XXII.	THE MEANING OF VALUE AND PRICE IN A FEDERAL SHARE PRODUCTION SYSTEM	177
	Costing in a Federal Share Production System	179
	The Relationship between Manufacturer and Supplier	180
	Federal Share Production in Economic Depression	181
	The Effect of Variations in the Percentage of the Values Added	184
	Contrasting Conditions	186
XXIII.	INDUSTRIAL EFFICIENCY AND THE SIGNIFICANCE OF THE FINISHED PRODUCT	189
	The Whole Man goes to Work	190
	Industrial Society and the Psychology of the Finished Product	191
	Economic Relationships and Industrial Psychology	194
APPENDICES		197
	0. The Moral Flavour of Mediaeval Economics	197
	1. Economic Social Theory in the Middle Ages	197
	2. The Comprehensive Character of Apprenticeship	198
	3. The Guild's Protection of the Apprentice	198
	4. Guild Search Regulations	198
	5. Municipality <i>versus</i> Guild	199
	6. The Communism of some Guilds	199
	7. The Influence of Puritanism on Economic Conduct	199
	8. The Transition of Mediaeval Economic Theory to Capitalism	201
	9. The Rise of the Problem of Pauperism	203
	10. The Expansion of the Woollen Industry	204
	11. The Combinations of Journeymen in the Sixteenth Century	204
	12. The Statute of Apprentices	204
	13. The Contrast between the Old Domestic and the New Capitalist Forms	205
	14. When the Worker Lost the Finished Product	207
	15. Very Early Forms of Capitalism	208
	16. Paying Wages in the Coin of the Finished Product	208
	17. The Money Class Distinctions of Capitalism	209
	18. The Church and Industrial Slavery	212

BIBLIOGRAPHY

214

INDEX

217

PART ONE

CHAPTER I

THE NATURE OF THE INDUSTRIAL PROCESS

The scope of this book is limited to the problems raised by human associations whose primary purpose is industrial production, and while something will be said as to the influence of industrial forms of organisation upon the shape of society in general, there is no claim that other influences are not of equal importance. Similarly, while the main purpose is to study the question of industrial harmony, attention will be confined to those factors which arise from the shape of industrial organisation itself. This is not to deny that other factors, political and international, have not an important bearing on the subject.

Such a study must begin with an examination of the nature of the industrial process itself from which should emerge principles of harmony by which the defects and qualities of different forms may be judged.

Industrial production cannot be undertaken unless three contributions are made : Property, Organisation and Work. An industrial unit may be formed in which all these three contributions are made by the same person or group as, for instance, in the case of the Household system ; but even in this primitive form, the same principle holds good—before production can take place, there must be some property, some sort of organisation and some work.

The Finished Product is therefore the material result of this three-fold contribution. In it are to be found values represented by the supply of property, the bringing about of organisation and the performance of work. To claim, therefore, that the Finished Product is the result of but one of these contributions is to deny the nature of the industrial process.

The *social pattern* of the industrial unit is determined by the relationships between the three contributors, and it follows, therefore, that the relationships so created should be reflected in the shares to which each is entitled in the Finished Product, the material result of their joint enterprise. A share in the Finished Product carries with it not only a title to a proportion of its value, but also a measure of control over its production and disposal. For the sale of the Finished

Product provides the only source from which those who have contributed to its production can, in the long run, be remunerated for their services. Unless men are to live on the surplus proceeds of the past, they can only have what they produce, and all remuneration from the industrial process must come from production. This fact is continually being obscured by the ill-working or manipulation of the financial system, by theories which seek to base remuneration upon some conception other than productivity such as the subsistence or the wage-fund theories. Nevertheless, the fact remains: men can have no more than they produce, and, unless deliberate destruction takes place, no less.

The *social harmony*, and therefore to some extent, the efficiency of an industrial system depends upon certain social relationships and their expression in a financial formula. Distribution of control over the productive process and the disposal of the Finished Product form the material for the social relationships between contributors; while shares in the Finished Product form the material of the financial formula which expresses them. Disharmony and conflict arise when systems are organised upon relationships which contradict the nature of the industrial process; when, for instance, the organisation of relationships has failed to express the industrial process as a common enterprise; or when those who supply one or two of the necessary contributions exclude the third from integral association.

In systems organised upon a denial of these principles of industrial association, it will be found that one contributor or group of contributors will claim complete authority over the others to use them for their own interests, and will also claim ownership of the Finished Product. Once this claim is established, the remuneration of the other contributors will be treated, not as *shares* of the values jointly created, but as *costs* to the owner of the Finished Product, costs which, like others, will tend to be kept down to the minimum. Interests are thus divided, and in place of the one single source of remuneration, namely the values of production, two sources appear within the one industrial unit, wages or salaries for the contributors who have been dissociated, and profits for the contributor who owns the Finished Product. Where those who are engaged upon a common enterprise begin to regard each other as costs to themselves, a fruitful source of conflict opens out. The remuneration of contributors in a balanced organisation can only be regarded as costs from one angle—namely—the public which buys the Finished Product.

So far the use of the word Partnership to express this relationship has been avoided. It is a word which has been overworked, and in some senses entirely misused as, for instance, in the term co-partnership as used to describe systems of employee shareholding. Nevertheless, it is the best word to describe the natural harmony which should exist between those engaged in the industrial process as well as that natural democracy which is strongly suggested by the nature of industrial activity.

Partners are men who agree to take certain responsibilities in a common undertaking. Neither these responsibilities nor the corresponding rights may be equally shared, but there are certain rights which each has in common; a right to a measure of control; a right to know all that is being done; a right to criticise and to demand explanations; and, generally speaking, a right to see that the policy pursued is in the interests of all concerned. These rights derive from the truth that the results of a partner's work do not depend upon himself alone, but also upon the degree of co-operation and efficiency with which all three discharge their responsibilities. Again, in a partnership, the shouldering of responsibilities is balanced by a corresponding distribution of privileges, expressed financially in the shares of the net proceeds to which each is entitled. Finally, it is essential in the creation of a partnership that the parties should possess a measure of independence. If two partners force the third to become dependent upon themselves so that he can no longer state the terms on which he is prepared to associate, the partnership relation has been destroyed. He may be forced to accept what is offered him, but the other two partners cannot continue to expect his co-operation as a matter of course.

The principles of association for industrial production, therefore, appear to require a partnership type of organisation in which the three essential rights possessed by the partners or contributors are:

The right to belong.

The right to be independent.

The right to share, both in control and in the proceeds.

The Finished Product, which is the material result of such association is the focal point round which organisation should be effected.

CHAPTER II

MEDIAEVAL INDUSTRIAL ORGANISATION

IDEALS AND CONDITIONS OF MEDIAEVAL ECONOMIC LIFE

In the middle ages the universal acceptance of Christian morality provided the main criterion by which all economic transactions were judged, so that the first question to be asked was: is it right? is it just—equitable? rather than such questions as: will it pay? For this reason the organisation of industry was built upon the primary consideration of right conduct, just status and good relationships. Human values came first—property was to be used for men rather than men for property. Great importance was attached to the control of prices. Competition and advertising were forbidden; while stability, peace and tranquillity were the ideals dictating the leisured progress of economic life.¹

The individual counted for little and the qualities of individualism, ambition, enterprise and initiative, were strongly deprecated. It was the society or association which was expected to make decisions, and the individual had little standing apart from his membership of the body which organised his function.²

Equally important in the shaping of the industrial system were the influences of the material conditions of the age. Industrial technique was very simple; the stable prices level made it unnecessary for the producer to carry stocks of materials, while, at the other end of the industrial process, since production was mainly for immediate consumption, little in the way of organisation or enterprise was required. Consequently, neither property nor organisational ability were important considerations for the craftsman who wished to set up as an independent producer, and the whole system therefore tended to revolve round the contribution of skilled work.

Thus mediaeval industry was based upon human relationships rather than upon material wealth; it was organised for stability rather than for expansion; it was strictly controlled by corporate societies or guilds; and it was diffused amongst a large number of small

¹ Appendix 0, p. 197. ² Appendix 1, p. 197.

independent producing establishments in which the skilled craftsman owned and disposed of the whole product of his labours.

THE INDUSTRIAL ESTABLISHMENT

The typical productive unit consisted of three ranks of artisan; the apprentice, the journeyman and the master craftsman.

The purpose of the apprenticeship system was to ensure a continuous supply of skilled workers. But the system went beyond economic expediency, for masters were expected not only to impart their skill, but to supervise the whole conduct of their apprentices and to educate them for those future responsibilities which each would be expected to shoulder when he attained master membership of the guild. This thorough system of training is the most enduring legacy of the mediaeval industrial system, and it is difficult to over-estimate its beneficial effects. It gave the artisan a thorough specialised training which, however, was not divorced from education for living; it protected the skilled worker from unskilled competition and the public from shoddy workmanship; it exalted skill and quality to the place they ought to hold in the arts of manual labour; it encouraged men to seek the fulfilment of their competitive instinct in excellence of workmanship rather than through the accumulation of wealth; and, in general, it made an important contribution to the beauty and endurance of mediaeval civilisation.¹

The next stage was reached when, on completion of his apprenticeship, the artisan became a journeyman and could hire himself out as a qualified craftsman. Although he thus became an employed wage-earner, there were important differences between his condition and that of the modern wage-earner under the capitalist system. In the first place, he had security of employment since he was engaged usually by the year and lived in his master's house. In the second, the journeyman status was only a temporary step towards the attainment of an independent position. As such it provided a valuable interlude during which the artisan was able to accumulate the necessary means for setting up shop for himself, a step he could take so soon as he had passed the strict examination into technical proficiency and reputation required for election to master membership in the guild.

In the definitions of a much later terminology, the master craftsman combined in himself all the functions necessary for production and

¹ Appendices 2 and 3, p. 198.

distribution: *capitalist*, since he financed production; *labour*, since he shared the manual work; *manager*, since he organised the establishment; *entrepreneur*, in so far as he brought together capital and labour to anticipate a demand; to which may also be added *employer*, *employee* (since he sometimes worked on his customer's material) and *merchant*.

Although he had control of his own establishment, his independence was limited, for all his activities were regulated by the guild. This system meant, therefore, that the ultimate control of his industry was corporately administered by those engaged in it. The economic purpose of the guild was to establish a uniform system of control over all those engaged in the craft, not only in the interests of its members, but also in those of the public also. To balance this obligation, the guild was granted a monopoly—that is—none might practice the craft within the jurisdiction of the guild except as a member. The municipal authorities exercised supervision over the guilds, backed by the power to deprive them of their monopoly.

Briefly, the responsibilities of the guilds may be sub-divided under three headings—personnel, standards of workmanship, and prices and wages. As a rule, guilds were responsible for protecting the rights of apprentices and journeymen as well as those of the masters, a principle which ensured that within the ranks of those engaged in industrial production there was no organised division of interests. All three ranks belonged to the same trade organisation within which members were forbidden to compete or to indulge in such practices as enticing each other's customers or apprentices. In some, members were forbidden to go to law with each other, and in others there was almost a condition of communism, journeymen and orders for work being shared out amongst establishments.

Guild regulations on standards of workmanship were exceedingly detailed. They were administered by a system of searchers who were authorised to inspect all workshops. Those who infringed the regulations or hindered the searchers were subject to severe penalties.¹

Subject to the approval of the municipal authorities, guilds regulated both the prices of wares and the rates of journeymen's wages as well as the conditions of apprenticeship. The most important feature of this system was that wages were usually considered in relation to the prices which could be charged for the product. This acted as a safeguard against possible exploitation. The general policy

¹ Appendix 4, p. 198.

on these matters was not determined upon the principle of rewarding initiative, but upon that of preserving stability so as to provide all alike with a fair standard of life.¹

Beyond these specifically economic functions, guilds engaged in various social activities. They acted as Friendly Societies for their members, founded and supported schools, hospitals and almshouses, and contributed to the culture of the age through drama and music. The mediaeval industrial organisation was thus something altogether bigger than an economic organisation. It formed a centre for social and cultural activity.²

THE HARMONY OF THE MEDIAEVAL INDUSTRIAL SYSTEM

While the economic society of the middle ages was not without its disharmonies, in industry such conflicts were mainly external to its own organisations, for instance, in the relations between guild and borough, or between one guild and another. This broad generalisation should be qualified, for it was only true so long as the administration of the guilds carried out the principles which have been discussed. In the later middle ages many abuses crept in occasioning considerable disharmony. As will be seen later, however, these abuses were introduced by those who no longer accepted the principles of the craft guild organisation of industry. While the system remained true to itself, then, it may be said that it was singularly free from conflict and disharmony. The weakest point in the system, the employer-employee relationship between master and journeyman, was safeguarded in a number of ways. The journeyman had considerable security, for his yearly contract at least gave him the security of his board and lodging. He could not be laid off without further obligation as is the case with the modern wage-earner. Thus, when a master hired a journeyman, he did engage the whole man. Moreover, since the journeyman worked in close association with his master and was continually in touch with the customers, he could see and understand the reasons for economic adversity as well as his master. For these reasons, journeymen no doubt felt that they really belonged where they worked and were able to identify their master's interests with their own. Again, since the status was only a temporary one, journeymen had every reason to exercise discipline over themselves and to perform their work as well as possible. It is noticeable that in the early

¹ Appendix 5, p. 199. ² Appendix 6, p. 199.

days of the craft system, journeymen were seldom found pressing for higher wages or better conditions of work, for they evidently expected to spend by far the greater part of their lives as masters themselves employing journeymen. Added to this, the wages and prices policy of the guilds ensured that they would get something like a fair share of the values which they helped to create.

THE BREAKDOWN OF THE CRAFT GUILD SYSTEM

The weakness of the mediaeval economic system was that, while it preserved order it could not reconcile it with progress. When, therefore, owing to the steady rise in prices, the discovery of the New World and the growth of international commerce, the whole economy started to expand, the system failed to adapt itself to the new conditions. The ideological foundations of the system were severely shaken, too, by the new social philosophy born of the Renaissance and Reformation. In the industrial sphere, this may be briefly summarised in the term "economic individualism." Slowly the old idea that each man should be rewarded by no more than was sufficient for him to perform his function gave way before the idea that rewards should be measured by enterprise. So the corporate ideal gave way before the competitive. Regulation and control were shaken off, and the acquisition of wealth came to be accepted as a respectable motive for industry.¹

This ideological change also transformed the whole basis of economic theory. In place of the old foundation of human relationships, economic theory turned to the problems of material wealth. From having been essentially a social science based upon moral conduct, it came to be supplanted by a new natural science, political economy, concerned primarily with the measurement and movement of property. In time it evolved a new theory of social harmony, briefly, that social harmony was not to be achieved by control and regulation, but by giving full play to the action and reaction of individual self-interest. This implied that private gain was also a measure of public service.²

These far reaching implications of individualism, which took some four centuries to develop, imparted a dynamic quality to the whole economy which immensely increased material wealth, but only at a heavy price in another direction—the loss of stability. The consequent social discord entered right into the heart of the industrial unit of production, and the next step will be to analyse the changed relationships which brought it about.

¹ Appendix 7, p. 199. ² Appendix 8, p. 201. Also Appendix 9, p. 203.

CHAPTER III

EARLY CAPITALISM— THE DOMESTIC SYSTEM

It is important to realise that the earliest capitalists were not *industrial* capitalists, owning the *means of production*, but *commercial* capitalists who owned only a part of the *circulating* capital and who performed only the organising and trading functions. The transformation of the woollen industry provides a good example of this early type of capitalism.

The tremendous expansion of the woollen trade created problems which could not be solved under the craft system.¹ At one end of the trade the demand for large quantities of uniform cloth required the co-ordination of the collecting, sorting and marketing of the raw wool. At the other, the merchant trader found it necessary to co-ordinate the production of various craftsmen in order to fulfil the ever-growing size of order. In between the raw material and the finished cloth there lay a long sequence of processes, scribbling, carding, spinning, weaving, combing, fulling, dyeing and finishing, all of which could quite plainly be more efficiently and more uniformly performed if brought under the direction of a single organiser instead of by the old method in which each craft bought and sold between each other in small quantities through the sequence of ancilliary processes. This new concentration of processes only developed slowly and against much opposition; but in time, those who performed them came to be dependent upon a capitalist clothier who might even be a large "sheep master," providing raw wool and giving it out to one craft after another, paying wages for the work performed, until it had been turned into finished cloth.

This system entirely changed the status of those who performed the work function.

First. The craftsman no longer owned and sold the *whole product* of his work. Instead he received a wage-rate for his labour alone, and therefore became a cost in the production of the clothier's property. He has begun to be used *for* the system instead of *sharing in* it.

¹ Appendix 10, p. 204.

Second. The function of organising production, either individually or collectively through the guild, has been largely taken from the manual worker who, therefore, became dependent for his employment upon the capitalist clothier.

Third. The craftsman has been separated from contact with the consumer.

Fourth. The relationship between work and property in the industrial process has been reversed. Under the craft system, property was used to make work productive, property therefore having an enabling function. Under the new system, the capitalist was in a position to use the work of others to make his property profitable, and, in this sense, work became the enabling function.

In place of an integrated organisation in which all those engaged belonged, held a recognised independent status and received a protected share in the proceeds as well as a share of control in the management of their industry, the new capitalist organisation, by separating the manual worker from the trading function, or, to put it another way, by separating the worker from the Finished Product, dissolved the unity which had existed between those associated together for industrial production, and brought into existence a new relationship. For, although the employer-employee relationship had existed in the craft system as between master and journeyman, conflict of interests was guarded against through the security, the opportunity for advancement and the policy of relating remuneration to the values produced. Under the capitalist system, however, the relationship between employer and employee carried with it a conflict of interests since the employer rewarded himself from the profits he could make from the Finished Product, while the remuneration of the employee became a cost in its production, which, like other costs such as raw materials, tended to be kept to the minimum. Further, since the employee no longer enjoyed a yearly contract, he lost his security and came to be employed as it suited his employer's interests. Finally, since success tended to become dependent upon the quantity of capital, rather than the degree of skill, a larger and larger number of craftsmen lost the opportunity of advancing into an independent position. Control, therefore, became concentrated in few hands.¹

The guilds failed to control this conflict which rapidly grew up within the heart of the industrial system; for the more powerful masters

¹ Appendix 11, p. 204.

who formed the new capitalist class gained control of them and restricted both master membership and apprenticeship by raising the fees.

When the journeymen found that the guilds were failing to protect their interests, they formed guilds of their own and, for a time, trade organisations were divided into those of employers and those of employed. Later, the two were amalgamated into what were known as the Livery Companies, in which the few trading capitalists (who wore the livery) controlled the far larger body of manual workers (excluded from wearing the livery). It was, however, largely outside the companies that the manual worker had to look for protection, and this was afforded by a great number of Statutes which came to be passed during the reign of the Tudors.¹ At a later stage, after the Livery Companies had largely disintegrated, State protection broke down, giving rise to the combination movement which grew steadily through the eighteenth century.

It is too often assumed that the great conflict of capitalism was created by the Factory system, that is, with the advent of the industrial capitalist who separated the worker from his ownership of the *means of production*. But centuries before this, the familiar pattern of industrial strife is to be seen—strikes, pickets, blacklegs, restriction of output, lock-outs and reprisals. And it cannot be too clearly emphasised that the point at which the trouble started may be assigned to the stage of development at which the worker lost the ownership of the *Finished Product*, and came to be treated as a cost in its production. It is then that he lost integral association in the industrial structure and became something very much like a commodity to be purchased from outside. Since he thus lost “vertical integration,” he combined “horizontally” to protect the price of his commodity.²

EARLY ATTEMPTS TO RE-INTEGRATE THE WORKER

Such is but the barest outline of the cause and development of conflict in the capitalist structure of industrial organisation. The whole change took place very gradually and unevenly, for, although a form of capitalism existed in the tin mines of Cornwall as early as 1150³, there were some trades still being performed on the craft system in the eighteenth century. Nor was the process of disintegrating the unity between employer and employed continuous, for there were several attempts to re-integrate the manual worker into the industrial structure. One such attempt deserves particular attention.

¹Appendix 12, p. 204. ²Appendix 13, face p. 205 and Appendix 14, p. 207.

³ Appendix 15, p. 208.

The Coventry journeymen weavers had, by about 1424, combined against the masters of the guild. Eventually the dispute was put to arbitration and an agreement was reached on the following lines :

1. The Journeymen were to re-enter the guild and to pay their subscriptions.
2. The Masters were to admit the Journeymen to their "drinking feast" and to share all the ancient privileges and customs of the guild with them.
3. The Journeymen were to be paid for their work by receiving one-third of each piece of cloth they wove. (The wording suggests that this had originally been the method of payment, and there is evidence to show that in certain trades the system was still being used as late as 1806.)

It is rather easy for us to make the mistake of thinking that a guild corresponds rather to a modern manufacturers' association. In reality, however, a guild was far more an organ of industrial management. If this is borne in mind, the above agreement in effect admitted the journeymen back into this normal organ of management, giving them a measure of security and of control over the conditions of their employment. Economically, too, they were no longer treated primarily as costs in the production of the employers' product, but sharers in the wealth jointly created. On these lines, apparently, harmony was restored.¹

In spite of such attempts at re-integration, however, the force of individualism and the opportunities for personal gain occasioned by the rapid economic expansion tended to emphasise the division between employer and employed who, by the eighteenth century formed a large, permanent wage-earning class bitterly opposed to their employers. During this century the State, pressed by employers, gradually repealed all the old Statutes which had protected the craftsman; and, although workmen's combinations were forbidden by law, they appeared up and down the country, causing strikes, riots and disorder.²

Many had great sympathy with the plight of the working class, and attempts to improve their lot were frequent. One in particular deserves attention, as there will be occasion to refer to it at a later stage in this book. This was the "Speenhamland System" by which certain magistrates, pressed to relieve the extreme poverty of a large section of agricultural workers, agreed to take advantage of what was known as Gilbert's Act (1782) to adopt a system of supplementing low wages from the rates, the scale of allowance varying with the

¹ Appendix 16, p. 208. ² Appendix 17, p. 209.

price of the loaf. Although it was done with the best of intentions, it was both degrading and unsound, for it had the effect of generally reducing the minimum wage level very considerably.

THE INDUSTRIAL REVOLUTION

Up to the middle of the eighteenth century, the worker, in all but a few industries, still owned the means of production, work being carried out in his own home. Since the commercial capitalist could command both the raw material market by buying in large quantities, and also the market for Finished Products by extending credit, sooner or later, almost every domestic worker found himself forced to seek employment from a capitalist. It merely emphasised the exclusion of the worker and deprived him of the one small element of control which he still retained: namely, the organisation of the actual work in his own home. Henceforth his hours of work, discipline and technique were determined for him by the employer or his nominee.

CHAPTER IV

REMEDIES AND REFORMS

POLITICAL PHILANTHROPY

Industrial forms exert a powerful influence upon social conditions, and, just as the ideals of the craft system contributed to the civilisation of the middle ages, so the pattern of capitalism made its mark upon the social life of the nineteenth century. Perhaps the most noticeable feature of this was the great gulf which had developed between rich and poor, and the consequent social exclusion to which the latter were subjected. This was but a reproduction of the demarcation between employer and employed which had developed in the industrial system. Up and down the country, vast slums grew up, the inhabitants of which enjoyed few of those amenities of civilisation which their labours had helped to create. It can be argued that this injustice might have been remedied by altering the structure of industrial association so as to restore a balance of control between the contributors. At all events, there was little movement in this direction for, with few exceptions, all who stood for remedies and reforms accepted the tenets of capitalism, and confined their activities to the problems of safeguarding the interests of the parties for which they stood. There was, therefore, no widespread movement which aimed at re-integrating the worker into the industrial structure. The social consequences of the exclusion were dealt with mainly by political action, and the economic, by the Labour movement. The Factory Acts gradually limited the demands which employers could make on their work people. The legalisation of trade unions strengthened the bargaining power of the workman, while the Limited Liability Company Laws confirmed the existing control of industry by the capitalist and reduced his liabilities. On the social side, the fear of revolution round about the 1840's forced the State to restore a share of civilisation to the vast working-class population by means of a programme of social services, sanitation, housing regulations, medical services, education, parks, museums, theatres and other recreational facilities, to which successive governments have been adding ever since.

THE LABOUR MOVEMENT

The birth of the Labour Movement as we know it to-day dates from round about 1824, the year in which the Combination Acts were repealed, and the man responsible for setting it on its long and chequered career was Robert Owen. Although he achieved little in the way of solid results, it was he who infused into the mind of the working class that theirs was not merely a hard case, but a just cause.

Within the movement as a whole there may be distinguished three distinct trends of thought which developed out of it. There was the more orthodox trade union movement which accepted Capitalism, and set itself to the task of defending the interests of the worker under the system. There was the political movement which at first concentrated upon social reform and legalisation of trade unions; and later, the task of enfranchising the working population and the building up of a parliamentary party which, by constitutional means would carry out a programme of socialising the ownership of the means of production. And, finally, there has been the revolutionary industrial movement which refused to accept the tenets of Capitalism. Under this final heading may be classed such movements as the Co-operative Workshop movement, Syndicalism and the Shop Steward movement.

One of the most significant features of nineteenth century industrial and social reform was the complete absence of the Churches, established or non-conformist. It is astonishing to find that such great religious reformers as Wesley and Wilberforce appear to have accepted the new social order without realising in the least that there was an appalling social as well as moral problem to solve. Indeed nowhere was the class distinction between rich and poor more punctiliously observed than in the pews of Church and Chapel, and while personal conduct received due attention from the pulpit, the system met with little criticism.¹

¹ Appendix 18, p. 212.

CHAPTER V

THE TRADE UNION MOVEMENT

The ill-organised Combination movement of the eighteenth and early nineteenth centuries cannot be said to have passed into the modern trade union movement until two necessities had been understood. The first was the need for a far stronger type of organisation; and the second, acceptance of the main tenets of Capitalism by the trade union leaders.

The most disintegrating factor in the Combination movement had been the local strike entered into without sufficient forethought which involved other combinations in a conflict which none could afford to lose. Slowly it came to be recognised that strength could only be acquired by the imposition of discipline, an understanding of the issues, and much stronger centralised control. From the middle of the century this policy was pursued, and, more than any other factor, accounts for the shape of the trade union movement to-day when it stands firmly upon a national basis, dealing with its problems on a national rather than a local scale, and wielding its great power mainly from the centre. Thus it may be said that the fact that the capitalist method of industrial production excluded the worker from integral association has forced the trade union movement to develop a horizontally integrated working-class movement which, so far as industrial production is concerned, fulfils a negative and defensive function.

Closely related to this policy was the recognition by early trade union leaders that they must either bargain in the terms of those who held control of the economy, or not at all. Many of the early unions promoted education in capitalist economics amongst their members, and it is out of the tenets of capitalism that the orthodox trade union objectives, as well as the means for attaining them, were created. The main objective was to maintain and, if possible, improve the standard of living of the worker; while the means was to bargain the labour commodity at the highest price which could be obtained for it. The orthodox trade union doctrines have thus come to revolve round these essential factors—The Normal Day—The Standard Rate or the Rate for the Job—and the Protection of the Skilled Worker.

History proves that, in pursuit of these objectives, the trade union movement has been successful. It has won the right to bargain collectively, and it has succeeded in raising the standard of living of the worker. But while it is true to say that the movement has been moulded in the matrix of capitalism, it has not modified that structure in the least, however profoundly it may have modified the conduct of employers. For trade unions have accepted the principle of relating the workers' remuneration, not to the value of what they produce, but to a standard of subsistence. They have not, except in rare instances, claimed that the management of an industry should be conducted in the interests of the worker as well as the shareholder, neither have they claimed the worker's right to employment (although of late the introduction of the guaranteed minimum week has started a move in this direction). They have accepted the necessity for the competitive principle of collective bargaining within the structure of industrial organisation. In a word, they have accepted the *commodity* conception of Labour, which leaves the capitalist relationships between Property, Organisation and Work unchanged, and the worker still dissociated from the unit to which he gives his services.

Thus, whatever influence the great nation-wide trade unions exercise upon industrial production, it is an influence exercised from *outside* the industrial structure, while control remains firmly in the hands of the alliance between Property and Organisation. And this applies, so far as we have gone, to nationalised undertakings which retain the profit system in a modified form and the wage-rate system intact. This is not surprising if it is remembered that the key to the problem of the relationships within the industrial structure does not depend upon the question as to who is to own the means of production so much as who is to own the Finished Product.

SOME EXCEPTIONS

Such generalisations are apt to be misleading, and it is important to realise that there have been exceptions to the orthodox policy of the movement. For instance, from time to time there have been cases in which unions have claimed a voice in the control of the management. The cotton industry provides an early example of this. In 1878, wages having fallen steadily over the past five years, the employers proposed a further cut of 10 per cent. The operatives struck. In the negotiations which followed, instead of using arguments based purely on self-interest, the union put forward proposals designed to restore the

industry to prosperity. They accepted the mill owners' contention that they were losing money owing to the glutted state of the market and that some change had to be made, but argued that the proper course was to remedy the state of over-production. They offered, therefore, to accept a 10 per cent. reduction (the trade was mainly paid on piece-rates) on condition that the mills only worked a four-day week. Unfortunately their case was seriously prejudiced by rioting in which a mill owner's house was burnt. The mill owners categorically refused to consider the proposals even as a basis for a settlement. Neither the outcome nor even the question as to whether the union's proposals were sound is of any great importance. The main interest of this episode is the fact that the Labour interests made a claim to integral association in the management of the industry, and that these claims of the "functional" interests, unsupported by any form of property investment, were not even considered.

Another example in modern times comes from America. In the negotiations following the great strike of the General Motors of Detroit in the winter of 1945-46, the Union (led by Mr. Walter Reuther) made a definite claim to voice an opinion on the policy of the management. Basing the case upon the statistics available, the leader of the United Automobile Workers' Union claimed for the men an advance of 30 per cent. coupled with the express condition that there should be no advance in the price of the product. They calculated that, even with this rise, the Corporation would make a normal pre-war rate of profit. General Motors made no attempt to refute or confirm these calculations. Instead, they repudiated the right of the Union to infringe their sole prerogative in the control of the industry.

Both these cases are examples in which unions have endeavoured to re-integrate the worker into the industrial structure in the matter of control.

The *sliding scale* form of remuneration illustrates the attempt to re-integrate the worker through relating wages to the values produced, so allocating him a definite share of the Finished Product. Some time towards 1870, employers in the coal mining industry argued with union leaders that wage-rates should vary with the selling price of coal. The trade union movement was divided upon this issue. Some argued that the proposal was sound, others that acceptance would place the worker at the mercy of the employer. Finally the system was adopted in a large section of the industry. When, however, a trade

depression set in later in the decade, there was much discontent, and the system broke down. The reason for the failure was probably largely psychological. Workers had no control over the price of coal, and were not informed of the reasons for reductions in price which affected their earnings, hence suspicion and mistrust destroyed their confidence in the system. In U.S.A., the same method of controlling wage-rates met with no greater success. Mr. John L. Lewis attributes the failure to the same causes—" . . . the worker had no power of influencing the factor of change; that power always rested with the industry . . . with the employers . . . the workers were not consulted; they had nothing to do with it . . . and were constantly at the mercy of a few statisticians employed by the companies . . ." (hearings before a sub-committee of the Committee on Finance, U.S. Senate. S. Res. 215, p. 193).

Although the principle of the sliding scale is a sound one, these failures show that it only answers a part of the problem. A financial formula which expresses a partnership relation cannot possibly succeed unless such a partnership relation does, in fact, exist socially. To put it another way, a share in the proceeds cannot be dissociated from a share in general control and understanding of the industry.

CHAPTER VI

REVOLUTIONARY INDUSTRIAL MOVEMENTS

Under this heading will be considered those attempts to alter the structure of the prevailing capitalist system of production, movements the aims of which have been to reorganise the relationships between those who contribute Property, Organisation and Work.

The earliest attempt in this country was made by Robert Owen between 1826 and 1834 and was organised upon a national scale. Owen had shown great ability in business and his Mills at New Lanark enjoyed a European reputation for industrial harmony. His idealism then carried him on to try to organise the working classes for a complete change in the whole industrial system. His moral fervour was most infectious, and he succeeded in building up a large Trades Union known as The Grand National Consolidated Union to which probably thousands of small combinations affiliated themselves. He was inspired by three main convictions: first, that poverty was caused by competition and irresponsible ownership; second, that knowledge alone was necessary to create a change of heart amongst capitalist employers; and third, that labour alone created all values.

Disregarding the function of the brain worker, entrepreneur and organiser, and dismissing the difficult problem of rent, he persuaded his followers to believe that the entrepreneur and capitalist were parasites. The existing industries, farms and mines were to be taken over by the trade unions when the signal for a general strike was given. He argued that such a strike would prove to owners that their property was valueless unless made productive by labour, and that this would convince them of the "labour theory of values." Once the workers had obtained ownership of the means of production, he contended that little education would be required to convince them that competition was self-destructive and must therefore be eliminated.

But the Grand National was ill-organised, lacking in funds and riddled with jealousy and intrigue. When it came to the test, it proved as flimsy as it was large, and the whole crazy plan fell to pieces without achieving a single solid result.

Owen's ideas on industrial organisation, however, found some expression in the Co-operative Production movement which sprang up at intervals all through the nineteenth century.

CO-OPERATIVE PRODUCTION

The idea had originated in the teaching of a Frenchman named Buchez who urged the formation of brotherhoods of workers, their labours being organised by a director whom they were to elect. Remuneration was to be paid mainly by wages, and profits were to be divided, half to a common fund and half to be paid out as dividends on wages. Buchez selected non-mechanised industries and took little account of the entrepreneur function, workers being free to elect or depose their director.

In this country the movement met with little success, although to-day there still exist a number of co-operative factories organised on rather modified lines. A variety of reasons account for the failures. In some the system of self-government, in which workers acted as employees by day under the discipline of their director, and employers in the evening calling him to account, broke up all discipline. In those which prospered, the original members became exclusive, voting themselves privileges which were not extended to new workers who frequently became as badly exploited as those in many small capitalist workshops. In others, workers showed a complete disregard of the need for capital and were forced to borrow at exorbitant rates of interest.

To sum up, failures may be attributed to a disregard of the essentially trinitarian nature of the industrial process by undervaluing both the technical function of the Organiser and the enabling function of the Investor. Instead, the Work contributor was held to comprise the industrial organisation and, dissociating the Organiser and Capital contributor, claimed complete authoritarian control over these functions to use them in their own interests. Hence the three partners to the industrial process found no common association, and, surrounded as the movement was by a strongly entrenched property system, it generally went under. This applied also to comparatively large ventures such as the South Shirland Collieries, bought for £30,000 by the Miners' Union and the Sheffield Iron and Engineering Works, bought for £60,000 by a trade union. Neither undertaking survived more than a few years.

One reason for the frequent revival of the movement was the trend towards over-caution in the orthodox trade union movement. Leaders were frequently charged by a discontented rank and file with administering their unions more like directors of large insurance companies.

SYNDICALISM

Soon after 1880 when the trade unions turned to support the political movement whose aim was constitutional socialism, a revolt broke out amongst certain powerful leaders who, holding fast to the "labour theory of values" felt that the programme of State and Municipal capitalism was entirely inadequate. Their aim was to establish a syndicalist system, although the movement in this country went by the name of Industrial Unionism. The inspiration came from France and also from the American Industrial Workers of the World, the preamble to whose constitution read as follows:

"The working class and the employing class have nothing in common. There can be no peace so long as hunger and want are found amongst millions of working people and the few . . . have all the good things of life. . . . These conditions can be changed only by an organisation formed in such a way that all its members in any one industry . . . cease work whenever a strike or a lock-out is on in any department, thus making an injury to one an injury to all. Instead of the Conservative motto 'a fair day's pay for a fair day's work,' we must inscribe our banners with the revolutionary watchword: 'Abolition of the Wage System' . . . by organising industrially (i.e. not by crafts) we are forming the structure of the new society within the shell of the old."

In England, the policy was therefore to bring about the amalgamation of the 1,168 craft unions into fourteen large industrial groups, to refuse to treat with employers so as to weaken them, and finally to call a general strike, during which the unions would take over the industries from the capitalist owners. Up to 1914, the movement made great strides. Many amalgamations were carried through and leaders succeeded in stirring up a good deal of trouble, largely owing to the fact that trade unions were made subject to considerable disabilities in 1905 and again in 1909. But with the advent of war, the orthodox trade union movement rapidly regained its lost prestige, and the syndicalist industrial movement came to a halt. By the end of the war it was to all intents and purposes dead.

THE SHOP STEWARD MOVEMENT

The growth of shop stewards from being little more than collectors of union subscriptions into what can almost be termed a recognised rank and file movement is important because it indicates that the syndicalist aspiration of the working man is still alive and still unsatisfied by the trade union movement as it has developed. Only the broadest industrial problems can be solved by national negotiations at high levels. Disharmony, like its opposite, morale, is created locally, and the problems of each can only be solved where they arise and by those amongst whom they arise. Rank and file movements represent the unsatisfied desire of the worker to be re-integrated into the enterprise for which he works. In syndicalism the claim is complete and absolute—nothing less than a worker dictatorship. But in the Shop Steward movement there is, perhaps, a valuable basis on which decentralisation of the trade union movement might be developed, and local integration of the worker effected. This will be dealt with more fully later.

PART TWO

CHAPTER VII

IS LABOUR A COMMODITY? THE TESTS OF THE WAGE-RATE SYSTEM

REMUNERATION AND STATUS

In the terminology of economics there is no phrase which more graphically describes the status accorded to the workman in capitalist society than the term "labour market." A market is a place where commodities can be purchased at the cheapest price; and in this case the inference is that an employer buys labour from a source *outside* the unit of industrial organisation to put into his Finished Product. Thus it has come about that the technique of determining the workman's remuneration has been built round virtually one aspect of the workman's economy only—the money price of the labour commodity, or the money *wage-rate*.

Now, the whole conception of labour as a commodity raises a difficult question. For a commodity presupposes a certain cost of production. What, then, corresponds to the cost of production in the case of labour? The only possible answer is—the cost of the workman's subsistence. This inhuman conception is not usually stated thus in so many words, but it was implicit in the subsistence theory of wages; its acceptance is implied by the organisers and sellers of labour in that they have tended to relate the level of wage-rates not to the values produced, but to the level of the cost of living; whilst, in general, those who imply that labour is getting more than it needs are actuated by the same pattern of thought.

The acceptance of the commodity conception of labour has meant that other aspects of wages have not been taken into consideration in evolving the technique of labour remuneration. For instance, the annual income which a workman receives for contributing his function to the industrial process is never used as a basis for collective bargaining, since that would imply that he has a recognised, permanent, or at least annual, status within the productive unit such as is the privilege of those remunerated upon a salary basis. But labour does not "belong" in this way any more than the supplier of nails to a shoe factory belong. Just as the employer buying nails is under no

obligation whatsoever to offer his supplier an annual contract, so in the same way, when he buys labour, he is under no obligation to offer continuous employment.

It is, therefore, round the manipulation of wage-rates that the technique of settling the remuneration of labour has been evolved between those who have it to sell and those who believe they can use it profitably. To the workman a wage-rate is a speed of earning, to the employer it is not a share of the wealth produced, but a cost of production. It is not surprising, therefore, that the conflict of supply and demand has entered into the very heart of the industrial organism, destroying the main characteristic of the industrial process which, it has been suggested, is, by its nature, that of a co-operative enterprise.

In the examination of the working of the wage-rate technique that follows, no distinction will be made between piece and time-rates. Piece-rates are closely linked to time rates, being set so as to yield a certain percentage increase over the latter; while time rates are, in general, tied to some sort of manufacturing performance. In each case the principle is the same—the valuation of employment at a certain price in money.

In the fixing of money wage-rates, the trade union and the employer have different objectives, and, in what follows an attempt will be made to examine how far this system conforms to the objectives, and satisfies the needs, of each; and how far the arithmetical formula of the money wage-rate system which expresses the commodity conception of labour appears to conform to the natural science of the industrial process.

EARNINGS AND MONEY WAGE-RATES

A comparison between the increase in money wage-rates and that of earnings over the period 1913–26 in certain industries is set forth in Table I:

<i>Trade</i>	<i>Wage-Rate</i>	<i>Actual Earnings</i>	<i>Difference</i>
	<i>Increase</i>	<i>Increase</i>	
Skilled Engineers ..	+45%	+62%	+17%
Engineer Labourers ..	+76%	+84%	+ 8%
Miners	+34%	+72%	+38%
Cotton Operatives ..	+61%	+85%	+24%
„ „ ..	+61%	+96%	+35%
Woollen. Time Workers	+90%	+98%	+ 8%
„ Pieceworkers ..	+80%	+90%	+10%

Table I. These figures are taken from *London and Cambridge Economic Service, Special Memorandum No. 28, by Professor Bowley*.

It will be seen that there is not only little correlation between the movement of wage-rates and those of earnings, but a wide variation between industries. A similar result is shown over the period 1924-30-35 in Table II:

Trade	1930	1935
Woollen	+ 1.1	- 9.6
Cotton Spinning	+ 0.5	+ 5.5
Hosiery	+ 6.5	+19.4
Iron and Steel Blasting ..	+18.3	+11.5
Electrical Engineering ..	+12.9	+18.3

Table II. Ministry of Labour Wage-Rate Index (*Statistical Abstract*), Average Earnings calculated from the Census of Production for the years in question and reduced to index—100—1924.

Had the comparison been made with *real* earnings, the divergence would have been a great deal larger, since the cost of living fell generally from 1924 onwards.¹

FIGURE 1

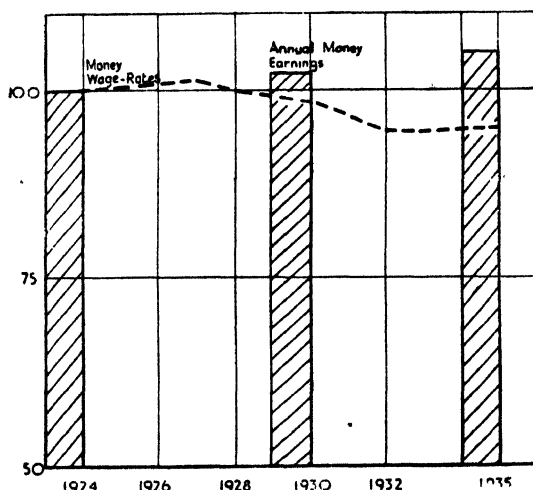


FIGURE 1

The course of money wage-rates plotted against the trend of annual earnings in British Manufacturing during the years 1924, 1930 and 1935.

Sources. Wage-Rate Index—Professor Bowley.

Average annual earnings for factory operatives—London and Cambridge Economic Service, Special Memorandum No. 75, Schwartz and Rhodes.

¹ See also a most interesting paper on the Tanning Industry between 1922 and 1932, Royal Statistical Journal, 1935, pp. 665 *et seq.*

The results for British manufacturing as a whole show to an equal degree the same lack of correlation. Figure 1 shows the course of money wage-rates against the average annual earnings in the years 1924, 1930 and 1935, while Figure 2 shows the even greater discrepancy which developed between money wage-rates and *real* annual earnings in these years.

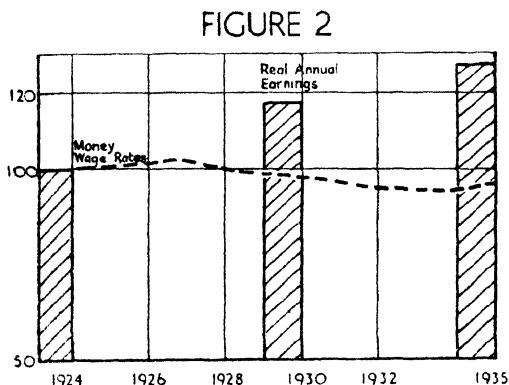


FIGURE 2

The course of money wage-rates plotted against the trend of *real* annual earnings in British Manufacturing during the years 1924, 1930 and 1935.

Sources. Wage-Rate Index, *ibid.*

Average annual earnings for factory operatives as for figure 1. Reduced to *real* earnings by C.O.L. quotient, M.O.L.

It might at least be expected that the sort of divergence between the movements of rates and earnings in British Industry would correspond, to some degree with similar figures in other capitalist economies. Comparison with the U.S.A., however, shows that, over the same period, the movement was reversed.

Figures 3 and 4 show the course of annual money earnings and annual real earnings respectively against the movement of the wage-rate index over the period 1923-29. In this case, real income has tended to conform more closely to the movement of wage-rates, though it ends up 13.9 points apart. In Figure 4 it should be noted that the steepest fall in wage-rates was accompanied by a distinct slowing up in the fall of earnings (A). Also that, contrary to the general trend in the foregoing years, an advance in wage-rates between 1937 and 1939 was accompanied by a fall in earnings (B).

FIGURE 3

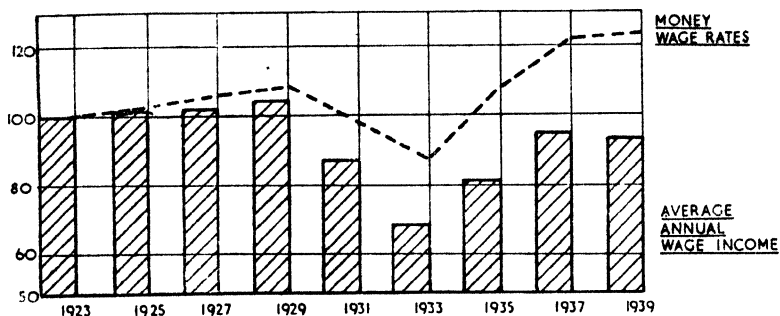


FIGURE 3

The course of money wage-rates plotted against the annual wage income in U.S.A. All Manufacturing during the years 1923 to 1939.

Sources. Wage-Rate Index—Handbook of Labor Statistics, 1941, Vol. ii, p. 13. The annual earnings are calculated from the figures in the Summary Tables of U.S. Census of Manufactures and reduced to an index 1923=100.

FIGURE 4

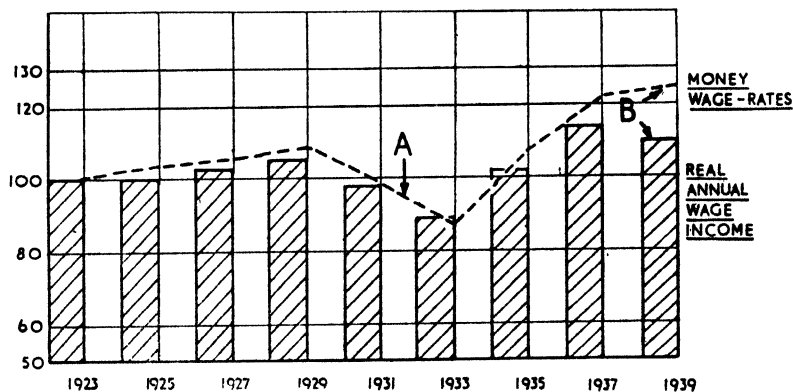


FIGURE 4

The course of money wage-rates plotted against the annual *real* wage income in U.S.A. All Manufacturing during the years 1923-39.

Sources. As for figure 3. Cost of Living quotient used is that calculated for *Wage Earners and Lower Income Groups*, Handbook of Labor Statistics, 1941, Vol. ii, p. 10.

It should be clearly understood that these figures are no proof that high wage-rates necessarily produce a depressing effect upon the

worker's annual earnings, or, in other words, that trade unions would improve the standard of living of their members by accepting low rates. Obviously, far too many factors are involved to draw any such conclusion; although the figures do suggest that, at some point or other high wage-rates tend to defeat their own end. This is an important point because similar figures have sometimes been produced to prove that "union interference" does more harm than good to labour.¹

The two factors which must be brought into the picture in order to effect a reconciliation between the course of wage-rates and earnings are: the man-hours of employment and the productivity of labour. For the moment we are not concerned with these, for neither is a direct factor in the process of collective bargaining. The question is: does the technique of manipulating money wage-rates provide a reliable method by which trade unions can control the standard of living of their members? The answer is plainly—No. The British figures show that a falling wage-rate was accompanied by rising earnings; while the American show that a rising wage-rate over the same period failed to maintain earnings.

WORK SHARING IN TIMES OF DEPRESSION

There is a further point which has been obscured by pivoting the remuneration of labour entirely round money wage-rates. The Newspaper Publishing and Printing Industry may be taken as an illustration since not only are there complete figures in the U.S. statistics, but the wage-rate in this industry is controlled by a very fully represented union.

In Figure 5 the union wage-rate level round which collective bargaining takes place has been plotted horizontally and the *real* average annual earnings in relation to this wage-rate level have been plotted against it. The general conditions of trade are indicated at the top, and it will be seen that the worker's earnings in relation to his wage-rate

¹ See, for instance, A. W. Rucker, *Labor's Road to Plenty* in which it is argued that America should return to a *laissez-faire* economy (misnamed "the American system of productivity"). There are many conclusions in this book with which, as will be shown later, I am in agreement. But Mr. Rucker entirely neglects the social and historical aspects of the problem and, like Sir William Petty in the eighteenth century, endeavours to reduce it to an arithmetical sum. Percy and Albert Wallis in *Prices and Wages* appear to make the same sort of over-simplification.

moves in a contrary direction to that which might be expected. For instance, in the boom period the relative *real* earnings fell; they recovered when the slump set in and moved to their highest level in 1933. As recovery took place, they again fell and did not recover until there was a set back in trade in the years 1937-39. A similar result, though not so well defined, is seen in the figures for U.S. *All Manufacturing*—see A in Figure 4, and is also to be found in certain British Industries, notably Tanning—see footnote, p. 31.

FIGURE 5

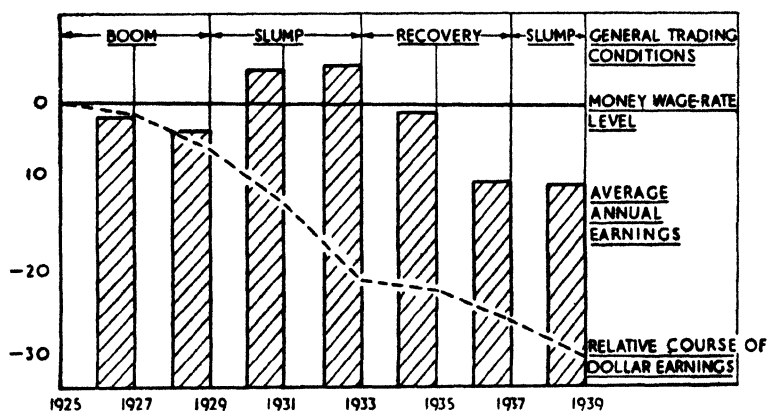


FIGURE 5

Newspaper Publishing and Printing—U.S.A. The average *real* annual earnings from wages are plotted in relation to the Union wage-rate level. The dotted line shows the relative course of money earnings. Sources. The Wage-Rate Index is taken from Table 170, U.S. Statistical Abstract, 1944-45. The annual earnings are calculated from the U.S.A. Census of Manufactures, vol. 11, 1939, p. 60, C.O.L. quotient as for figure 4.

The question which this point raises is: might not some of this relatively improved standard of living which was only enjoyed by those who retained employment during the bad years have been shared out with the large numbers who were deprived of all industrial income? To put it in another way; might not equity amongst the workers have been better served by a flexible wage rather than flexible employment, without, however, inflicting any great hardship upon those who, under the existing system retain employment? The answer is, of course, that the rules of the system of buying labour for a money wage-rate forbid such a solution. The sole line of defence upon which unions guard their members is in the maintenance of the highest possible wage-rate. Sharing, to be effective, necessitates

accepting a lower wage-rate, the restoration of which always necessitates a vigorous and sometimes bitter struggle.

The money wage-rate system, therefore, has the appearance of improving the standard of living of those who succeed in retaining employment while the rest are deprived of all purchasing power (from industrial sources). Put another way, fully employed workers appear to live better in relation to their wage-rates when their industries suffer adversity, and to lose out when prosperity returns.

FIGURE 6

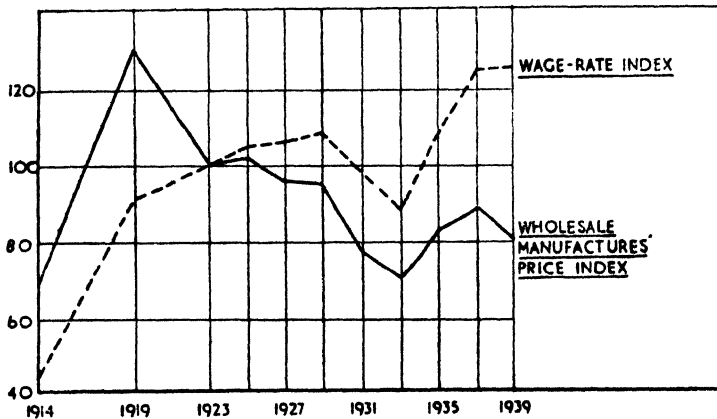


FIGURE 6

The money Wage-Rate Index plotted against the Wholesale Price of Manufactures index. U.S.A. All Manufacturing.

Sources. Wage-Rate Index, *ibid.* Wholesale Price of Manufactures—Handbook of Labor Statistics 1941. Vol. 1, p. 733.

THE MANAGEMENT OBJECTIVE—A LOW COST OF WORK

In the process of collective bargaining, it is no part of the direct purpose of managements to employ labour cheaply. Their purpose must be to obtain work at the cheapest possible price. For this purpose, as with labour, the manipulation of wage-rates is the means and is based upon the theory that the lower the wage-rates, the cheaper the work. This, again, is an entirely incomplete account of the problem, for it fails to take into account the most important factor—productivity. It is an illusion to argue that piece-rate contracts take full account of productivity as well as price, for the governing factor in such bargains is the *base* rate to which they are tied.

If the factor of productivity is eliminated, the relevant figures which managements must consider are: the price which they may expect to get for the Finished Product and the money wage-rate. Turning once again to the statistics of U.S. for want of any relevant figures in British Industry, Figure 6 shows the course of money wage-rates against the course of the wholesale price of manufactured goods over the period 1914 to 1939, 1923=100.

These two factors bear practically no relation to each other. While the wage-rate index was well below the price index before 1923, starting with 25.3 points difference, after 1923, the wage-rate increases rapidly over the price index, ending up in 1939 42.7 points higher. If the manufacturer were to take the wage-rate as an indication of the cost of work in his Finished Product, he would conclude that, if 1923 represents a balanced position, work was costing about 60 per cent. of its true value before that year and thereafter something up to 155 per cent. of what could be charged for in the Finished Product. In other words, the wage-rate entirely fails to reflect the cost of work: the mere money price of giving employment explains nothing unless the factor of productivity is taken into account. For it is the *price of labour in terms of the Finished Product* which determines the level of wage-rates. It is only when this quasi-physical price corresponds to the labour value in the Finished Product that a correlation between the course of wage-rates and wholesale manufactured prices can be discerned.

FIGURE 7

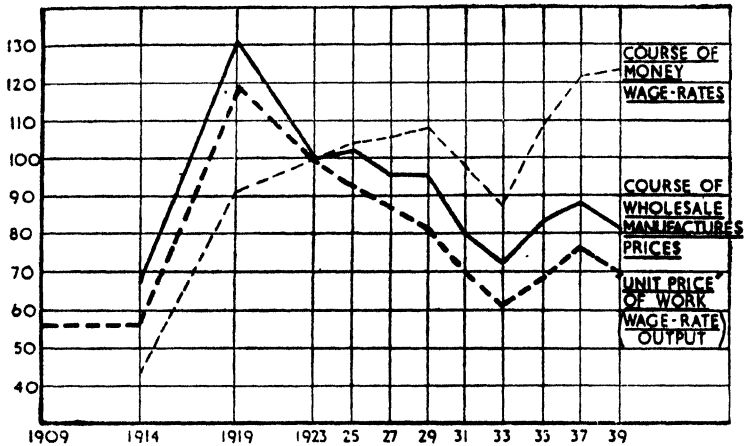
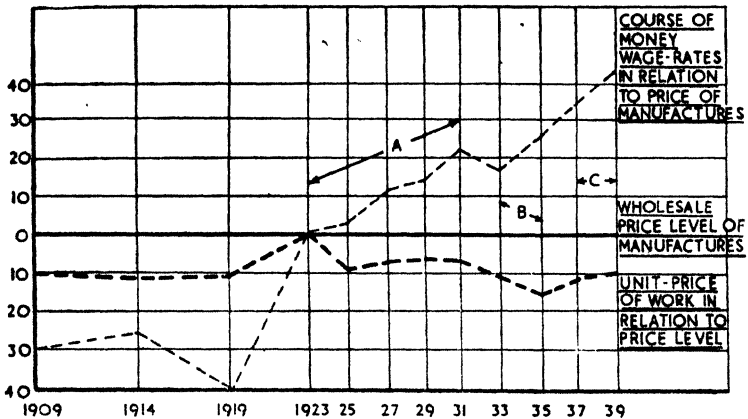


FIGURE 8



FIGURES 7 AND 8

Comparison of the trends of Money Wage-Rates, Wholesale Price of Manufactures, and the Unit Cost of Work.

Sources. Wage-Rate Index, as before; Output per man-hours Index, Handbook of Labor Statistics, vol. 1, p. 733. 1941. For a description of this index, see the 1927 edition of the Handbook. It is constructed by combining an index of man-hours employment with an index of net production. It is important to realise that the great increase is not attributable to labour alone, but reflects all the factors making for higher productivity, better organisation, better equipment, more horse-power per man as well as harder work and greater skill.

Figure 7 shows the "unit cost of work" index plotted against the wholesale manufacturer's price (the wage-rate being also shown). The unit cost of work has been calculated by dividing the index of wage-rates by the index of the *output per man-hours*. Figure 8 is constructed from the same figures but shows the course of wage-rates and the unit cost of work in relation to the level of wholesale manufactured prices. Both of them illustrate that the wage-rate tells the manufacturer practically nothing that he wants to know, and, indeed, may well be extremely misleading. During the period 1919 to 1923, the wage-rate rose, but the cost of work shows its steepest decline. From 1923 to 1931 rates rose still further while the cost of work declined (see A Figure 8). From 1933 to 1935, there was a sharp rise in wage-rates, but the cost of work in relation to the Finished Product price fell to its lowest level (see B Figure 8). Finally, although wage-rates in relation to the price of the product rose 7.3 points between 1937 and 1939, the unit cost of work only rose by 0.3 points. (C).

The main point brought out by these figures is that, despite the wild and rather meaningless course wage-rates have pursued, the vital consideration to the manufacturer, the unit price of work, has followed a course which is manifestly correlated to the price he could and did obtain for the Finished Product.

CAUSE AND EFFECT ?

There is more than a suggestion that the accepted order of cause and effect is not, in fact, true. Normally, both management and labour bargain on the assumption that it is they who determine the level of wage-rates and that the unit cost of work and the price of the Finished Product are both determined by the result. It is arguable from these figures, however, that the order of cause and effect may be something much more like the reverse, and that it is the price which can be obtained from the customer and the productivity of labour¹ which determines the wage-rate in terms of money. This does not imply that the process of collective bargaining performs no useful function, though the field in which it operates is far more restricted than that which is usually assumed. If this theory is accepted, collective bargaining probably provides no more than the exertion of a continuous opposing pressure which, very roughly assures that wage-rates find the right level in relation to prices and productivity.

¹ Again in the widest sense.

There is also a suggestion, however, that collective bargaining may tend to interfere to some extent with the natural course of wage-rates and that a more scientific approach might have resulted in a far closer correlation between the course of wage-rates and finished goods prices. Figure 9 shows that the course of wage-rates appears to move back and forth across the level of prices and that these movements operate against the best interests of trading. This unsatisfactory

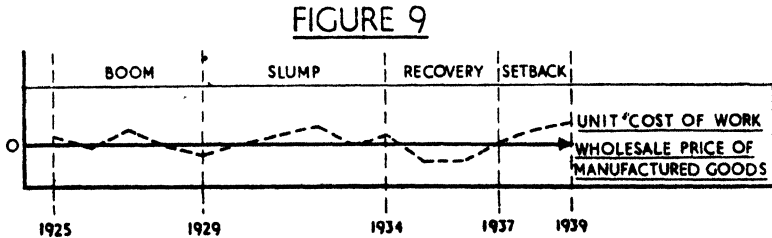


FIGURE 9

The course of the Unit Cost of Work in relation to the level of Wholesale Price of Manufactures.
Sources. As for figures 7 and 8.

condition is probably caused largely by the rigid character of collective bargaining when it is concentrated entirely upon the fixing of money wage-rates and will be discussed later.

Unfortunately, it is not possible to make similar comparisons in British Industry for lack of statistical material. It can only be surmised that the steady decline in wage-rates (see Figure 1), so different to the course of the American, is accounted for by the fact that productivity did not increase to anything like the same extent. Enquiries into the relative productivity in the two countries in various industries all point to the great superiority of America in this respect. As an example, in shoe manufacture for which almost identical machinery is used, where the British index of output per man hours is taken at 100 in 1935, the American stands at 202 (.393 pairs per hour as against .792 pairs).¹

¹ See *Working Party Report*, p. 21.

CHAPTER VIII

THE NATURAL REMUNERATION OF LABOUR FROM THE FINISHED PRODUCT

From this study of the way in which the various factors move, it appears that the cost of work is determined, not by the money wage-rate, but by the price of the Finished Product and the productivity of labour; and that the range in which collective bargaining may strike the balance of money wage-rates is strictly limited by the movement of these two factors. If artificial conditions enable one side or the other to exert undue pressure, the effect is probably to distort the cost of work from that level where normal employment and production takes place.

If this reasoning is correct, it means that the cost of work is continually trying to express itself *in terms of the Finished Product*.

Now the cost of work is the main consideration of managements in the determination of labour remuneration. Labour's main consideration is the annual earnings which it hopes to derive from the industrial process. It has already been shown that this does not depend upon the money wage-rate, and the question which will now be discussed is whether this, too, is not intimately associated with the values of the Finished Product.

ANNUAL WAGE INCOME AND THE VALUES OF PRODUCTION

An examination of the proportion of the values produced which is paid to labour in the form of wages each year reveals a fact which has received remarkably little attention in most treatises on wages.¹ In order to obtain the fullest picture, examples will be taken from the figures of the whole manufacturing of U.S.A., for which complete statistics are available back to 1859; total Canadian manufacturing; certain industrial groups; and examples from single factories. In each case, the value of production taken is the *net value*, not the *gross*. For the method of the industrial process is to add certain values

¹ So far as I am aware, the only treatise which deals at any length with this principle is to be found in *Prices and Wages*, by P. and A. Wallis.

to raw materials; values in which the contributions of capital, such as the provision of space, raw materials and machinery; management, such as organisation, planning, design, etc., and work, are included. The true measure of production, therefore, is not the total values of the goods produced, but the *values added to raw materials* or the *net product*, calculated by deducting the cost of raw materials and supplies from the total value of production. It is the proportion of this figure that has been paid out in wages to labour which will now be considered.

U.S.A. ALL MANUFACTURING

Although the figures for U.S.A. Manufacturing run back to 1859, the years are not always strictly comparable, since the method in the compilation of the Census' of Manufactures has been changed from time to time. The total period, 1859 to 1939 may be divided into four sections:

(1). 1859-89. This period included small domestic and hand industries omitted from 1899 onwards. It shows that the percentage of Net Production paid to labour at each Census to be:

1859	44.4 %	1879	48.03%
1869	44.47%	1889	44.91%

1879 was a year of extreme depression. With this exception, the percentages over the forty years are remarkably uniform.¹

(2). 1899-1927. This period covers a time of enormous economic expansion: employment was nearly doubled, the industrial wage-bill rose from \$m 1.8 to \$m 10.1; wage-rates and prices soared to dizzy heights in the boom years of 1919-20, and then fell rapidly. The whole period was characterised by a revolution in mechanization. But, despite these conditions, the labour percentage of the net product shows an astonishing degree of uniformity:

1899	40.7%	1921	43.2%
1904	40.4%	1923	41.3%
1909	39.3%	1925	38.9%
1914	40.2%	1927	38.3%
1919	40.4%		

From 1899-1919, the maximum variation was only 1.4 per cent. With the sudden drop in prices between 1920 (index 151) and 1921 (index 104), the percentage rose to the abnormal level of 43.2 per

¹ The purpose of this examination is *not* to comment upon the economic events, but to examine the actual way in which the wage system has worked. It may, however, be pointed out, that if the percentage in 1879 had been more akin to that of other years, a lower cost of work might well have resulted in a quicker recovery.

cent.¹ The years 1925 and 1927 show an altogether lower level. By this time, post-war reorganisation had been well established, and one of its characteristics was the large growth of the white collar worker, who probably absorbed a much larger share of the net product in the form of staff salaries, thus altering the ratio of productive wages.

(3). 1929–33. An alteration in the computation of *values added to raw material* precludes comparison with the preceding years:

1929	36.4%	1933	36.1%
1931	37.0%		

This period covers very wide fluctuations in trade: employment fell from 8.3 millions in 1929 to 5.8 millions in 1933; wholesale prices from index 95 to 71; wage-rates from 109 to 87. Despite these, the ratio again remained remarkably uniform.

(4). 1935–39 (last year of a Census). In this period, another alteration in the computation was made:

1935	39.41%	1939	39.41% ²
1937	39.31%		

Figure 10 represents the whole period in four sections. It shows the ratio of the average annual earnings to the average net production per worker employed. During these years:

Wage-rates moved from 39 to 260 (index 1913=100).

Wholesale prices from 61 to 150 and back to 87.

The total wage-bill from \$m. 379 to \$m. 9,090.

The increase in mechanisation and the revolution in organisation cannot be measured numerically. Yet, through these great changes, booms and slumps; in spite of strikes and lock-outs and the economic turmoil of war, the annual earnings of the worker is seen to move in a remarkably constant ratio to the net values he produces.

BRITISH MANUFACTURING

The only years for which statistics afford a comparison are: 1924, 1930 and 1935, the years of the Census of Production. The London and Cambridge Economic Service³ has computed the total wage bill for operatives only which, on the figures of net production given in the Census of Production, show the following percentages:

¹ The comment made on the year 1879 might apply equally here.

² I have had to adjust this figure by an approximation. The census called for the exclusion of personnel employed in "distribution and construction," and no exact figure of the amount involved is available. The probable maximum would have made the percentage 41.88%, and the minimum 36.84%. I have taken the mean—39.41%—but it is too arbitrary to be relied upon.

³ See special Memorandum No. 75.

1924	..	..	45.9%
1930	..	..	46.88%
1935	..	..	45.19%

The evidence is meagre but, so far as it goes, it all points to the same conclusion.

FIGURE 10

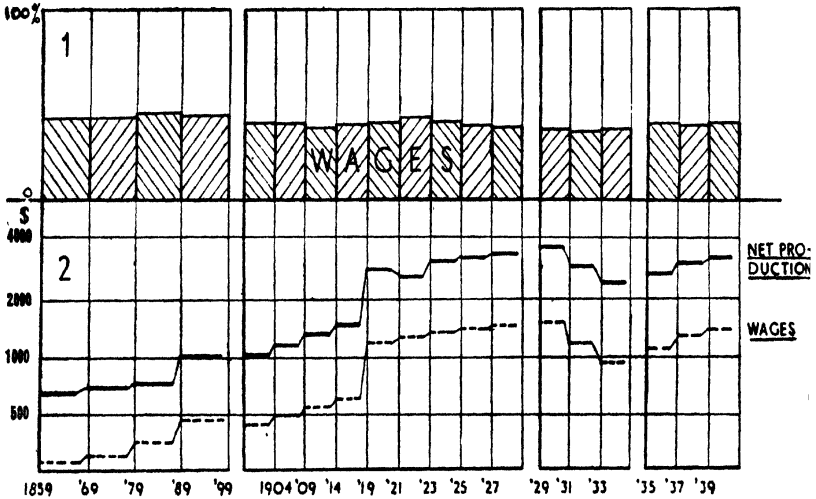


FIGURE 10

U.S.A. All Manufacturing:

1. Percentage of Net Production paid out in wages.
2. Logarithmic graph of the ratio of wages to net production per worker employed.

Sources. The calculations are made from the Summary at the beginning of volume i, U.S. Census of Manufactures, 1939.

CANADIAN MANUFACTURING

Far more complete figures for Canadian Manufacture are available, and the results are plotted in Figure 11. Although the figures tend to show a greater variation in the percentages than is the case in U.S.A. Manufacturing, for considerable periods, the constancy is noticeable, for instance between 1929 and 1940. (The census is taken each year):

1929	34.3%	} Slump	1935	34.6%	} Recovery
1930	..	..	34.6%		1936	..	..	34.0%
1931	..	..	33.2%		1937	..	..	34.8%
1932	..	..	33.7%		1938	..	..	34.9%
1933	..	..	32.3%		1939	..	..	34.0%
1934	..	..	32.7%	1940	..	..	35.0%	

It is noticeable that, whereas, in the case of the U.S.A. and the British figures, the percentage tends to rise in times of slump, the Canadian figures show the reverse tendency. The rise in the 1940 percentage may well be accounted for by war production in which the *values added* (as in the case of Government contracts and other work carrying smaller selling expenses) are lower.

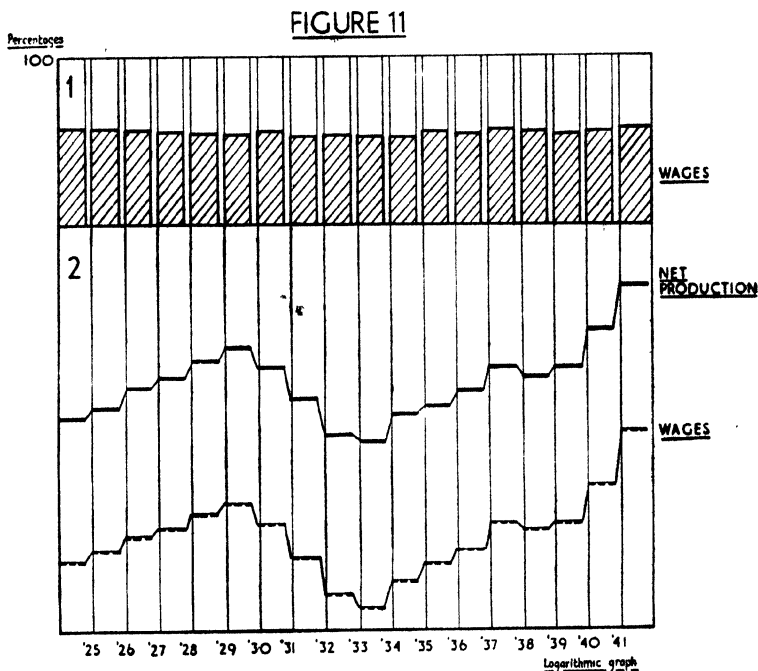


FIGURE 11

Canadian Manufacturing:

1. Percentage of Net Production paid out in wages.

2. Logarithmic graph of the ratio of annual earnings to net production per worker employed.

Source. Calculated from the figures supplied in the *Canada Year Book*, 1943-44, p. 405.

INDUSTRIAL GROUPS—U.S.A.

Within a national industrial system, the proportion of net production going to labour varies considerably from industry to industry according to the proportion of work values in the Finished Product. For instance, in ship-building it reaches as much as 60 per cent. while, in spirit-rectifying it may not exceed 10 per cent. In each case, too, the percentage may not remain constant if the nature of the product is radically altered. For instance, if in a factory making

wooden articles requiring much hand labour, the raw material were to be changed to bakelite shaped largely by automatic machinery, a considerable alteration in the ratio of wages to net production *might* be expected, although it does not by any means follow, for there may be a considerable reduction in price and, therefore, of values added. This point will be dealt with in greater detail later. It is mentioned here because, in making an examination of industrial groups and of single companies, with changes in process and in the general nature of production during the years under consideration, a uniform percentage must not be expected over very long periods. The object in presenting the following figures is not to try to prove that the uniformity of national ratio is reproduced faithfully in each industry, but that:

1. For considerable periods, uniformity is maintained.

2. That fluctuations in the percentages do not appear to be associated intimately with boom and slump, high and low wage-rates nor to the level of employment.

3. That, as a guide and controller to labour's annual earnings, net production provides that scientific basis which is lacking in the money wage-rate system.

The following percentages for a variety of industrial groups is calculated from the Summaries of the U.S. Census of Manufactures. In some cases, changes in the method of computation preclude comparison for longer periods:

Year	Textiles	Shoe M'f're	Leather	Iron, Steel & Products	Paper	Paper ¹	Chemicals	Machinery	Pub.; Print: News
1919	—	—	—	—	40.1	—	—	—	—
1921	—	44.6	—	—	39.7	—	—	—	—
1923	42.9	47.2	48.7	—	42.8	—	—	—	—
1925	43.2	47.9	47.3	47.1	41.4	—	21.4	40.3	27.0
1927	43.7	47.4	46.7	47.6	38.3	—	20.5	38.9	26.6
1929	42.0	46.7	46.4	(42.1) ?	—	35.9	19.9	36.7	25.2
1931	43.9	48.3	—	47.8	—	35.7	18.9	36.3	26.8
1933	—	48.2	—	46.7	—	33.3	19.2	39.1 ²	25.4
1935	—	48.1	—	46.4	—	36.9	20.5	39.8	26.1
1937	—	45.9	—	47.8	—	36.1	21.2	39.7	26.7
1939	—	47.0	—	—	—	35.9	19.0	39.8	25.4
Mean	43.1	47.1	47.3	47.2	40.5	35.6	20.1	38.8	26.1

¹ Method of computation changed in 1929.

² The uniformity (variation .7%) is remarkable.

One industrial group which shows a really long term of uniformity is the Furniture Group:

1904 .. 50.0%	1921 .. 48.3%	1929 .. 45.5%	1937 .. 47.9%
1909 .. 48.8%	1923 .. 46.0%	1931 .. 46.3%	1939 .. 45.5%
1914 .. 48.8%	1925 .. 45.7%	1933 .. 47.8%	
1919 .. 44.8%	1927 .. 47.2%	1935 .. 49.2%	

Figure 12 shows the ratio of total wages to total net production for the *Newspaper Publishing and Printing* group. Figure 13 shows the indices of the average net production and the union wage-rate plotted against the level of the average annual earnings. It illustrates plainly that, while labour's remuneration is closely related to the values of production, it bears practically no relation to the course of the money wage-rates paid.

FIGURE 12

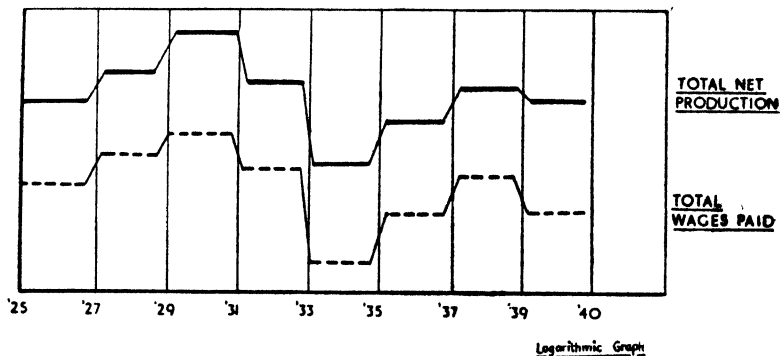


FIGURE 12
U.S.A. Newspaper Publishing and Printing. Logarithmic graph of the ratio of total Net Production to the total wages paid.
Sources. U.S. Census of Manufactures and the Handbook of Labor Statistics.

FIGURE 13

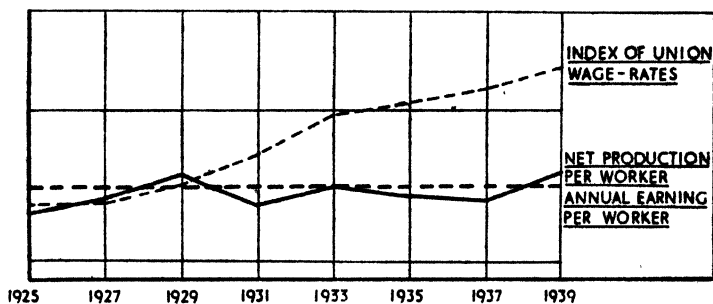


FIGURE 13
U.S.A. Newspaper Publishing and Printing. See text. Sources as for figure 12

BRITISH STATISTICS

The infrequency of the Census of Production and the incomplete wage data make similar comparisons of little value. From what evidence there is, in some industries such as Food and Drink, the ratio changed very little between 1924 and 1935. In others, notably some of the metal trades, the figure shows considerable variation. But since the wage returns were voluntary, no true basis for comparison is forthcoming.

INDIVIDUAL COMPANIES

The relevant figures of single companies are not, of course, disclosed in their accounts, and unless special facilities are granted, the necessary information cannot be obtained.

The following table gives the ratios in the case of four single companies. Column 1 is taken from *Prices and Wages* by P. and A. Wallis, and the figures here quoted are the only ones given. Columns 2, 3 and 4 have been collected privately. Periods of stable ratios are bracketed off with the mean over the period:

Year	Company 1	Company 2	Company 3	Company 4
1911 ..	42.5			
1921 ..	—		44.2	
1922 ..	—	43.1	43.2	
1923 ..	—	43.9	44.1	
1924 ..	41.5	45.8	46.3	35.3
1925 ..	—	42.8	53.7	33.7
1926 ..	39.2	42.4	53.5	33.3
1927 ..	40.8	43.6	53.5	33.9
1928 ..	40.8	41.0	53.5	34.2
1929 ..	39.9	40.5	53.3	32.0
1930 ..	38.0	43.1	54.6	35.4
1931 ..	41.3	42.0	53.7	38.8
1932 ..	—	42.0	52.2	37.8
1933 ..	—	44.7	53.1	37.5
1934 ..	—	44.5	55.5	38.1
1935 ..	—	44.5	56.5	37.1
1936 ..	—	42.8	54.4	33.5
1937 ..	—	44.5	57.6	36.0
1938 ..	—	43.8	57.1	36.3
1939 ..	—	42.4	57.4	34.3
Mean ..	40.5	43.2	52.4	35.4

In the cases of companies 2 and 3, the nature of the industry underwent a considerable change during the whole period. Number 3 met

with very severe competition which forced it to seek a lower-priced market for much of its production. As a result, the balance between the volume of advertised branded goods and those sold unbranded changed, thus lowering the percentage of values added to raw materials and thereby raising the ratio of labour cost.

Number 4 is a company preparing raw materials. Production fell considerably between 1931 and 1936. Severe competition at low prices combined with a deliberate policy of keeping on as many workmen as possible owing to the isolated position of the factory, probably account for the rise in the percentage over this period.

The point which should be stressed is that the fluctuations in these ratios are not to be accounted for by alterations in wage-rates, nor are they directly connected with the state of trade. For instance, during the slump years, number 2's percentage decreased, while numbers 3 and 4 increased. When trade picked up again, number 4's percentage came down, while numbers 2 and 3 increased. These movements point to undoubted fact that such changes in ratio are connected with a change in the price structure of the Finished Product, in most cases an alteration in the balance between the value of raw materials and the values added to them, factors which can be forecast with reasonable accuracy in the planning of sales and of production.

CHAPTER IX

SOCIAL IMPLICATIONS OF THE
ARITHMETIC OF WAGES

From this arithmetical study of labour remuneration, there emerges the clear fact that, in its broadest aspect, from the workman's point of view, labour remuneration is governed not by money wage-rates, but by values produced. Cutting right through the artificial and illusory technique of wage-rate manipulation, the natural and, indeed, self-evident law stands out that man can have and, unless deliberate destruction takes place, will receive in accordance with what is produced. If money wage-rates are set too high, apparently short time, unemployment and eventually wage reductions step in to reduce labour remuneration back to a certain percentage share of the values produced. If they are set too low, abnormal employment, overtime and, eventually, wage concessions bring the ratio up to the normal level.

If these mathematical conclusions are accepted, the social implications call for an entire revision of the economic relationship and status which the industrial system has accorded to those who contribute the work function: for they mean that all those assumptions on which labour came to be excluded from sharing an interest in the Finished Product—an exclusion which dates back to the mining and woollen industries of the thirteenth century¹ are false.

THE ARITHMETICAL EVIDENCE OF THE STATUS OF LABOUR

If a system of remuneration is to work properly, enabling those remunerated to fulfil their function efficiently and the public to obtain the full benefits of their service, its structure must reflect the true status attaching to the function. To take an example. A surgeon is a professional man. He offers his services of skill and knowledge, and is remunerated by fees or a salary. The nature of his function is such that he does not guarantee a cure, nor can he be normally held liable for failure to effect one. Suppose, however, he were to be paid upon

¹ See Appendix 14.

what is generally known as a commercial basis, payment by results. Such a form of remuneration would not reflect his true status—that of a professional man—and it would also tend to distort his real function. He would be tempted, not to offer his services where they were most needed, but where success would be most likely. By concentrating upon easy cases, he would lose his skill and enterprise, while the public would be badly served. This example should serve to show how important it is that remuneration should reflect status.

The money wage-rate system is based upon the conception that the status of labour (if it can be called one), is that of a commodity. But an examination of the actual results shows that the industrial system does not reward labour in proportion to the price at which it buys it, but instead, awards it a regular share of the joint values created by the three contributors. The only status which accords with such a form of remuneration is that of partner. Partnership remuneration is that form in which net proceeds are divided in a set ratio.

This purely economic argument might not carry so much weight were it not entirely supported by the evidence of history. Since the advent of capitalism, economic social history has been characterised by just that sort of discord and disharmony which must always arise when men contradict the Natural order: when, for instance, men deliberately confiscate one section of society of its rightful status. Both the social and mathematical sciences of economics appear thus to protest loudly against the perversion which has so seriously destroyed the essential harmony and that natural democracy which is inherent in the very conception of the industrial process.

It started with the growth of that excluded and permanent wage-earning class separated from control over, and a share in, the Finished Product of its labours; its loss of control over the conditions of employment; its treatment as a commodity cost to an employer. There followed the repudiation of all moral obligation on the part of employer to employed; the refusal to accept any liability to give regular employment coupled with the insistence, that the employee was obliged to accept work; the national treatment of labour as the nation's most valuable raw material whose "cost of production" (standard of subsistence) must be kept down to the minimum.¹ Along with this there developed the transformation of economic theory from that of a social science based upon ethics to a natural science based upon the mathematics of wealth, resulting in those soul-less calculations which

¹ See Appendix 17.

placed property in the centre,¹ changed manual workers first into hands and later conglomerated them into a thing called "Labour," and ostracised them from the accepted boundaries of society into a slum of poverty, vice and misery which, however, was yet accepted as fair hunting ground for all who would plunder by means of truck and child labour.

The revolt of labour is to be seen through the centuries, gradually gathering cohesion. But the effort, by means of combination, to regain vertical integration into the industrial organism carrying a share of control over the conditions of employment met with refusal from employers who, for long, also had the backing of the State. Humanitarian palliatives failed entirely to satisfy the needs of labour; and, since the door to vertical integration had been closed, the pattern of horizontal integration into a vast working class movement took shape, eventually dividing itself into three main streams: those who accepted the commodity status and developed the means for protecting its price; those who sought to substitute a new system which would enable Labour to dictate to Capital—the Co-operative Production Movement, revolutionary Socialism and Syndicalism; and, born of the orthodox movement, the constitutional political movement with its (apparent) aim of substituting State Capitalism for Private Enterprise.

Yet another strand in this complicated web has been woven by those employers who have recognised something of the justice of the labour revolt. Their dissatisfaction with the impersonal commodity conception inspired the Welfare movement, schemes for joint consultation and works committees. Economically it inspired those measures which sought to give the worker back an interest in the Finished Product—the Sliding Scale form of wages, Profit Sharing and Co-Partnership. And, although these movements have effected a certain amount, they have none of them really touched the basic issues; for while authoritarian control exists, and while the money wage-rate system remains, the true association of labour in the control of its function combined with the just reward for its services, cannot be realised. Harmony can find less and less expression while authoritarianism reigns, even when tempered with the utmost benevolence.

¹ How wonderfully Anthony Trollope depicts the exaltation of property in the social life of the nineteenth century:

(Mrs. Grantley): "You will do nothing unjust, Archdeacon?" said his wife. "I will do as I like with my own," said he.—*The Last Chronicle of Barset*.

In this respect, human organisation of the economic order is years behind the level we have reached in political organisation. And it makes no difference whether we substitute a Labour or Managerial dictatorship for a Capitalist. All are equally dangerous.

So the first conclusion stands out: however much men have distorted the true nature of the industrial process, social history and economic science bear testimony to the fact that the true status of those who contribute the *work* function is that of *partner*—not *commodity*.

THE ARITHMETICAL EVIDENCE FOR THE IDENTITY OF INTERESTS

Under the system of collective bargaining round the money wage-rate, Management (representing the Capital interests) and labour are assumed to have conflicting interests.

The objective of Management is to purchase work cheaply. The objective of labour is to maintain and raise the standard of living of the worker.

It has been shown that money wage-rates do not, in fact, control either of these objectives. Instead, the cost of work is determined by:

1. The rate of production.
2. The price of the Finished Product.

These two factors determine the wage-rate level which can be struck under the pressure of collective bargaining, and therefore the money cost of work.

Once again, history bears witness to this order of cause and effect. All through the nineteenth century, however strongly organised, employers were forced to raise wages in times of rising prices and unions to accept lower rates when prices fell. The influence of productivity may be seen in a comparison of the high wage-rates of American workers compared to the far lower level of the British, in spite of the far stronger union organisation of the latter. The explanation is that, for a number of reasons, the American worker produces at a higher rate. Factory organisation is better, giving longer and more uniform runs of work. It may be, too, that the operative works harder because a country not yet fully developed inspires more lively ambitions. He is certainly given greater incentives because employers have none of that feudalistic phobia of high wages which still runs deep over here. The following table gives an instance in shoe manufacturing which makes a good comparison because the machinery used in both countries is similar:

1935	<i>Average hourly earnings</i>	<i>Productivity index</i>
British ..	22.3d.	100
American	33.2d.	152
Difference	51%	52%

The figure 152 is the minimum given. The maximum quoted is 202.¹ If then, we accept the theory that the cost of work is determined by the *price of the Finished Product* and the *rate of production*, and that the *money wage-rate* is the result rather than a cause, how do these factors compare with those which govern labour's objective?

So far as collective bargaining is concerned, the relevant factor in the worker's standard of living is his annual earnings. It has been shown that the controller of annual earnings is not money wage-rate, but the annual values of production. If we break the annual values of production into its factors, they will be found to be:

1. The price of the Finished Product.
2. The volume produced in the year—in other words, the annual rate of productivity.

These two factors are substantially the same as those which governed the *cost of work*. In each case the objectives of Management and of labour are determined by:

1. The price of the Finished Product.
2. The rate at which it is produced.

Arithmetical economics thus bears witness to the fact that there can, in reality, be no conflict of interests between Management and labour within the industrial organism on the matter of those objectives which have been made the main subject of collective bargaining—labour remuneration. And the implied harmony of interests bears additional testimony to the essential partnership relation. For conflict and the restrictive practices of opposing interests can find no place in a relation between partners.

THE PUBLIC AND LABOUR

The intimate dependence of wages upon prices means that those who determine the latter also determine the former. The natural law which emerges from the seething cauldron of collective bargaining, and the violent fluctuations in trade and employment, is seen to assert its control continually over the annual income of the worker and also over the cost of work. But it also points to another social truth, namely, that the primary purpose of the industrial process is not to

¹ B.O.T. *Working Party Report*, pp. 21 and 87.

make profits or wages, but to serve the public. For the analysis of the working of labour remuneration shows that it is not the employer who pays. The real "employer" is the public, for it is they who furnish labour with its remuneration and also determine the quantity. This can best be seen by considering the intimate relation between prices and wages.

THE PUBLIC AND PRICES

Prices are either controlled by the unfettered play of the law of supply and demand, or they are fixed by some authority, it may be a guild, a government or a cartel. But these two methods are not as much opposed to each other as it might appear. For while it may be said that, by the first method, control is left entirely in the hands of the public, the second method only has reality in so far as it is supported or tolerated by consent of the public. Black markets flourish when an effective section of the public does not support the delegated control of prices. Fundamentally, then, the public is the ultimate controller of prices whether it does so directly or by the delegation of authority.

Of these prices, the remuneration of labour forms a definite proportion. The public appears, therefore, to pay for work values at a certain percentage rate, and, in the long run, it will pay no more and no less. That rate is not expressed in a money form, but in the coin of the Finished Product. This conclusion contradicts many fundamental assumptions of our existing system. Labour is not employed by the Capitalist but by the Public, which is responsible for its remuneration. Industry is, in reality, a Public Service, although its administration may be delegated to Private Enterprise.

To consider this more specifically. The public determines what price it is prepared to pay for certain values to be added to raw materials by associations of men who are prepared, by the contribution of property, organisation and work, to bring this about.

The public "decision" may follow an-extremely indirect and complicated course, as in, say, the case of railway sleepers; or it may be extremely direct, as in the case, say, of novelty shoes. The decision is not a permanent one. In May, for instance, it may be prepared to pay an enormous sum for values added to buckskin to market white shoes. By July or September, it may not even be prepared to pay for the cost of the leather. The public, in this respect, is not reasonable, clever, or even moral. It is actuated by all the factors which go to make up

the general level of culture, and vanity, frivolity and snobbishness play as important a part as the real appreciation of utility and beauty.

Among the values added is the work value which is not paid for directly in terms of money, but in a proportion of the Finished Product. For instance, in the case of buckskin shoes placed on the market too late in the year, the public may only be prepared to buy them at a price which does not begin to cover the work values. This is the point which was missed by those who held the Labour Theory of Values (and, incidentally, accounts largely for the failure of Owen's Labour Exchange System). For men may put in just as much work in making white shoes as black. But where the public will pay for the work values in the former, it may refuse to do so in the case of the latter.¹

It may be objected that, since the men who made the shoes have, actually (under our present wage-rate system) been paid, the public has paid up. But the transaction is more complicated than that. When the shoes were in hot demand, it may be that labour received more than the normal percentage, due, perhaps, to overtime pay or wage concessions. This may be off-set later in the season by the falling demand which results in the public cutting down the volume of employment. In each case, the public determines the labour remuneration as it determines the effective price, in terms of the value it sets upon the Finished Product. Thus the *true wage-rate* is not a sum of money per hour, day or week or even per piece, but a *percentage of the values of the Finished Product*. It is as if the public decreed: for every hundred pairs of shoes made, the labour force is entitled to twenty pairs: for every hundred tons of paper we consume, the workers who make it shall have (say) fifteen.²

CONCLUSION

The real employer of labour is the public. Sometimes a good employer, sometimes a thoughtless employer and, alas, sometimes an abominable sweater and exploiter. The talk often heard about the inconvenience which the "poor long-suffering public has to undergo during strikes" shows a certain irresponsibility. For the public is, in

¹ Is it not true, also, that all point rating systems (to which so many authorities of to-day attach so much importance) when used as objective standards for the remuneration of labour are based upon the old *Labour Theory of Values* in its crudest form, the most famous exponent of which was Karl Marx?

² Compare this with the Coventry Weavers settlement, *supra*, p. 16.

truth, always one party to the quarrel. It works, under present conditions, mainly through the capitalist and organiser; and it may well be that these have had far more mud slung at them than they really deserve, just as the customers of the black market are deserving of even greater censure than are the spivs who run it. It is certainly true that many of the Management class have been feeling for a long time that they are bound by the industrial system to a code of public conduct which they could not justify in private life.

Finally—a warning. The existence of a natural law governing labour remuneration does not point to the expediency of a return to *laissez-faire*, neither does it really suggest that the industrial organism is a self-regulating machine which should be freed from the “interference” of trade unions and governments. Man must be the master of natural laws and he must know how and when to use them. He needs to build human associations and order the consequent relationships in harmony with those laws, expressing them both socially and mathematically. Thus for instance, the independent organisation of labour forms just as vital a factor in the construction of a harmonic industrial structure as it has in the capitalist system of conflict. But to fulfil its new rôle it will need to pursue entirely different objectives and to employ entirely different methods from those associated with the trade union as we at present know it. Similarly, far more attention needs to be paid to the vital employing function of the consumer public. And until some independent consumer organisation is created, the government must continue to act as representative. It is in this sense that so much talk of government “interference” is irrelevant.

CHAPTER X

THE PALLIATIVE OF PROFIT-SHARING

Before turning to a positive consideration of the sort of developments prompted by this historical and statistical analysis, it is as well to consider how far the obvious symptoms of disharmony have been the subject of experiments by those who have controlled the industrial process.

One of the most remarkable pronouncements was made as early as 1794 by Albert Gallatin, a glass manufacturer, in Pennsylvania, who inaugurated the first known systematic profit-sharing plan:

“The democratic principles upon which this Nation was founded should not be restricted to the political processes, but should be applied to industry.”

To us such words are nowadays a commonplace, but in the nineteenth century it was generally held that the conflict between employer and employed was a necessary part of a system of free competition. As such it was looked upon by many as a valuable factor in the efficiency of the private enterprise system. But there were employers who realised that conflict and restriction did reduce efficiency very considerably, and these sought means by which the relationship between employer and employed might be so modified as to bring their interests more into line. It is with this end in view that profit-sharing and co-partnership plans have been devised, the latter misleading term referring to plans for employee shareholding.

PROFIT-SHARING

One of the earliest large profit-sharing plans introduced in this country was that of Henry Briggs & Co., colliery owners, in 1865. It was, however, introduced with the condition that no man belonging to a trade union might share in profits. No collective status was accorded the miners as a *quid pro quo*, and the division of the profits was determined by the owners, workers having no guarantee whatsoever. It amounted to an uncertain gift in return for the surrender of all collective rights which left the owners free to fix wage-rates. Very naturally it failed. A wage-reduction brought about a strike, the bonus was withdrawn, and the plan came to an end.

A far more successful plan was that introduced by the South Metropolitan Gas Company in 1889 as an inducement to end a strike. In its original form there was a proviso against union membership which was, later, withdrawn. The employees elect three of their number to sit on the Board of Directors, so that there has been a real endeavour to balance the status of labour within the organisation. An important feature of the plan was a proviso that employees must invest half their profit bonus in the Company, the Directors having always held the principle of co-partnership to be of greater importance than that of sharing in profits.

Until it was nationalised, the gas industry had been a statutorily controlled monopoly and, as such, is by no means a good example of the average industrial undertaking. The stock of Gas Companies did not fluctuate in price to any extent, and investors ran little risk of capital losses. Demand was regular, prices stable. Hence it is not surprising that profit-sharing and co-partnership spread through the greater part of the industry.

Apart from this example, profit-sharing plans have never become widespread. In 1910 there were (excluding co-operative societies) some 118 in operation, covering about 88,000 workpeople. The number increased steadily to 336, covering about 250,000 workpeople in 1929, since when the number has declined, though not with a corresponding decline in the number of workpeople covered. About 400 plans have been abandoned at one time or another.

While many plans have been accompanied by conditions of great harmony between employer and employed—plans such as those run by Reckitt-Colman, Bryant & May, Vauxhall Motors, Triplex Safety Glass and, most famous of all, J. T. & J. Taylor—there is little reason to suppose that the principles have contributed anything towards the solution of the problem of industrial organisation.

AN ANALYSIS OF THE PROFIT-SHARING PRINCIPLE

Upon what principle does the owner of a Company share profits with the employees? There are three possible answers. First, because it is considered that workers are entitled to a share in the profits, in which case it becomes a matter of justice. Second, because the owners have some reason for wishing to give them away, in which case it becomes a matter of paternalism or charity. Third, because the sharing of profits is considered to be the best use to which they can be put, in which case it becomes a matter of expediency.

1. Very few, if any, profit-sharing plans have been based upon the principle that employees are entitled to share profits, although many employers have half inferred this. But, if it were a simple matter of justice, then it would be only logical to allow the labour interests an equal voice in the division of profits. It does not appear that any plan has ever been devised on these lines. Employers hold, with economists and the framers of our Company Laws that, under the capitalist system, residuary profits belong to the equity shareholders and that the power to distribute a part to wage earners is vested in them or their nominee directors as the Articles of Association may determine.

There is also a further implication which would follow any assumption that labour is entitled to a share in profits. If the full and just remuneration of the wage earner can only be assured by a participation in the profits, then labour would have the right to claim a share in the appointment and the control of the management upon whose work its share, to a great extent, depends.

Mr. Theodore C. Taylor probably spoke for many profit-sharing enthusiasts when he said:

“Having made it clear, I hope, that a trader’s profit, i.e. any surplus over his salary and bare interest on capital, is rightly his, I am not going to claim that his employees have, or anyone else has, any moral right to take it from him.”

(An Address given to the Industrial Co-Partnership Association, July, 1945.)

The general assumption in the profit-sharing movement is, then, that it is not a matter of justice. Companies must be left entirely free to institute or withdraw such plans as they think fit. As a form of industrial organisation, it cannot be said that profit-sharing restores the essential partnership relation in the industrial process, for it may be no more than the financial expression of a partnership which, in fact, has no social substance. Where, as in the case of Henry Briggs, it has been instituted to deprive labour of an independent position, it not only fails to express the partnership relation, but actively denies it.

On the other hand, it must be recognised that, under favourable trading conditions, or in sheltered industries, or under management gifted with unusual sympathy, many plans which may not fulfil the strict demands of justice may give every appearance of solving the problem of industrial conflict, and of bringing the worker to a psychological sense of partnership. But how deep does this go? One of the most usual causes for the failure of profit-sharing plans is

their inability to deal with the problem of losses. It is estimated that half the number of plans abandoned have failed for this reason. "Profit-sharing plans apparently work fairly well as long as the Company prospers, but dissatisfaction arises when profits diminish or disappear."¹

This conclusion supports the contention that the profit-sharing formula does not, in fact, produce a conscious sense of partnership in the mind of the worker. Men will endure great hardships so long as they have the sense that they are a part of the enterprise, and, if they fail to take the rough with the smooth, it is frequently for the reason that they feel they are being used for purposes over which they have no control. So it is that in official Labour circles, it is felt that profit-sharing endows a worker with a share in a fund over which he has no control, and may burden him with a loss for which he is not responsible.

2. The second possible basis for profit-sharing has its roots in paternalism. Mr. Theodore Taylor gives this as his first motive:

"In our hearts, we all know that it is more blessed to give than to receive." (Address cit.)

He adds that to share profits adds an element of pleasure to the lives of business men which can be obtained in no other way. Such an exceptional sense of moral responsibility towards employees has been only too rare in the history of capitalism. But if this be the main reason for profit-sharing then, as a solution to the problem of industrial organisation, it must be put outside the discussion. Charity will not do the work of justice, which, alone, is the foundation of social order, and to introduce dependencies created by charity into the fundamental organisation of industry is to accept the principle of feudalism—to class men as givers and receivers, free and dependent. In spite of the social form in which capitalism has developed, these feudal distinctions are contradicted by the nature of industrial association. It is only necessary to point out that profits cannot be made without labour any more than wages can be earned without capital, and therefore those who are, in part responsible for making profits are hardly likely to feel that justice has been satisfied with a system of industrial organisation, which elevates tipping to the dignity of a systematic form of remuneration.

¹ *Co-Partnership To-day*, p. 21, published in 1946 by the Advisory Committee on Policy and Political Education of the Conservative Party.

In the small factory where personal relationships between employer and employed are possible, a certain degree of paternal care may, with advantage, take the place of more formal dealings. But it should always be dynamic, aiming at education towards the responsibility of independence, for, sooner or later, Labour demands a latch-key, a privilege which can be dangerously misused by those who have never been taught how to live independently.

To say this does not invalidate the case for "Welfare," but rather, re-orientates it. For it should always be remembered that the money spent in this way is largely the fruit of labour, while the provision of proper communal services in the place where men and women spend nearly a third of their adult lives should not be regarded as munificence at the hands of a "good" employer deserving special gratitude, any more than directors would feel they owed the shareholders a vote of thanks for their afternoon tea.

3. Then there is the third possible reason for sharing profits; it is good business—it pays—it creates a spirit of co-operation; in short, expediency.

The degree to which a bonus will act as an incentive depends upon the proportion of the worker's income which it represents. Statistics show that from 1910 to 1937, the average share of profits paid to workers as a percentage of their wages amounted to 5.3 per cent. Even then, the psychological value of this incentive is not to be equated to the whole 5 per cent., but to the variations from year to year. In a poor year, the share may only yield $2\frac{1}{2}$ per cent., and it is the difference between this and the average which measures the margin of incentive. Thus, if a man were earning £6 per week on a 40-hour week, a poor year might bring him a share of profits amounting to about 3s. a week. In an average year, it would be 6s. a week. So the margin of incentive really only amounts to about one hour's wages per week, or 0.8d. per hour on a wage of 3s. per hour. In addition, the worker has to wait for the payment till the end of the accounting period, six months or a year.

Under these circumstances it is natural that the average workman feels that a strong union may bring him far greater advantage. A successful claim for an extra 2d. per hour would bring in more than double the incentive offered by such a share in the profits.

But if the workman does not look at the matter from the angle of gaining more, he may well look at it from the point of view of losses. The greatest source of loss of income to the worker is unemployment

and short time. Suppose, taking the above example, the worker only worked 39 instead of 40 hours during one week. That would mean that the whole of the profit-sharing incentive would have been swallowed up. In addition, in a factory working short time, the chances are that the profits will not come up to the normal, indeed, unless the worker is put on short time, the chances are that there will be no profits at all.

Without some system of guaranteed employment, it is difficult to see how a profit-sharing plan can really add an incentive based upon the common interests of Capital and Labour. Of the two sources of income, wages are so infinitely the more important that they are bound to drown the worker's interest in the problematical and rather meagre share of profits which is offered in order to stimulate his power to co-operate.

Thus the theory of profit-sharing as an incentive is unsound because of the existence of the two conflicting sources of remuneration which, in themselves, carry an inherent conflict. This conflict cannot be settled by reducing the conflicting source of the worker's income to 95 per cent. of the total and making up the other 5 per cent. out of profits. For the worker can still be said to be 95 per cent. in conflict with the Capital interests.

Under the money wage-rate system, the worker is selling his labour as a commodity to the capitalist, and, having learnt the laws of competition from capitalism, he realises that the highest prices are realised through scarcity and restriction. Efficiency may swell profits, but, to the worker it appears to reduce his earnings. In point of fact, it does nothing of the sort, but the false relationship into which the contributors of work have been placed causes the majority to come to this misleading conclusion.

The conclusion reached by the authors of *Co-Partnership To-Day* is probably a fair summary of the value of the profit distribution as an incentive:

"Few employers who have practised profit-sharing for long seem prepared to claim that this comparatively small sum is an incentive to greater output and increased diligence except, perhaps in the month before the dividend is declared." (P. 35.)

PROFIT-SHARING AND TRADE DISPUTES

How far do profit-sharing plans tend to minimise trade disputes? In this country there are no statistics available, but those collected by the U.S. Senate Committee on Finance in 1939 certainly appear to

support the contention that profit-sharing improves industrial relations. A questionnaire sent to 728 companies showed that in those in which there was no profit-sharing or co-partnership plan, 23.4 per cent. reported strikes, 18.7 per cent. reporting major strikes. Of those running some form of plan, only 9.9 per cent. reported strikes, but of these, 7.7 per cent. reported major strikes. Care must be taken in forming a conclusion from these figures, for companies which run profit-sharing plans would, in any case, be managed with due regard to the importance of sound industrial relations.

PROFIT-SHARING PENSION PLANS

Plans in which profits are allocated for the provision of pensions must be classed in a different category from those in which the aim is to provide an incentive or to express a partnership, the difference being that in pension plans, profits do not form a part of the normal remuneration of the producer. Later, reasons will be given to show that great advantage would be gained if the use of profits as a source of remuneration could be entirely eliminated. Of the three uses to which it is suggested that profits should be put, the provision of pensions is by no means the least important. Two reasons may be put forward. In the first place, profitability over a number of years may be regarded broadly as a mark of public approval, and the provision for old age is as good a way as any of passing on this mark of approval to those who have contributed together to earn it. In the second, since it is accepted that out of profits must be taken the costs of wear and tear in order that capital equipment may be replaced with the latest types of machinery, might not this principle be extended into the human field by claiming that a part of profits should be used to recompense the wear and tear of human life, and to enable employment to be provided for the newcomer ?

So long, therefore, as the distribution of profits does not form a part of the producer's remuneration, there is everything to be said for such profit-sharing plans.

CONCLUSION ON PROFIT-SHARING

On the test of expediency, both the principles and the results achieved do not indicate that profit-sharing could form the basis for the development of industrial organisation. The wage payment and the profit share are based upon conflicting principles. The relative

proportion of the worker's income paid out of profits is too small to act as an incentive. The system of unguaranteed employment contradicts the partnership relation as does also the inability to devise means by which workers may share losses as well as profits.

CO-PARTNERSHIP AND EMPLOYEE SHAREHOLDING

Amongst companies running profit-sharing and co-partnership plans, it is generally considered that employee shareholding is of greater value than the sharing of profits.

Broadly speaking, there are roughly two types of employee shareholding. Those plans in which special shares are created for employees, and those in which employees hold the marketable shares of the company with or without special benefits or protections. The firm of J. T. & J. Taylor is an example of the former. A large portion of the profit share is paid in shares with the result that, to-day, four-fifths of the company's capital is owned by employees. But shares held by employees carry no vote, and therefore the rather extraordinary anomaly exists of ownership without control which, in an admittedly property-based society, is something of a paradox. Instead, employees are given a full statement every year and, on day to day management, a co-partnership committee sits to make suggestions. The fact that such a plan works, and works apparently extremely well, does not in any way minimise its social unsoundness. It certainly says a very great deal for the personality of those in control. In effect, however, this structure has made the worker even more dependent upon his employer than is the case in the normal non-co-partnership undertaking.

Other companies reserve special blocks of shares for employees which may be sold back to the company or transferred amongst employees, but not sold in the open market. A disadvantage of the issue of special shares is the risk of over capitalisation, and for this reason many companies prefer to offer employee shares from the regular issues, very often with special facilities. For instance, the Bradford Dyers' Association run a plan whereby any shares purchased by employees are placed upon a separate register which entitles the holder to an extra bonus.

One great disadvantage of employees holding the marketable shares of the company is the hazard they run of capital losses at times when they are probably on short time and low wages. A good example of the seriousness of such risks is afforded by the experience of the steel

workers in America. In order to combat unionisation after 1925, the U.S. Steel Corporation did its utmost to induce employees to take up common stock which, in 1929 stood at 261. The slump, which brought appalling mass unemployment in the trade also brought the price of the common stock down to 21 in 1933. It has been calculated that, over this trade cycle, the average price of a group of industrial preferred stocks sold to employees reached a price of 115 high, and 50 low, while common stocks ranged from 141 to 20. It is an obvious maxim that those who enjoy least economic security can least afford to put all their eggs in one basket.

Then there is another difficulty. Suppose an employee buys at a low price, what is there to prevent him following the prevailing practice of selling out on a rise? But, as soon as he has done so, he ceases to be a "co-partner." Thus, in 1930, 60 per cent. of the Bradford Dyers' Association's employees held shares, but the passing of dividends year after year reduced the proportion to 25 per cent. by 1945.

If, on the other hand, shares are protected against capital losses, and dividends are maintained at a reasonable level as, for instance, has been the case in the Gas industry, the employee soon ceases to connect his receipts with the prosperity or efficiency of the company for which he works. He might just as well hold Government securities or preference shares in other sound undertakings.

In spite of the difficulties and contradictions raised by plans for employee shareholding, the tendency in the profit-sharing movement is to base itself more and more upon co-partnership principles as being the most effective means of bringing Capital and Labour together. But how far can it ever be expected to achieve this result?¹

The fundamental problem is to attain harmony between the contributors of Property, Organisation and Work. The principle of co-partnership is to make every worker a capitalist. But under the most favourable conditions—those of the Gas industry—it has been calculated that workers only hold about 3.7 per cent. of the capital. Under modern conditions it is quite unthinkable that workers could ever provide that proportion of capital required to give them an interest in dividends which would compete with their interest in wages.

The principle of co-partnership seeks harmony by a means which could only be successful under mediaeval conditions, namely, by

¹ "Shareholding should, in fact, be regarded as the ideal keystone of the arch of co-partnership—" *Co-Partnership To-Day*. An astonishing conclusion.

bringing about a concentration of functions in one person. It formed the policy of the Liberal Party in their programme of diffused property ownership and peasant proprietorship in the last half of the nineteenth century. In a sense, too, it is related to the principles of co-operative production. The main criticism which it invites, is that it does nothing to enhance the status of the worker *by reason of his function*. It suggests, instead, that he should join the ranks and enjoy the status of the suppliers of property.

Perhaps the greatest value of the whole profit-sharing and co-partnership movement is that those who control have, at least, endeavoured to discover an arithmetical formula for the social formula of good industrial relations.

THE STATE AND THE PROFIT-SHARING MOVEMENT

The only country which has adopted compulsory profit-sharing by means of legislation is Venezuela. The actual proportion of profits which must be distributed to employees is fixed by the Executive and varies according to the size of the business from 12½ per cent. of net profits to 2 per cent. But since the profit share is not linked up with wages, the general effect appears to have been to subtract from wages what has been paid out in profit shares.

The New Zealand Companies Act of 1933, adopted by New South Wales in 1936, however, strikes an entirely different note. It enables companies to issue to employees "Labour Shares" which carry similar rights and privileges to those of Capital Shares. These labour shares have no cash value and are not transferable. Holders are entitled to dividends and voting rights.

This measure introduces three important principles. First, the rights of labour are incorporated in a Company Law, one of the gravest omissions in capitalist legislation. This means that the company is not merely composed of those who contribute the capital, but includes those who contribute organisation and work. In the second place, the measure links together the right to share in profits with a measure of control over the enterprise. In the third, unlike co-partnership plans, labour is accorded the right to share in profits and control not by reason of the capital it contributes, but in virtue of its contribution of work. The weakest point about it is that it leaves the wage-system untouched. If workers were to obtain a really

substantial proportion of their yearly remuneration (say 25 per cent. at least) through dividends on their labour shares, the conflict of the two sources of income would lose its sting.

Nevertheless, the measure is a very real attempt to re-balance industrial organisation round the performance of function rather than the centre of property ownership and to vest an equal measure of control in the hands of those who perform the industrial process as well as those who own the means to enable it.

PART THREE

CHAPTER XI

A NEW INDUSTRIAL SOCIETY

TESTS OF A TRUE SOCIAL DESIGN

Industrial society changes by evolution. It must be conceived in terms of development, synthesis and integration. Thieves may, indeed, come in the night, but however successful their missions, they leave more behind them than they manage to take away. Revolutionaries, who draw their vision in black and white, divorce their dreams from reality because they think they have started with a clean sheet. Failure follows for two reasons: first, because it is a false oversimplification to imagine that the slate of human society can ever be wiped clean; and second, because it is only from the lines already present that the real vision of the future can be drawn.

In the evolution of industrial society, reformers create reality by the encouragement and emphasis given to movements which have been generated by experience; and, in so far as they merely eliminate all that conflicts with their ideas, they only succeed in taking the perspective out of the design. For instance, to organise co-ordination by eliminating individualism does not achieve co-operation, but a formless conglomeration. To give an historic example, it can be seen that Owen's New Moral World was designed upon the assumption that self-interest could be wiped out. He failed to see that it was this same self-interest which gave the society of his day its amazing vitality. Thus New Harmony and other social experiments were not only lacking vitality, but their lifelessness largely created that new vicious disharmony on which they foundered.

In a re-draught of industrial organisation, which will form the subject for the remainder of this book, a test which must be applied to each change is: how far is it already present, awaiting full interpretation and emphasis? Above all, care will be taken not to fall into the easy trap of under-valuing the significance of any of the three main contributions to the industrial process.

CAPITALISM

The greatest temptation, after a hundred years' of financial domination over the industrial process, is to under-value the importance of

the property contribution—to step back to the babyhood of Western economic life by concluding that capitalist disharmony has proved all rents and charges for interest to be socially destructive and, therefore, unjustifiable—that, in fact, no reward is due to those who perform the initial and continuing function of enabling the industrial process.

There is a sense in which the rewards of Capital have been excessive, and yet the other side of the picture is not always appreciated. Turning once again to American statistics for lack of similar information on British industry, the following table shows the percentage of U.S. Corporations which reported any net income over the years 1926 to 1936, a period which fairly covers the trade cycle. The number of manufacturing establishments in business, as reported in the biennial Census of Production, is also shown:

Year	Percentage of Corporations showing a Net Income (1)	Number of Manufacturing Establishments
1926	56.7 per cent.	
1927	54.7 ..	188,000
1928	54.2 ..	
1929	52.9 ..	207,000
1930	42.7 ..	
1931	34.0 ..	171,000
1932	16.2 ..	
1933	21.8 ..	139,000
1934	27.4 ..	
1935	30.8 ..	168,000
1936	38.3 ..	
1937		167,000

Figure 14 shows the net income of the profitable corporations against the net losses of the unprofitable, in dollars, the dotted line showing the course of profitability—i.e. the difference between the two.

These figures demonstrate the very real risk, but do not show how the profits and losses were distributed. Although a large number of corporations earned no net income over the whole period, it is probable that the profitable ones earned enough to pay out large bonuses to shareholders in the form of shares, a system which lays a heavy tax on all future earnings. Incidentally, such issues, by remunerating the capitalist contributor in inverse proportion to the risk involved, entirely contradicts the argument that greater risk should carry higher reward.¹

¹ See *infra*, pp. 78, 143

FIGURE 14

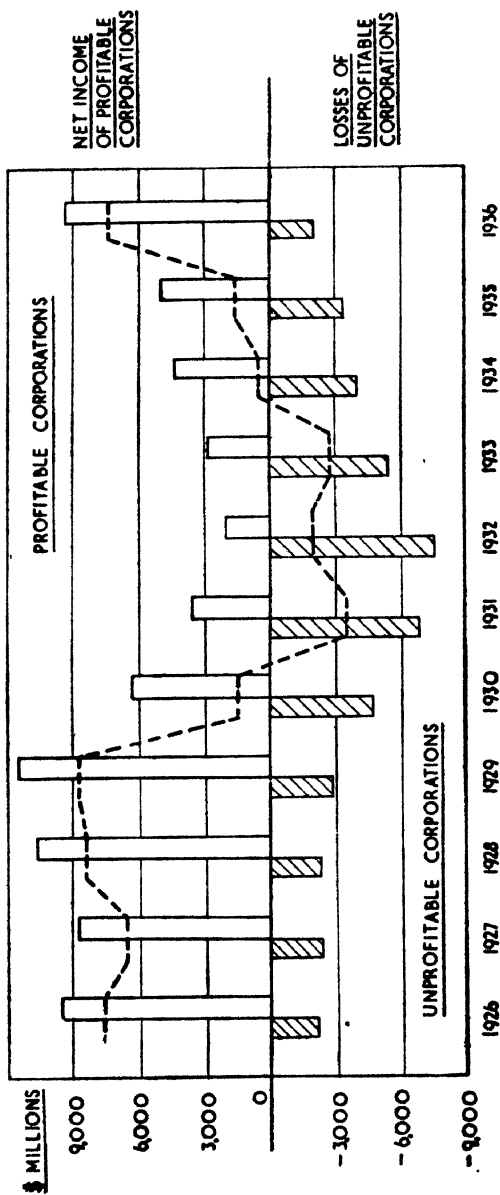


FIGURE 14
See text. Sources. U.S. Statistical Abstract.

When the vital importance of the enabling function of capital is recognised, and it is seen that even in a peak year such as 1929, nearly half the corporations in the U.S. were unprofitable, while the number of manufacturing establishments fell from 207,000 to 139,000 in four years, it is obvious that some redistribution of rewards and penalties for capital risk must be effected if property is to be efficiently used. What will be suggested is that the difference between reward and penalty should be considerably narrowed by remunerating capital, not upon the margin of efficiency but in proportion to the whole values produced.¹

If the economics of risk on capital could be brought to swing on a smaller arc, a decrease in the fluctuation of the number of producing establishments might be expected. Although freedom to expand or contract their number is necessary, the extent to which this took place in the period between the two wars contributed to a good deal of inefficiency, injustice and social dislocation. Inefficiency, because liquidation does not mean that capital is freed to flow into other channels; for when an establishment closes, the break-up price is extremely small. All the capital values which have been transformed into organisational forms are lost. The injustice was illustrated in this country, for instance, during the boom years up to 1929, when a large number of mushroom factories making furniture, shoes, clothes, etc., were encouraged by the mischievous opportunism of certain big stores to start up during a period of steeply rising prices, thus taking much business from those regular producers who had borne the burden and heat of the day. Having no responsibilities, liquidation during the slump was merely a normal part of their programme, which took no account of the social disorder of unemployment. At the present time, the opening of new manufacturing establishments in Great Britain is strictly controlled. Some form of licensing may be desirable, but in a democratic society there is everything to be said for decentralising control by laying certain vital obligations towards continuity upon those who wish to create new organisations. It is upon such lines that we shall seek to solve this problem rather than by any rigid system of centralised regulation.

PROFIT

Under the existing system, capital is rewarded from profits, a source of income which stands over and against the payment of wages and salaries.

¹ See Chapter XIX.

It is vital to distinguish between profit as:

- (a) A test of efficiency.
- (b) A source of financing risk and expansion.
- (c) A motive for work.

PROFIT AS A TEST OF EFFICIENCY

Since the need for the industrial process arises in the demand of the public, in one sense it may be said that profit is a measure of public satisfaction over and above the normal rewards for the performance of the industrial process. In the long run, it constitutes a mark of approval and an encouragement to expand. Even in the case of profiteering on shortages, however unwillingly the public may spend, if it does in fact do so, it shows that it is not prepared to withdraw its whole approval; while the payment of a high rate of profit is generally admitted to be the greatest encouragement to expansion.

Since it is in public demand that the need for the industrial process arises, it is an illusion to suppose that, as a test of efficiency, any system of cost analysis can entirely eliminate the need for the test of the competitive market. In the end, the public is the final arbiter. The only sort of economy in which a theoretical determination of efficiency could operate with any semblance of success would be one in which not only production, but the details of private purchases were entirely controlled by a central authority. But, of course, in such a case, whatever else such a system might be said to determine, it would not, in fact, be what we mean by the word efficiency. Cost analysis is a useful *subjective* test only if it has reference to the competitive market, which is the final *objective* test, a test composed of so many psychological, aesthetic and moral factors that it defies any sort of analysis. Since the public stamp of approval is the profit it is prepared to allow, profitability is an inherent factor in the natural order of the industrial process, which, however much its treatment needs to be altered, cannot be eliminated. Whether an economy is "free," or whether it comes under strict centralised control, as in the case of the U.S.S.R., profitability is a factor which has to be taken into account sooner or later.

PROFIT AS A SOURCE OF FINANCING RISK AND EXPANSION

There are only two sources from which capital may be drawn. The first is the natural resources of the earth, and the second, the unexpended, or saved up, work of man. Economic expansion requires both these sources—the capitalisation of natural resources combined

with a high rate of retention of the values created by the industrial process—in other words—profit.

Peter Drucker in *Big Business* points out that the unprecedented expansion of the U.S.S.R. economy is undoubtedly accounted for not only because she has been able to draw upon an almost limitless supply of natural resources, but also because the excessively low standard of living accorded to her workers has provided the highest rate of industrial profit in the world. Profit, then, as a source of economic expansion is not peculiar to the "Free Enterprise" system, but is inherent in the natural process of economic expansion.

Against Profit must be set Loss, a principle upon which the continuity of industrial organisation depends. In the U.S.S.R. the whole economic programme depends upon using the profitability of one industry to make good the losses incurred in the establishment of others, so that the tax upon the industrial process which risk always levies is spread. It makes no difference whether such cancellations of losses against profits are made "horizontally," as in the case of the centralised economy of the U.S.S.R., or "vertically" over the years as is the case in private ownership, the principle remains the same. If there is enterprise, there is risk. If there is risk, there will be losses which can only be made good out of profits.

Thus, Profit, as a measure of efficiency and as a source for financing expansion and risk, cannot be disregarded. But this does not imply that the present form of ownership and distribution does not require drastic reorganisation: for while the uses of profits must follow certain natural laws, there is a great deal of evidence to show that the interests they at present serve frustrates the proper working of such natural laws.

THE PROFIT MOTIVE

There is hardly a more complicated issue than that of the justification of the profit motive. Its complexity is demonstrated by the very violence of those who fight the battle for and against, those who proclaim it as the one supreme source of initiative and enterprise, and those who denounce it as the most socially destructive force in modern civilisation.

If the dignity of human nature is to be respected, each man must shoulder the main responsibility for the working out of his own salvation, an omnibus purpose which, since man has body as well as soul, must include economic well-being. Money, which however, is but the means, is therefore a real and right motive for work, but it is

only one among many; only a part of a much larger purpose. It is when the other factors of this wider purpose are obscured or deliberately disregarded, that money incentive may rise to the first place and dominate the whole conduct of men's activities. But this is an unnatural, almost pathological, state of mind; and it makes no difference whether the incentive is connected with a wage-pocket or a profit. As a prime motive—as a total purpose—it is deplorable; and to hold it up as the necessary basis of all economic activity is to do unpardonable violence to the dignity of human life. Nineteenth-century economists, out to prove that the profit motive controlled the whole economic process, based their teaching on a mechanical psychology which equated work with pain. It is unnecessary to appeal to modern psychology to disprove this foundation. Enforced unemployment is one of the most terrible forms of human pain while, on the other hand, men have often found a satisfaction they have never known before through some call to hard work and the fulfilment of demands which, at first sight, appear impossible.

But, while the economist's picture of the go-getting entrepreneur, spurred to ingenuity solely by the glitter of gold, and that of many a wealthy shareholder who denounces the "idle" British workman on the false supposition that his only object in life is a fat pay packet, both give an utterly false account of human nature, they yet provide a sufficiently serious indictment of human *organisation*. Economic incentive has its right place, and, in so far as it provides a common medium for the correlation of various forms of human initiative, it fulfils a most useful purpose. But its over-emphasis in capitalist economics, which has led to an absurd prestige being attached to economic measurement of human worth, is largely to be accounted for by an economic organisation which has failed to emphasise other sources of satisfaction, and which has blinded so many to the ultimate purpose of work by separating them from the Finished Product of their contribution.

This is best understood if we consider those most completely divorced from any psychological connection with the Finished Product. For the worst abuse of the profit motive has grown up through the impersonal ownership of industry by the function-less shareholder. In the dominant control by this section, the profit motive has been isolated and made a substitute for any notion of public service or social responsibility. It is, for instance, difficult to see how ideas of public service or of social responsibility towards those who are working

the process can enter the minds of shareholders who are so much separated as frequently to be entirely ignorant of the nature of the Finished Product which their capital is helping to produce, the place where it is made, and the people who make it. Thus a stockbroker's list inspires about as much impression of public service and social responsibility as a betting card.

Nationalisation and the growth of the large mass-production unit, however, are warnings that the impersonal character of investment is likely to increase, and there can be no romantic return to the day of the small functional investment. The solution, instead, appears to lie in the direction of shifting the centre of control from the functionless owner to those who are actively engaged—the organisers and workers. Already there are signs that the Managers of industry are restive under the exclusive obligations to make profits for those who have no other motive—the shareholder. Many are openly making the claim that dividends should be limited to something akin to a rent; and these threats are real enough to cause shareholders, in some cases, to endeavour to retain their exclusive privileges by increasing managerial salaries to phenomenal figures; or by showing preference for the financier rather than the industrial mentality in their managers.

Profit thus stands out as a necessary factor in the industrial process: as a test of efficiency, as a source for financing expansion and risk, and, in general terms, as an economic expression of incentive. The abuses arising from profits can only be overcome by a reorganisation of the uses to which they are put and the interests they serve. Risk must be rewarded; but not in such a way that, long after all element of risk has vanished, the capitalist's contribution continues to receive increasing rewards. The shareholder, after all, only carries a part of the risk; for the workman risks unemployment, and the manager his professional reputation upon which his livelihood depends. Losses can only be repaid out of profits, but again, it is not the owner who alone carries the burden, for, in terms of reduced standard of living occasioned by unemployment, the workman must pay a very large proportion of the losses incurred in times of depression.¹ Expansion

¹ "In the years following 1929, involuntary idleness cost the American people \$275,000,000,000 (about £70,000 million) of real income . . . the principle loser, but by no means the only one, was the American worker. The tragedy, suffering and frustration which characterised the twelve years produced a deep-rooted demand for security, of which the Guaranteed Wage is becoming one of the most important expressions."

Murray W. Latimer, Research Director, Office of War Mobilisation and Reconversion. *Guaranteed Wages*, p. 10.

must be largely financed from profits, but since they arise not solely through the contribution of capital, but are, to a great extent the unexpended fruits of organisation and work, there seems to be no valid reason for such capitalisation to become the sole property of one contributor to the process. While economic incentive should form a part of the organisation of industry, its use should be confined mainly to those who perform the active functions in the production of the Finished Product. While individual incentive is of value so long as it does not introduce such a degree of competition that co-operation is destroyed (a result upon which the ordinary piecework system stands condemned) far more attention should be paid to group incentives since they bring rewards which require co-operation and harmony.

CONCLUSIONS REGARDING THE CAPITALIST'S REWARD

The Co-operative Production principle, Syndicalism and the New Zealand system known as Valderism,¹ are all movements organised upon the principle of the expulsion of the *property* contributor from integral association in the industrial process. In the endeavour to correct the capitalist perversion by which *property* has employed *function* entirely in its own interests, these systems try to solve the problem by reversing the rôles. But, however much we may sympathise with the motive for restoring the balance, these solutions are no less violations of the essential nature of the industrial process; for, if the active contributors, organisers and workers were to claim complete freedom to use the Property contributor for their own exclusive benefit, it is only logical to assume that such a new form of tyranny would give birth to a new form of industrial disharmony.

The capitalist's claim to the whole of the Finished Product and to all the profits arising from its disposal has not only been the main cause for the social disharmony of industrial society but has also created a perverted conception of material values in those who control production. For the Capitalist controller, remunerated from profits, thinks of material values in terms of profit margins rather than in terms of the whole product which alone serves public interest and constitutes true material wealth. So the oft-quoted anomaly arises: wheat and coffee, etc., have been burnt as of no value, simply because the profit margin in exchange was absent. The principle of remuneration from profits contradicts the principle of industrial production for public service. This is one more reason why, as will be later

¹ See *infra*, p. 141.

described, the solution to the Property reward problem will be to base remuneration upon a certain proportion of the total values produced. In this way, by eliminating profits as a direct source of remuneration, profitability and the use of profits for their right purposes would slip into their true perspective. For profitability is not the sole test which should be applied to the industrial process; expansion is not an end in itself; and the profit motive cannot be accepted as the prime mover nor yet as *raison d'être* for the existence of industrial organisation. Yet the contribution of Capital and the making of a profit stand firmly in the texture of the natural order of industrial production, and the solution of the problems which the profit system has raised will not be found by endeavouring to deny profit a place in the system, but rather by re-defining it and bringing it into its right perspective in relation to the real purpose of the industrial process.

FUNCTION AND PROPERTY

The movement towards functional control rather than financial appears to be one of the great changes of our time. A hundred years ago, the key to industrial production was capital. It was capital that attracted organisers and inventors as well as great crowds from the country to the towns. To-day that power is passing to organisers of ability, scientists and technicians, and the tendency is for them to attract capital rather than for capital to attract them.

In other walks of life, too, function is taking precedence of ownership. Judges have ruled, for instance, that a wife by reason of her function is entitled to certain privileges which the Victorian husband claimed by reason of his possessive ownership. In the Army, too, the purchase of a commission was, at one time, the only way in which to become an officer. Now it is ability to perform the function which largely determines who shall be officers.

In mediaeval society it was the manual function which governed industrial society. Often it was force of arms which alone could bring great wealth, for the warrior was the most powerful in a society based upon manual function. He could command the services of men and take to himself the lion's share of the amenities of civilisation. Learning found its home under the protection of the Church. With the coming of capitalism, control passed to the wealthy, and money became the key to power. Property became hedged about with legislative protections and the owner held both the worker and the thinker in subjection, for the Church was no longer there to protect.

So Haydn lived in the kitchen of his patron, Mozart and Schubert died and were buried as paupers. It was the capitalist wine growers who gave Pasteur his chance, and it was in the interests of saving their property that he discovered the bacteriological theory. Scientists whose work was not seen to increase or protect property often had difficulty in scraping together enough money to buy apparatus. Even in industry management tended to be under-paid. For instance, the Sankey report shows that an analysis of 57 per cent. of the collieries revealed that in 1913, more than half the mine managers received less than £400 per annum including house and coal, and less than £500 in 1919. Yet the profits of the mine owners between these years amounted to £160,000,000.¹

In Great Britain, and to a less developed extent in U.S.A., the growth of the Trade Union movement is regarded by many as a challenge to the authority of the Managerial class now rising to power, and the problem is going to be the reconciliation of the conflicting claims of these two contributors rather than those of Capital and Labour. It would clearly be useless to dethrone a Property dictatorship if it were merely going to lead to a Managerial. For the dictatorship of the strong, capitalism substituted that of the rich. Can any better results be expected from a dictatorship of the clever? The strong, the rich and the clever are all of the same human clay, and none can be trusted to wield dictatorial powers without creating evil.

THE REALITY AND THE OBLIGATIONS OF THE MANAGEMENT FUNCTION

Every year, at some trade union conference or other, there are always found some speakers who put forward the proposal that the workers must take over the management of industry. Thus, in one form or another, the old Syndicalist hope is kept alive even if, as in this country, it could hardly be described as kicking.

But the harmony of the industrial process is not to be restored by eliminating one of the contributing functions, nor by merging it into another. Organisation, or management, is a distinct function. In one sense it is the key function, the link between property and work; and so far from diminishing in importance, technical developments demonstrate that the danger lies the other way, and that it may achieve a domination over the whole economy such as high finance enjoyed during the last century. The notion that industry can be managed by committees of workmen engaged on other work, men with no qualifications for the job, is as ludicrous as a claim that the

¹ R. H. Tawney, *The Acquisitive Society*, p. 209.

Hospital Committee could perform surgical operations and dispense with the surgeon. This simile suggests where the confusion arises—namely—in the equating of management with control. A hospital committee exercises control over the surgeon's activities, but cannot replace or interfere with his function; a relationship which he can accept so long as his technical authority is not challenged.

In a democratic organisation, the link between control and management is obligation. In authoritarian regimes, the link is compulsion which, according to the measure of its severity, invariably invades the rights of technical authority at some point or other. Such, for instance, is the case when the Soviet authorities command national composers not to write "reactionary" symphonies. And the false position is created, not so much by the infantile mentality which conceives of music as a department of politics, but by the invasion of technical authority by those who have no qualifications.

If industrial organisation is to draw forth the utmost from each individual (and maximum contribution can only be expressed in terms of voluntary effort), the link between those who manage and those who control should be built upon obligations. It may be said, too, that technical freedom in the choice of means will increase in proportion to the degree to which obligations are willingly accepted or self-imposed.

Obligations, of course, cannot be dissociated from their moral flavour.¹ But then, moral values can never be dismissed from any scientific scheme of human organisation. The bad odour which surrounds moral considerations in the minds of some business executives, and the scorn with which they are greeted by a certain type of Labour leader arises partly because morals have sometimes been used to do duty for plain facts, and partly because they have been exclusively attached to various forms of benevolence. Consequently, the one finds them sentimental rubbish and the other intolerably patronising. But if moral values are conceived in such terms as obligation, responsibility and justice (the basis of all social organisation), rather than in terms of privilege, wishful thinking and charity, all the objectionable features fall away, and a relationship is created which both can accept.

¹ The science of Morals may be said to be connected inseparably with the verb *I ought*, which is the first reaction to an obligation by one who recognises it. The verb *ought* is never applicable to anything but a moral problem, though such misuse as "this car ought (instead of *should*) start" is a commonplace.

CONTROL BY OBLIGATION

The steady murmur of syndicalist claims, not only to be heard at annual union conferences, but probably the inspiration of that section of Shop Stewards, many of whom, for want of a better name, brand themselves Communist, is of vital significance if managements are to understand the needs of Labour. The extravagant claim to manage is no more than a confusion of means with ends, a confusion which, history shows, defeats its own ends and spoils an excellent case. For both the Workers' Co-operative Production movement and the early Soviet workmen's management committees show that the seizing of technical function does not achieve what was expected of it. Worker control through merging the Management function merely results in no control.

But the syndicalist claim still needs to be answered, and, unless managements are to have their technical authority seriously challenged, the obligations of their function as a link between Capital and Labour will have to be rebalanced. For the present system, whereby shareholders place their appointed managers under the sole obligation of running industrial enterprises in their interests by earning the largest possible profits upon capital, while conceding no more than the minimum in the interests of the functional workers and the consumers compatible with continuity (a state of affairs which is protected by our Company Laws), is quite untenable. And the initiative lies with Management, signs of whose revolt against their present weighting of obligations are not lacking. Many are, indeed, coming to see that their function has far more affinity with Labour than with Capital.

THE OBLIGATIONS OF MANAGEMENT TO LABOUR

Thus, if the freedom of the industrial society is to be developed, and Management is to retain its full distinct function, a shift of obligation from shareholder to worker must form the basis of a new structure of equitable control. And, if the basic needs of Labour are to be diagnosed through their misleading symptoms—the endless cry for higher wage-rates for less work—they will all be found to revolve round the need for an industrial organisation in which the worker belongs, belongs to the instrument of production, belongs to its purpose, belongs to its results; with the necessary corollary that his place of work belongs to him, and that the whole work value of the

Finished Product is recognised as his property. In short—social and economic integration. Until this is achieved, the ugly word—exploitation—will continue to have substance.

How would such a redistribution of obligation satisfy the demand for worker control? This is best seen by taking a practical example of guaranteed employment.

In 1923, Proctor & Gamble, the large soap manufacturers in U.S. entered into an agreement with their work people to guarantee to all who had been with the company approximately two years, forty-eight weeks' full employment. This scheme necessitated drastic changes in organisation, in policy and in capital outlay in order to level out production over the year so as to conform to the buying habits of the ultimate consumer rather than those of the wholesalers and retailers. Stores had to be built, surplus producing capacity reduced, conditions of sale revised, and factory methods changed. If these changes are broken down to their ultimate meaning, the obligation assumed by the Management is seen to have immensely extended Labour's control over the organisation and administration of the business. But such increased control did not involve any principle of worker management.¹

It should be noted, however, that the intentions behind this policy were in no sense inspired by the motive of furthering the cause of industrial democracy. The originator frankly put forward paternalistic reasons for its introduction while still claiming, for instance, that the company "fully reserved the right to discharge any employee any time for any reason." The present Management continues the plan, strongly advocating its introduction in other industries largely on the grounds of industrial efficiency. Nevertheless, if industrial organisation is to develop on lines which retain the values of the free enterprise system, the force of moral obligation must largely supply the motive power.

FUNCTIONAL OWNERSHIP

Another way in which we may realise the justice of the Labour claim to increased control without violating the rights of other contributors is by recognising the validity of "functional" ownership contrasted with "possessive" ownership. Psychologically we all recognise its reality. When, for instance, the gardener we employ speaks of "his" potatoes not doing well, it would be something more

¹ See Chernick & Hellickson, *Guaranteed Annual Wages*, pp. 28 - 32.

than mere pedantry to turn round and remind him they were ours, not his. And, although a man may own every yard of soil in his garden as well as all that grows in it, there is a sense in which he has no right to drive his car all over a bed which the gardener has just planted up. In doing so, he would have destroyed something which, in a real sense, "belonged" to his gardener.

Thus, even if we hold fast to the doctrine that control must pass alone through ownership—a doctrine equally accepted in U.S.S.R. as in the Capitalist countries—we may yet put forward a wider interpretation of its meaning which includes functional as well as possessive ownership.

It is because reformers have largely accepted the narrow possessive interpretation of ownership that they have built their reformed organisation round various forms of ownership. Thus Communism (so far as anyone ever seems to have understood the term) is based upon equality of property ownership; Socialism: upon property ownership by Public Authorities; Liberalism of the last century, both in its land programme of peasant proprietorship and in its industrial programme of widespread, diffused, ownership looked for a reformed economy through "ownership for all." "Co-Partnership" carries on the tradition which has now become a plank in the economic programme of the Conservatives, so far as they have one.

THE MEANS AND THE END

What all these remedies have in common is the fixed idea that control can only pass through possessive ownership of the means of production. But if the historic conclusions as to the origin of industrial conflict, presented in the earlier chapters of this book, are accepted, it will be seen that, whatever such changes in the form of ownership of the means of production may effect, they will not get to the heart of the basic problem, industrial disharmony; a condition which flourished long before the widespread ownership of the means of production had ceased to be the general rule.

In the re-cast of industrial organisation which follows, the solution will be based, not upon any new organisation of the ownership of the means of production, but upon a new organisation of the ownership of the *Finished Product*: while the classical solutions have sought the key in the material *means* of the industrial process, we shall seek it in the *end*. For the end provides the only structure from which the true

relationship of the contributors can be deduced. The Finished Product is, by its very nature, a material expression of harmonious co-operation. And in the new relationship of the contributor to the Finished Product, we shall look for some solution of the psychological problems raised by modern industrial technique—that problem which has been broadly mislabelled the monotony of mass production.

INDUSTRIAL ORGANISATION AND CIVILISATION

The final test must always concern the development of the civilisation of the age. For the greatest failure of all is when industrial organisation fails to be a creative social institution. "What shall it profit a man if he gain the whole world and lose his own soul?"

So the new industrial unit must answer a number of tests which stretch away and beyond the limited circle of economic results. Does it grow naturally out of the experience of tradition? Is it built round a full recognition of its essential structure without short cuts, elimination and substitution? Does it serve the public with the goods and services it requires? Is it organised for public service before private advantage? Does it provide a harmonious society round the function of daily work? Does it offer the individual the maximum opportunity to develop his natural gifts, not making use merely of the strongest but satisfying the hunger of the weak to be useful and to live full, interesting and purposeful lives? Finally, is the conception a dynamic one, not blue printing a New Jerusalem but rather defining the terms of a development suitable for the conditions of the age in which we live?

CHAPTER XII

THE OUTLINE OF A NEW INDUSTRIAL ORGANISATION

TERMINOLOGY

The use of new terms is always open to the charge of affectation. But old terms are so inextricably interwoven in our minds with the shortcomings of the things they represent, that their use in describing new developments is bound to raise difficulties which are, in fact, irrelevant. For instance, the term *wage* immediately raises a picture of poverty and insecurity; the term *trade union* conjures up a negative, defensive type of organisation. For this reason a certain number of new terms will be used which replace, but cannot be associated with the characteristics which are mentally attached to, the older terminology.

The type of industrial organisation which will be developed from the foregoing considerations might be described as a Federal Share-Production Company or Service. Its underlying assumptions are:

1. That the contributors to the industrial process are separate and distinct, one providing the *means*, another the *work*, and the third uniting these two in the provision of *organisation* or management. That they all "belong" to the enterprise and that the enterprise, in one sense or another "belongs" to each.

2. That the right material focal point round which the organisation should be built is not, as at present, the *means*, but the *end*—the *Finished Product*.

3. That, as the contributors share *responsibility* in producing the Finished Product, so they should share in the *values* of its disposal.

4. That the relationships between the groups should be built round the central function of management in a balanced form of obligations towards workers in one direction, and towards shareholders in the other.

5. That industrial organisation must express to the full its fundamental social and economic purposes:

To provide public service;

To create industrial institutions which contribute to social stability and creative civilisation;

To provide a field in which every individual has the maximum opportunity for developing his gifts, and so living a full, satisfying and useful life.

6. That the organising principle should be in accord with the ideological goal of democracy—decentralisation.

7. That there should be no apology for appealing to moral considerations, since industry is primarily concerned with the organisation of *people* not *machinery*. And that the basic moral value is *justice*, not *charity*.

THE DEVELOPMENT OF THE FEDERAL SHARE PRODUCTION COMPANY BY STAGES

We shall first consider, in rough outline, the development of industrial organisation on Federal Share Production lines. This development does not necessitate a complete break in existing organisation, but can be achieved in three stages:

First: The integration of labour.

Second: The alignment of the managerial group.

Three: The limitation and alignment of the capital interests.

To integrate labour into a partnership status, the three principles of the partnership relationship must be realised. They are: Belonging; Sharing; and Independence.

LABOUR TO BELONG

Every worker entering industry must have the opportunity to acquire:

1. A secure status in the enterprise in which he works during the main years of his working life. For a period of between thirty and forty years, provided he is not guilty of misconduct, he must become a permanent member of the company.

2. A continuous status. During the main years of his working life, he must receive, week by week, fifty-two weeks in the year a regular payment, no matter what hours are worked by the factory. Such a form of continuous remuneration is dependent upon a new organisation of the wage-structure which will be dealt with in the next section under the heading—*sharing*.

There is nothing in our present industrial organisation which requires such drastic revision as the indefensible system of using the labour of men and discarding it at the convenience of the capitalist owners. Even the slavery system does not carry exploitation to these lengths, for the slave-owner's responsibility is at least continuous. Until the workman can enjoy a status in which he *belongs* to his place of work, all demands for his co-operation appear to require a certain artificial justification.¹

¹ See Appendix 17, p. 209.

To grant the workman such a secure, continuous status necessitates a re-orientation of managerial obligations. A proper recognition of labour's "functional ownership" will require management no longer to organise, plan and administer the company solely to provide the shareholder with the largest possible increasing return on his investment, but to carry out these functions in such a way as will also provide the main labour force with a continuous, and secure livelihood.

There can be no doubt that any measure which has the effect of giving labour the sense of truly "belonging" must have a profound psychological influence on morale. The fighting services exist for a totally different purpose from that of industry, and there can therefore be little similarity of organisation. Morale is a quality which should be common to the widest variety of organisation. It is in the fighting services that it has been most highly developed, and, in this respect, industry can learn a good deal from their experience. One vital principle contributing to military morale is that men must be made to feel they are a part of their unit or ship—that they must not let it down because it will not let them down. That principle is vital. It is the foundation stone of all co-operation. It expresses the first principle of a partnership, for partners cannot dispense with each other's services merely to suit their own interests. A partnership is permanent and continuous until it is dissolved. There could be no more complete contradiction of this principle than our present labour-commodity and money wage-rate system of employment. It is true that there are firms which have made concessions in this direction. But concession is not enough. Social order requires that it be made a responsibility and a right.

LABOUR TO SHARE

In a new *wage structure*, the remuneration of labour must be based upon the law which appears to govern the rewards which the industrial process accords to the work function. This presents two aspects: there is the group income of the labour force as a whole; and there is the share to which each individual is entitled.

(a) The Group Income must be based upon an agreed proportion of the values of production which represents the whole work value in the Finished Product.

(b) Individual shares of the group income must be determined on a system of differential rates which reflect the relative value of each worker to production.

In this way, labour would regain a direct interest in the values of the Finished Product, and its remuneration would no longer be thought of as a money cost to an employer, nor even primarily as so much money per week or per piece, but rather as some proportion of the sum which the Public pays for the jointly produced Finished Product. Thus the worker not only regains an interest in the Finished Product, but also he comes into direct contact again with the public for which his services primarily exist.

Moreover, such a form expresses the principle of partnership remuneration—shares in the net proceeds dependent upon the contribution made—and also redistributes the weight of certain responsibilities. In the first place, wage differentials as between workers become a matter which might be left very largely to the worker organisation. For, under this system, the labour force has a certain group fund for distribution, a fund which can only be increased by higher quality and speed of production. It is, therefore, to the workers' advantage to see that the fund is so divided as to contribute the maximum efficiency. Inequitable distribution would not directly affect labour costs in the Finished Product. But both Management and Labour would have an interest in retaining a well-balanced labour force by ensuring that grades of skill were sufficiently rewarded to attract and to hold the types of worker necessary in the interest of the concern. Thus a great deal of the responsibility for settling wage differentials could be decentralised. In the second place, once the percentage has been agreed upon, the labour force can only increase its income by increasing its efficiency. Bad work and slack conduct would be as detrimental to their interests as to the business as a whole. The responsibility for discipline becomes of equal importance to the Labour Organisation as to the Management, so that in this direction, too, a natural process of decentralisation would replace the present externally imposed administration of discipline now exercised by the management.

In the third place, since labour remuneration depends upon efficiency in production, joint consultation with the Management in solving its problems becomes a primary function of the Labour Organisation. The present distinction between the negative function of Trade Union and the positive function of Production Committees would cease to

exist, for the defence of the workers' standard of living and the productive efficiency of the enterprise are integrated into one single purpose.

In thus giving back the worker his share of the Finished Product, and so stimulating those duties of self-determination, discipline and co-operation by making them a primary responsibility of the Labour Organisation, industrial enterprise would regain that positive contribution from labour, one of the great characteristics of the guild system, which has been so entirely contradicted by the restrictive practices into which trade unions have been forced by the capitalist system.

THE INDEPENDENT GROUP STATUS OF LABOUR

This requires a new approach to the accepted right of workmen to organise themselves for collective action. Now, while the right is generally recognised throughout the major portion of British Industry, the nature of the recognition is what can perhaps best be described as negative. Its basis is grounded in an acceptance of the idea that under-cutting of wage-rates and consequent exploitation must be guarded against. And because there is always a minority willing enough to take advantage of these practices, the recognition of trade unions becomes an unfortunate necessity. This is perfectly logical so long as the relationship between employer and employed remains one of conflict—veiled or otherwise, for collective bargaining can never remedy the disharmony. It may put the gloves on and introduce fair play—but fight it remains, none the less; and to speak of collective bargaining, as some do, as if it were the Habeas Corpus of industrial relations is nonsense. If, then, relations are to develop into those of a co-operative partnership, mutual problems will have to be decided upon an entirely different principle to those of collective bargaining. There is only one alternative. That is to seek the one, right, true solution from a joint examination of the *full facts*, available to each party. This important principle will be discussed more fully later. Here it is necessary to point out that the sort of Labour Organisation which is expected to work on this principle will have to be accorded *positive* recognition, by which is meant that quality of recognition which accepts the Labour Organisation as a necessity in the working of the industrial process. Because such an organisation must fulfil a positive, co-operative function, it will be as well to drop the title *trade*

union which is associated with conflict, defence and restriction, and to use a new term—the Work Share Union—which will here be used to describe the Labour Organisation in the Federal Share Production Company.

INDEPENDENCE AND CO-OPERATION

It is sometimes thought that, in a system of co-operation, group organisations such as trade unions would be unnecessary. In point of fact, it cannot be too strongly emphasised that just the opposite is the case. If, in a co-operative system, decentralisation is to be carried to the limit, a strong, independent Labour Organisation is an indispensable necessity. This would be the main characteristic of the Work Share Union. It would be primarily a local organisation, integrated into the company structure. Upon it would fall the responsibilities discussed in the last section. Its effectiveness would depend upon its being accorded the fullest possible recognition, prestige and independence by the Management.

The character of its administration would have one great difference from that of the present trade union. Positive recognition would both require, and be a cause of, a shift in the focal point of power. Under conflict, that focal point has tended to move more and more towards the centre of the national organisation, because it is there that the power can be most effectively wielded. But in a system of co-operation, in which the Work Share Union is primarily an organisation of the men *in* their place of work, working *for* production, the effective focal power point will be in the local organisation amongst an executive with a knowledge of the co-operative needs of their industrial unit. It is upon them that responsibility for decisions will mainly fall. On the other hand, affiliation with a wider national federation would also serve a useful, though different purpose. Such central organisations would act in an advisory and co-ordinating capacity, concerned mainly with the larger problems of the industry.

Many trade union leaders might regard a return of power to the local organisation as a dangerous, disintegrating movement, and, if we remember the ease with which employers slaughtered the small local union before the 1850 movement, and forget the fact that both sides accepted conflict as inevitable, there would be grounds for such fears. On the other hand, employers troubled with the incessant and not over friendly activities of a strong shop steward movement in

their factories, might feel that they would rather continue to deal with the more gentlemanly union leaders, who live at a safe distance. But the fears expressed in both these attitudes become entirely irrelevant if the relationships of co-operation outlined under the principles of "belonging" and "sharing" is once created.

The development of such Work Share Unions—the integration of the local trade union, or group of unions, and the Production or Works Committee—would involve little new organisation, merely the decentralisation of our present Trade Union structure. And it is of vital importance to realise that the initiative lies with Management. If Management were to concede these obligations which would give the workman an integrated status; if it were to transform that status into one in which the workman comes to realise that co-operation lies at the heart of his own interests, it would not be long before the oft-frustrated officials of local unions and unofficial strike leaders would regain their rightful powers from the vast, over-centralised and bureaucratic trades union movement, and use them for co-operation. And, although patience to eradicate the ingrained traditions of over a century of conflict would be necessary, such initiative would, as it always does, throw up the right kind of labour leader for the job.

In the natural order, such strong, independent Work Share Unions express the principle that a partnership can only be made between parties who are independent. The words *union* and *uniformity* mean two entirely different things, and union is not attained through uniformity, but from dissimilarity.

Later, we shall examine two cases in which Managements, desirous of installing systems of co-operation in their factories, were unable to do so until strong local union organisation has provided the means through which they could work.

THE SECOND STAGE. THE ALIGNMENT OF THE MANAGERIAL GROUP

What is suggested here follows as a logical extension of the principle of remuneration outlined in the first stage for the labour force. It brings the remuneration of the managerial group into the same direct association with the Finished Product.

In every business, the managerial group may be sub-divided into sections. The top executives, managers, foremen, designers and research workers together with the various office staffs. Whatever system of sub-division is decided upon, each section would receive

as a group payment, a certain fixed percentage of the values of production based upon previous experience. As in the case of the labour force, each sectional fund would be divided up on a differential system according to merit.

The remuneration of the managerial group constitutes the largest item in what broadly goes by the name of "overhead expense" items. This form of remuneration would introduce a flexibility into the labour and the overhead expense items which would be of the greatest value to the Management in adapting prices on a falling market. From the point of view of those remunerated, the system would provide an automatic adjustment of remuneration to the price level. In this way, a direct and non-controversial link between prices and earnings would be established, and one of the most fruitful sources of industrial conflict would be eliminated. In this connection it is interesting to recall that the harmonious relationship between Masters and Journeymen was maintained so long as wages were considered in conjunction with prices, and that the Coventry Weavers' solution to this problem is on exactly the same principle as that outlined here.

There is another interesting parallel. During the breaking-up period of the mediaeval system, journeymen founded guilds of their own in conflict with those controlled by the Masters. When these became amalgamated in the Livery Companies, the artisans had established themselves as a group of sub-contractors, handling the work function, and one of their responsibilities was the maintenance of quality and workmanship. It is important to realise that the recovery (albeit only for a short time) of industrial harmony was not obtained through eliminating the independent organisation of the worker function, but by integrating it into the industrial structure. The transformation of the trade union into the work share union, paid upon a share sub-contracting basis, thus has an important precedent.

THE FIRST VITAL STEP

These two stages represent the main part of the evolution from our present system towards that of the Federal Share Production company. The integration of labour would achieve the main reform necessary for the development of a high degree of co-operative morale.

The alignment of the managerial group would probably add little or nothing to managerial efficiency. On the other hand, the knowledge throughout the organisation that all, from the Managing Director downwards, were being remunerated upon the same basis and from the same source, and that no group could gain anything at the other's expense, would create a profound psychological encouragement towards full, harmonious co-operation.

We shall now consider the practical application of these stages with descriptions of the experiments made by certain progressive firms who have developed one or more of these principles.

The third stage, which deals with the capital interest will be left till later.

CHAPTER XIII

THE STATUS ORGANISATION OF THE LABOUR FORCE

INDUSTRIAL CLASSIFICATION

An industrial labour force divides itself naturally into four main groups. First, there are those who are under training. These will be referred to as the Training Labour Group. Second, there are those who have learnt a skilled job or who are up to the standard of adult remuneration in unskilled work. These will be referred to as the Qualified Labour Group. Third, there is the large number who possess experience as well as technical qualifications. These will be referred to as the Permanent Labour Group. Fourth, there are the older workers, past the age at which they can reasonably keep pace with younger men. These will be referred to as the Continuing Labour Group.

It is from this grouping that the organisation of labour status in a Federal Share Production company will be developed. So much for the requirements of the industrial process. How does such a grouping correspond to the social needs of the individual ?

SOCIAL CLASSIFICATION

The right to, and the need for, a full secure salaried status does not apply equally to these groups. A testing period is not only desirable in the interests of those who offer opportunities, but also creates an environment indispensable for the self-development of those starting work. There is no reason or justification for accepting a youth for a permanent post from the start. He is young, relatively independent and can move round before he settles down. Relative insecurity will, however, only provide a good environment for self-development provided a youth can see before him a real prospect of achieving security through his own merits when the time comes. During the slump of 1930, it was the reverse of these conditions which wrought such havoc in the morale of the younger generation. In those evil days, boys and youths found relative security of employment until they qualified for a man's wage, after which they were thrown out, many for years.

Nevertheless, it is upon the Qualified Labour Group that the main burden of unemployment should fall. Both from the social and industrial points of view, it is desirable that such transitional unemployment as is necessary for the balance and redistribution of labour between industries should be borne by those who have not yet dug themselves in too deeply. For the bulk of men between the ages of 18 and 25 carry a great deal less family responsibility than the married men who comprise the Permanent Labour Group.

The psychological demoralisation of unemployment is very much modified when the principle of sharing work out is accepted. It is in this respect that our rigid laws in connection with unemployment insurance, which only qualify a man for benefit provided he has made *no* contribution to production during the week, need to be amended. This is, of course, an extremely difficult reform which raises the ghost of Speenhamland.¹ But if, instead of totally laying men off in order to qualify them for benefit, short time could be distributed and unemployment benefit used as supplementary pay, the present stigma of "not being wanted" and the feeling of living on charity would be replaced by a recognition that the unemployed are, in reality, those on reserve—a far truer and more positive definition of their real condition.

The main integrating factor in the status of the Qualified Labour Group is rather the same as that of the Journeymen in the best days of the guilds. In both cases, the status is recognised as a transitional one. Where the status of Master rewarded the patience of the Journeyman, in a Federal Share Production system, the qualified worker can look forward to taking his place in the Permanent Labour Group. By this time he should be making a full contribution of work to the industrial process and, in all probability, has married and is taking on the responsibilities and ties of family life. It is from then onward, if he is to develop the maximum contribution both as a worker and citizen, that he requires a relatively secure environment. Men can, and often do, derive strength from periods of great hardship provided they have only themselves to think of. But it is when the bread-winner has to stand before his wife and children day after day, robbed of all opportunity of fulfilling his family function while they are earning his keep, that he learns to look upon all who occupy managerial posts as his enemies, becomes embittered against society, his self esteem is lost and the harmony of family life destroyed.

¹ See *supra*, p. 14 and *infra*, p. 156.

The last period of a man's working life, when his family is grown up, is a time when security of employment becomes of less importance; for, with a properly organised works pension plan and the benefits of the State pension, security is provided in other ways. Under our present rigid wage system, we use our older men in the wrong way. They tend to be retained on exactly the same terms as men still in the prime of life, the wage-rate system forbidding exceptions which might tend to lower the price of the labour commodity. But the value of older men is different from that of those between 30 and 55. For, while they fall below in physical strength, they are possessed of a life-time of experience and goodwill in their organisation which can be turned to good effect provided they are not overburdened by having to maintain speeds of production for which they are no longer suited. The elderly man, therefore, requires a different kind of security: the security of reasonable remuneration for a more moderate work performance; of being grouped in a category which recognises both his limitations as well as his uses; and, finally, of an adequate pension when the time comes. Much of these results are, of course, already achieved where a decent level of human understanding obtains in a factory. What is here suggested is that there should be something more specific than kindly concessions—that the elderly worker should have his nature defined and organised into a recognised and honourable status, rather than that he should be treated as a poor old buffer for whom allowances must be made.

WOMEN AND GIRLS

A very large number of girls who take up factory work only do so with a limited motive—to earn a livelihood between leaving school and getting married. Since they have no wish to associate their lives with the industrial process, the degree to which their status needs to be integrated is limited.

Nevertheless, there are numbers who make industrial work their life, and, where a large number of girls are employed, this small minority is a valuable asset, providing continuity of experience among a quickly shifting population. Too often, however, they tend to be treated as the odd lot that has been left on the shelf. The failure to get married may have caused a good deal of frustration which will only find harmful outlets such as quarrelling and adopting a bossy

attitude towards younger girls, unless the organisation is such as will open to them the possibilities of achieving a good status. Those, therefore, who qualify for full integration should enjoy the same status and privileges as men of similar seniority.¹

THE ORGANISATION OF PRIVILEGE IN FOUR GROUPS

While the relative size of each group must, to some extent, be governed by the nature of the industry, the natural grouping according to the industrial and social needs already discussed, must form the framework. This suggests that workers should rise to the Permanent Labour Group at least between the ages of 23 and 26. They should remain until the age of at least 55. Between 55 and 60 they might be moved into the Continuing Labour Group as their work performance falls behind. At 60, they would automatically enter the Continuing Labour Group if they had not already done so. At 65, they would become subject to retirement, which would be compulsory at 70.

The Permanent Labour Group forms the most fully integrated group within the total labour force. It must, therefore, be made large enough to dominate the group attitude of the whole towards the enterprise and to avoid being regarded as a small privileged clique; it must not be so large that the management cannot fulfil those obligations required by its special privileges. Its size should be strictly controlled in relation to the size of the organisation and not left to be determined merely by age groups. Perhaps the best method would

¹ This is not the place to enter deeply into the controversy of equal pay for men and women. My opinion is that the principle so far as industrial organisation is concerned is entirely right. The argument that a single woman has far smaller responsibilities than the married man is another expression of the subsistence theory of wages. For if it is accepted, then it means that the principles upon which individual remuneration is to be based is to depend upon something which has no connection with the industrial process—how large a family each worker has. I strongly contend that it is the duty of the State to provide for such liabilities by means of taxation and family allowances; for it cannot possibly be argued that a firm derives any benefit whatsoever from its workers having large families or heavy family responsibilities. Industrial remuneration must be based upon one thing and one thing only, the contribution made towards the creation of wealth. I think that the controversy would, however, be far better stated in the phrase—equal pay for equal *worth*. This last requirement must, of course, include a consideration of the different Labour turnover amongst men and women. This is the factor which, more than any other, reduces the value of women below that of men to industry.

be to limit it to a certain numerical size which could be increased or decreased slowly in step with long-term developments. For instance, the number might be determined upon a ten year average of man-hours employment, a length of time which would cover the normal trade cycle. Once the size of the Permanent Group had been determined, the sizes of the other groups would, more or less, settle themselves.

PRIVILEGE OF EACH STATUS

The status of each group would be defined by its social and economic privileges in the terms of its employment:

1. *Security of employment.* If subject to being laid off unpaid in reserve, the status will be called *temporary*. If not so subject, *secure*.
2. *Method of Remuneration.* If paid by a weekly salary upon a drawing account system, the status will be referred to as *salaried*. If full, irregular earnings are paid weekly, as under the present system—*weekly*.
3. *The Source of Remuneration.* If paid directly by a system of sharing the values of production, it will be termed a *share* status. If by means of hourly or weekly wage-rates—*wage* status.

The Permanent Labour Group would enjoy the maximum privilege, a secure—salaried—share status.

The Training Labour Group. This group would be subject to lay-off, they would be paid hourly or weekly wage-rates upon an appropriate scale which would be adjusted with the movements in the general level of share earnings. Individual rates would be differentiated in the usual way. Members of this group would thus hold a temporary—weekly—wage status.

Members of the Qualified Labour Group would be put on to a salaried—share basis of remuneration as soon as they had acquired the necessary technical qualifications, and provided they had served with the company a specified length of time, say, two years; but they would be subject to lay off. This group would therefore hold either a temporary—weekly—wage, or a temporary—salaried—share status.

Members of the Continuing Labour Group would not be subject to lay-off, but, if found necessary, they would be subject to retirement on pension. They would be paid upon an hourly weekly or piece wage-rate basis, the level of which would keep step with the level of share earnings. They would thus hold a secure—weekly—wage status.

The table illustrates this organisation of status, the spacing between each group roughly corresponding to its size. Industries vary considerably, but an average proportion might work out roughly thus:

Terms of Employment.—Temporary, 20 per cent. Secure, 75 per cent. Pensionable, 5 per cent.

Method of Remuneration and Source.—Weekly Wage, 17½ per cent. Salaried Share, 82½ per cent.

THE ORGANISATION OF LABOUR STATUS

<i>Approx. percentage of Labour Force</i>	<i>Group</i>	<i>Terms of Employment</i>	<i>Method of Remuneration</i>	<i>Source of Remuneration</i>
100%	Training 5%	Temporary 20%	Weekly 12½%	Wage 12½%
95%	Qualified (1) 7½%			
	Qualified (2) 7½%		Salaried 82½%	Share 82½%
80%	Permanent 75%	Secure 75%		
5%			Continuing 5%	Pensionable 5%	Weekly 5%	Wage 5%

FURTHER SUB-DIVISIONS

The above, of course, only provides a very rough framework within which managements and workers might organise the labour status. In many factories it would be necessary to sub-divide each group where, for instance, both skilled and unskilled operators were employed in appreciable numbers; or where a number of different crafts were required.

QUALIFICATIONS AND PROMOTION

Since the suggested integration of labour aims at the abolition of conflicting interests and the substitution of an organisation designed for full co-operation, membership of the Permanent Labour Group should require wider qualifications than those necessary for promotion on a strict seniority rule. In our present system, trade unions

press for the latter because they have no responsibilities for industrial efficiency. In a system of full co-operation, however, it has nothing whatsoever to recommend it. Just as, in the mediaeval system, the journeyman was tested for master membership not on technical proficiency alone, but also on his qualities as an industrial citizen, so, too, workers seeking admission to the Permanent Labour Group might be made to show that they, too, recognised their obligations as citizens of an industrial association. For, in the first place, it is vital that each worker should be acceptable to the Share Union through whose activities he will be mainly expected to exercise his co-operation. In the second place, since the system restores to the worker his economic interest in the Finished Product, he might well be expected to show a wider interest in its production than is afforded by the mere performance of his particular operation.

To make this possible, it would be necessary for the Management and Share Union to provide a really efficient educational and news service covering all aspects of the company's operations and organisation. Provided such facilities were available, it would only be reasonable to expect a response from those seeking entry into the Permanent Labour Group.

THE POWER OF DISCHARGE

Up to the outbreak of the second world war, the pool of the under-employed had grown steadily throughout the century. Despite the introduction of unemployment insurance, the horror of permanent discharge from his place of work has grown in the mind of the working man, for the penalties attaching to unemployment run far deeper than any which can be remedied by a system of State relief.

To invest any single individual with the power of arbitrary discharge should, therefore, be as abhorrent to us as the permanent use of the British war-time regulation 18B which virtually meant the suspension of Habeas Corpus. Nor is the damage confined to the interest of the workman. Where foremen are authorised to "hire and fire" solely at their own discretion, it attracts the wrong sort of man into this important managerial group and discourages many more able men from seeking promotion to responsibilities which include the use of a weapon they have learnt to fear and despise.

While orthodox trade unionism has done much to protect the worker, many managements still cling to the idea that none has the right to question any decision they may make in this respect. On the

other hand, those which have voluntarily surrendered their right of arbitrary discharge have found themselves the gainers all along the line.

In the Federal Share Production company, the worker would stand in such a different relationship to the interests involved that he would need protection from two angles. First, in a system where the labour force has a definite sum for division among its members,¹ any man whom the Share Union did not feel was making a fair contribution might be recommended for discharge. Second, workmen would still be liable to discharge if they failed to satisfy the Management.

In order, then, to safeguard him against unfair discrimination as a result, say, of shop politics, he would have to rely upon the protection of the Management. On the other hand, if the Management wished to discharge a man, it would be bound to respect the interests of the labour force towards whose group income each man is a contributor. This cross current suggests that the only satisfactory method would be one in which every case of discharge, whether initiated by Share Union or Management, should only take effect after joint agreement had been reached, failing which, by arbitration.

CONCLUSION ON THE PRINCIPLES OF SECURITY

The purpose of such a general plan of security based upon the requirements of industry and those of the individual can only be seen in its true perspective if it is remembered that security, as such, is not an end in itself, but a means.

Although a high diver makes his living by taking risks, no one in their senses would therefore argue that his diving board should be made insecure. It is only when certain risks are eliminated that he is enabled to put the utmost into his performance. This principle should dispose of the shallow arguments used sometimes to attack systems of security on the grounds that they introduce an element of spoon feeding which divests life of its adventure and kills enterprise.² For the provision of security on the lines developed above should have the opposite effect. Its purpose is to provide the workman with a secure stance from which he may turn to the development of these qualities of life in the fulfilment of the main productive purpose,

¹ Fully explained *infra*, p. 107 *et seq.*

² Those who denounce the principles coupled with the name of Sir William Beveridge and shout so loudly for the retention of all the risks attaching to nineteenth-century free enterprise are seldom men who have seen the effects of real economic insecurity and who have certainly never experienced it.

rather than that he should have to whittle them away in the gnawing anxiety of maintaining his existence.

The secure stance may be defined in one phrase—the sense of belonging. That is the purpose which must never be lost sight of in any organisation of industrial status. And to achieve this, it is vital that security measures should originate at the place which requires the loyalty of those for whom it is provided. The Speenhamland system¹ gave a measure of security, the source of which lay outside the recipient's place of work. Consequently, the result was to disintegrate still further the link between master and man. This historic example should serve as a warning that no system of State subsidised security can energise the industrial process with the added forces of co-operation. Security must arise at the place where the workman, in his industrial capacity belongs, just as good morale in the fighting services is created in the unit, the ship, or the air crew to which a man belongs.

SECURITY LIMITATIONS

Under existing conditions, complete security cannot be obtained. Those who enjoy even the fullest security cannot be guaranteed a full year's work on full pay, year in, year out. Pay and employment depend upon the degree to which the purpose of production is achieved, and security must consist of the certainty that, whatever work is available, opportunities shall be shared out equally under adverse conditions. Those who cannot be given the full security of tenure must have the certainty that such a status can be acquired within a reasonable period of time. Finally, all must be enabled to look forward to the years of diminishing strength, not with the dread so long associated with the old age of working man, but with the serenity of knowing that, whatever they still have to give will be accepted at its true value, and that a life-time of service will gather the deferred rewards which it always merits.

PENSIONS

As has already been discussed, the provision of pensions should be considered one of the first charges on profits.² If profits are regarded to some extent as a mark of public approval, pensions provided from them are a natural expression of the more personalised approbation—"well done thou good and faithful servant." But there is one

¹ *Supra*, p. 14. ² *Supra*, p. 64.

danger which arises when men, knowing that a pension awaits a lifetime of service, come to regard it as the pearl of great price for which all else must be laid aside. It has often been remarked that in public services, the attractive pension provisions tend to draw the less adventurous types, and that much energy is there wasted in the purely negative purpose of *not* being found in the wrong. This phenomenon is admirably summed up in the Navy's nickname for the long service and good conduct medal—"fifteen years of undiscovered crime."

Whatever may be thought best in public administrative services, in industry the "personal safety first" attitude must at all costs be discouraged. Yet it is not unknown, especially in large organisations, and the enervating influence may generally be traced to a pension plan which has failed to guard against this danger. In general, it probably applies more to office staffs than to factory workers.

Now while every large company wishes to preserve continuity as far as possible, men change and develop. Others require the stimulation of a change from time to time. But if the search for change or greater opportunity is going to mean the loss of all rights in a pension towards which a number of years service have been contributed, family and other considerations may strongly influence men from taking the risk. Thus a pension plan which lays undue restrictions upon the individual also has the evil effect of retaining in service men who are disgruntled and dissatisfied, and the purpose of continuity—efficiency—is thus defeated on the opposite front.

In the industrial and commercial sphere, then, no pension plan should be based upon the sole condition of continuous personal service to one undertaking. Both in the interests of the individual and for the vitality of the undertaking, pensions should be made the personal property of the individual, either wholly or in part. This might be done by taking out a separate policy of the annuity type for each recipient towards which the company would subscribe so long as he remained in its service. Or, perhaps better still, there might be some system whereby companies could augment the State social security pension of their members by the payment of subscriptions which would take the form of additional annuities. Such a system would have the advantage that a recipient would be precluded from cashing in before he reached pensionable age. Alternatively, where a break in service constituted a considerable expense, as in the case of men serving foreign branches, the plan might be modified in such a way that the withdrawal of service would carry some penalty.

Here again, the main principle to be observed is that security should serve as a means for releasing energy and initiative so far as is compatible with the reasonable requirements of the undertaking. Where it restricts freedom unduly, both collective and individual efficiency is likely to be impaired.

On the other hand—and this applies mainly to factory workers—one of the greatest and least recognised charges on industry is the cost of labour turnover. In many factories it is found that up to 80 per cent. of those who leave, do so in the first six months. A. L. Dooley and Robert Watson have described investigations into the cost.¹ In a factory of 5,000 engaged on a wide variety of repetition work with a labour turnover of 50 per cent., the estimated cost was £200,000 a year. The considerations taken into account were the costs of:

- (a) Employment procedure.
- (b) Training.
- (c) Inefficient production and under production.
- (d) Extra supervision, operating costs, materials, spoiled work and accidents.
- (e) Idle machinery during replacement.

¹ See *Times Review of Industry*, February, 1948.

CHAPTER XIV

SALARIED SHARE PRODUCTION SYSTEM OF REMUNERATION

To express the social partnership status of Labour in Industry, the main system of remuneration must fulfil the following four conditions:

1. It must provide a *continuous salary* throughout the year regardless of trading fluctuations.
2. It must provide a *group incentive* to develop and reward labour's full co-operation towards the industrial efficiency of the unit of production.
3. It must provide a *personal incentive* to develop and reward the efficiency of the individual.
4. It must provide measures to protect the interests of the labour group, the individual worker and the company against the effects of adversity.

Now, there may be many different ways in which a system fulfilling these conditions might be organised; and, indeed, differences in the nature of processes, methods and marketing would appear to call for variation in the application of these principles. Here, however, treatment of the subject will be very largely confined to a description of one fully developed system which has stood the test of fourteen years' experience. It is known as the Share-the-Production-Plan and was developed by the genius of Henry L. Nunn, at that time President of the Nunn-Bush Shoe Co., Milwaukee, U.S.A., in close collaboration with the representatives of their Workers' Union. It was put into operation in 1935.

EARLY HISTORY OF THE NUNN-BUSH PLAN

The company started in 1912 manufacturing shoes in a small way. It rapidly made progress, not only increasing its volume of production but year by year mounting into the higher grade levels of the trade. By 1935 the Capital was about £750,000, the sales about £1,350,000 per annum and the number employed, nearly 1,000.

Wages had, from the beginning, been paid on time rates coupled to schedules setting forth the minimum work performance for each

operation. Compared with the highest earnings of workers in other factories paying piece-rates, Nunn-Bush workers earned rather less, but received a more regular yearly income.

The depression of 1930-34 brought about much short time and many lay-offs. It was strongly felt that these conditions, necessary as they were, destroyed to some extent the fine co-operative relationship which had been built up between Management and the Union. Nunn went straight to the point when he declared that it was the principle of buying labour as a commodity and paying for it on the hourly wage-rate system that created the evils of insecurity and conflict. In collaboration with the Union, the Company set to work to think out some way by which workers could be paid upon a salaried basis, receiving fifty-two payments a year regardless of trading conditions.

From the start, the Union accepted the realistic approach to the problem which the responsibilities of Management must always involve, and it was agreed that any system of security could only be based upon the principle that wages can only be paid, in the long run, from the values produced. This suggested an enquiry into the ratio of wages paid to values produced in past years, an enquiry which revealed the law of labour's constant percentage with which we have dealt. In this case, however, the company made their calculations on *gross* values, not *net* or *values added*. These percentages are given in the following table.

Nunn-Bush Shoe Company—percentage of gross values produced paid as wages :

<i>Year</i>	<i>Percentage</i>	<i>Year</i>	<i>Percentage</i>
1926	21.7 %	1931	19.18%
1927	19.95%	1932	18.91%
1928	18.79%	1933	20.31%
1929	19.32%	1934	19.14%
1930	18.18%		

Average for the period—19.46 per cent: variations, 1.71 per cent. over, 1.28 per cent. under.

From this analysis it was argued that, if the labour force as a whole gets a known percentage of the values produced, a careful forecast of sales would indicate its group income, while the proportionate share to which each worker was entitled could be calculated from the relative hourly rate of earning under the old system. This would mean

that a conservative estimate of the annual income of each worker could be calculated, against which he might be enabled to draw a regular weekly amount. At stated intervals throughout the year, the actual production achieved would give the actual group earnings of labour, and the balance between this and the total amount paid out in drawings could be credited, *pro rata*, to each worker.

In July, 1935, the Management and Union agreed to introduce this system in the form of a yearly contract. At the time it was called The Fifty-Two Pay Check Plan, and the significance of the system chosen to give the worker a steady weekly salary was not fully realised. It was not until the company found that this principle had revolutionised the relationship of the workers to the organisation that the name of the plan was changed to that of Share-The-Production Plan.

THE GROSS AND NET VALUES OF PRODUCTION

In the first contract, the percentage agreed upon was 20 per cent. of the gross values produced, and in subsequent years, the calculation has always been made upon gross rather than net values, the company claiming that this has three main advantages. First, the inclusion of the values of leather in the gross values was expected to influence the movement of the workers' income in step with the cost of living. In practice, however, the movement in the price of shoes has proved more exaggerated than that of the cost of living index. Second, the use of gross values enables the worker to understand the plan far more easily by the use of a simple illustration :- Out of every 100 pairs of shoes made, 20 pairs represent labour's share, 50 pairs pay for raw materials and the remainder pay for overhead expenses, the remuneration of management and stockholders. In this way, the workers have come to realise their interest in the Finished Product and their relationship to the public. Although much work has been necessary to educate the worker into the habit of thinking of himself primarily as a producer of wealth rather than a seller of labour, the plan is now well enough understood for workers to feel, as indeed they frequently express to people visiting the factory, that they are not employed by a "boss," but by the public on whom they are dependent for their remuneration. This is a valuable psychological point. Third, the use of gross values probably simplifies administration. If net values are used, it is necessary to organise some system of taking stock (inventory) at the end of each adjustment period in order to determine the cost of materials and supplies used.

In spite of these practical advantages, however, there can be no doubt that, scientifically, *net* production provides the more accurate and reliable basis for the calculation of the percentage. In the case of industries using materials the prices of which fluctuate violently from causes unrelated entirely to the cost of living—for instance, metals mined in foreign countries such as tin, copper, aluminium; or materials such as rubber, hemp, cocoa, sugar, etc.—it would be imperative to eliminate the influence of their price movements upon the income of the worker. In any case, the “values added to raw materials,” which is the figure upon which the percentage would operate, is itself a figure, the movement of which is not unrelated to the cost of living. Furthermore, comparative analysis of the wage percentage on gross and net production shows that the latter produces a far steadier ratio. The following table shows the comparison in the case of a company employing about 2,000 workers over a period of seventeen years :

	Gross Values	Net Values
Mean percentage of Wages	20.41%	37.75%
Percentage showing greatest variation from the Mean	22.60%	35.75%
Actual Variation	2.19%	2.0 %
Variation as a percentage of the Mean ..	10.73%	5.59%

This result, supported by others, suggests that the ratio of wages to net production shows only half the fluctuation of the ratio of wage to gross values.

Finally, by far the greatest advantage of making the calculation upon net production is that it gives the worker a direct incentive to save materials. For, obviously, the more material saved, the greater the “values added” from which he draws his share.

FIXING THE PERCENTAGE

The fixing of the percentage is the one major point at which conflict between the Management and the Union could arise.

In point of fact, the question of raising the percentage has been brought up by the Union on a number of occasions when the yearly contract has been under discussion. There has, however, never been an occasion on which agreement could not be reached amicably. This satisfactory state of affairs must be attributed mainly to the fact that the Management has never adopted the usually accepted weapons

of collective bargaining—strength and secrecy. For many years it had surrendered these “inalienable rights” and had adopted the far more rational policy of arguing matters of conflicting interests with the full figures face up on the table. The Union has the right to see all relevant figures, costings, estimates and accounts. It may employ its own auditor to certify all the wage accounts. It is under these conditions that the percentage rate has been made the subject of rational discussion rather than of collective bargaining. With secrecy abolished, the Management has, to use the words of H. L. Nunn, “always found the Union reasonable, in fact, a great deal more so than many business men who, with lawyers at their elbow, seem more anxious to see what they can extract rather than what is fair.”

In 1946, a considerable development was agreed upon. Up till then, the only exception to the single percentage rate had been in the case of Government contracts for service shoes. These goods required less labour, and the prices left a smaller margin of profit than was allowed for on regular production. On these shoes it was agreed that the percentage should be 19 per cent.

This modification brought the company to realise that, although in a factory producing a single type of article year in year out a fixed percentage could reflect the exact labour share, variety of manufacture and the changing incidence of various styles and grades demanded a more flexible system. For where there is a considerable variation in the man-hours of labour expended on different types of products, it is likely (though by no means certain) that there will be variations of the percentage cost of labour. In the case of Nunn-Bush, three grades are produced and, within each, an ever-changing variety of patterns and specifications: for instance, some shoes carry an enormous amount of ornamental stitching and punching while others are perfectly plain; the uppers of some may comprise as many as fourteen components, others no more than four. Demand varies considerably from year to year, and when it becomes concentrated upon the more fancy types, more man-hours of labour are probably expended than the amount paid for under a single 20 percentage on all production. On the other hand, when demand becomes concentrated upon the plainer styles, the fixed 20 per cent. might be excessive, causing the company to lose trade to its competitors with consequent loss of income, not only to the capital interests, but also to the worker.

In order, therefore, to ensure a more accurate balance between prices received and man-hours of labour expended, the Management

and Union incorporated into their 1946 contract a schedule of percentage rates from 19 per cent. to 28 per cent., each style being rated into the appropriate percentage grade according to the number of man-minutes required for its production. An industrial engineer, paid half by the Management and half by the Union, was employed to make the necessary time study. Each style was timed and an average agreed upon which forms the base work time and which earns the standard 20 per cent. Each style is rated in proportion to this base figure, for example—if the base work expenditure is one hundred man-minutes, earning 20 per cent., a style taking ninety-five man-minutes would earn 19 per cent., one hundred and thirty man-minutes 26 per cent., etc.

This alteration in the percentage system also corrected another anomaly. The allocation of a fixed percentage on all goods meant that any benefit derived from increased productivity, whether as a result of improved machinery or increased labour effort, would be automatically divided between Management and Labour in a fixed ratio of about 3:2 (assuming raw materials to absorb 50 per cent. of the gross product). The new method enables the benefit to be assigned to the group which earns it, or, as is more usually the case, to be shared with the consumer.

THE PRICE FACTOR AND LABOUR INCOME

The worker's income is influenced not only by the volume of the sales and the percentage share allotted, but also by the price of the Finished Product.

In the company's agreement with the Union, the latter has the right to be present at all discussions which involve price alterations which, before being put into effect, must be approved by the Union.

This may have the appearance of admitting that the Labour interests have a major right to "interfere" with the technical authority of the Management. Such might be the case if it could be shown that there existed a fundamental difference of interests in the matter of the sales policy to be pursued. Under the system, however, this cannot be a matter of conflict. Both Management and Union are equally interested in a price policy which brings the largest possible volume of steady orders at satisfactory prices. In actual practice, the Union has recognised that sales questions must primarily be decided upon the advice of the technical experts of the sales department, and at no time has it challenged their decisions.

Nevertheless, the recognition of the labour interest in the price of the Finished Product, even though its representatives contribute little in the process of joint consultation, is entirely necessary for the harmonious working of any form of flexible remuneration. Earlier it was shown how the sliding scale method of wage determination broke down both in this country and in the U.S.A.¹ because, although the economics of the plans expressed the principle of the worker's share in the Finished Product, socially he was excluded from all information and control over the main determining factor in his remuneration. Nunn-Bush has not made this mistake, and the economics of their wage system does express a social control which actually exists. Because they have recognised this obligation, the Union does not, in fact, make any claim to usurp the technical authority of (in this case) the Sales Department.

DIVISION OF THE GROUP FUND—DIFFERENTIAL RATES

The group fund into which the percentage share is paid represents the contribution of the whole labour force to the industrial process of production. Contributions are not equal, and therefore shares to individuals must reflect the value of each personal contribution by evaluating each worker's skill and speed on a system of differential rates.

At the inception of the plan, this was done by multiplying the average hourly rate of earning for the previous year by a conservative estimate of the number of hours in the coming factory year. Although the differential rate thus gives a conservative estimate of the annual income of each worker, the real importance of these figures is that they reflect the *relative* value of each worker to production. These rates not only vary from job to job according to the skill needed for each operation, but workers on similar jobs may be rated differently if the volume of work they can turn out varies. If a worker shows that he can consistently turn out more work than is called for in the schedule, he may apply for a higher differential rate. Similarly, if a worker falls below the scheduled rate attaching to his differential, either the Management or the Union may take steps to reduce it.

It is important to realise that the Union has as much at stake in maintaining the technical efficiency of its members as the Management. On the one hand, the Union will not tolerate a high differential rate to a worker who does not make a fair contribution in production.

¹ *Supra*, pp. 20-21.

On the other hand, it is equally interested in attracting and holding workers possessed of the highest skill and ability and is, therefore, interested in seeing that good ability is well paid for.

This is one more aspect in which we can see that the plan aligns the interests of Union and Management.

THE FOURFOLD INCENTIVE

It is hard not to shudder every time one uses the word "incentive" because of its modern association with carrots, fat pay packets and overflowing bonuses, salaries and dividends. They all suggest compensating people for doing unpleasant things. But to understand the real incentives in this world we should turn, not to the things men hate, but to those which they love: it may be their families, some social group to which they are attached; some absorbing hobby, the exercise of skill, or it may merely be the sense of doing something useful. These are the much neglected incentives which industrial psychologists are beginning to illuminate. Nevertheless, it is perhaps necessary to state the "encouragement pattern" of Federal Share Production in the crude interpretation of incentive. In this sense it offers a fourfold incentive. First, there is the group incentive to produce the largest possible cake from which a fixed sector is taken for the remuneration of the labour group. Second, there is the individual incentive to each man to improve his individual performance so that he may qualify for a larger differential rate. Third, there is the incentive to produce the highest possible quality so as to improve the price which the Finished Product may command. Fourth (and this applies in particular if the labour percentage is paid upon net values, not gross), there is the incentive to avoid spoiling work which can only be sold as rejects and also to save raw materials which must be paid for before any remuneration is available for the producer.

THE WEEKLY SALARY SYSTEM

Against their earnings, each worker draws a weekly salary from the group fund. The rate of drawing is agreed upon in accordance with the estimate of trade prospect, the volume of production which will be required and the trend of prices expected over the coming year. Care is taken to err on the conservative side in order to ensure that annual drawings shall not exceed annual earnings. When the annual drawing rate has been determined, all differential rates are adjusted to the level according to the estimate of the number of hours work

which will be required for the year, and each worker draws one fifty-second part of his differential each week. This weekly salary represents something rather less than he is likely to earn as a weekly average, and it provides him with a regular income on which he can depend, whether the factory is working long or short hours, and which enables him to budget his household expenses and to meet his normal liabilities with confidence.

In order to adjust drawings up to the earnings, the year is divided up into thirteen four-week periods. At the end of each, the group fund is credited with the exact sum earned by labour from the actual value of production achieved. From this is first deducted the wages of those who are paid hourly rates—mainly those with less than two years' service and certain older workers.¹ From the remainder is deducted the sum already paid out in drawings. The balance, being the excess of earnings over drawings is then credited, *pro rata*, to each Share-Production worker. The company's explanatory booklet gives the following simple example:

Example: Suppose there are four workers—A, B, C and D.

A	is rated at a differential rate of	\$2,080
B	" " " " " "	\$1,560
C	" " " " " "	\$1,040

While D has not yet completed two years' service and is therefore paid on an hourly rate of 50 cents.

Every week, each draws one fifty-second part of his differential rate, and their drawings therefore are:

A	—\$40 per week, or	\$160 for the period of four weeks
B	—\$30 " " " "	\$120 " " " " " "
C	—\$20 " " " "	\$ 80 " " " " " "

<i>Total</i>	\$90	\$360
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D works forty hours and earns \$20 per week, or \$80 for the period.

Assume the value of production for the period to have been \$2,500, and that the percentage for that period averaged 20 per cent.:

20 per cent. of \$2,500	..	..	..	\$500
From this is deducted D's wages	..	..	..	\$ 80
				<hr/>
				\$420
From this is deducted the total drawings	..	..	..	\$360
				<hr/>
Balance of earnings for final distribution	..	..	..	\$ 60

¹ The Nunn-Bush group classification of workers follows the main outline of that suggested in the last chapter. Weekly wage workers are called *Employees*, while salaried share workers are designated *Associates*.

COMPARISON BETWEEN SHARING LOSSES ON PRODUCTION AND ON PROFITS

It is generally recognised that, in systems of profit-sharing, workers will not agree to share in losses, and it may be asked whether, under a Share Production system, workers would be any more likely to accept reduced earnings on their share of production. The two cases are entirely different. In the first place, workers have no visible evidence that they have any real control over profits or losses, and in any case, out of their total remuneration, only 5 per cent. is influenced by profit shares. But, apart from this, a worker realises perfectly well, though he might not express it in this way, that the really big share of the losses which arise through a depression will be paid by him in the form of unemployment, short time and, eventually, wage-rate reductions.

On the other hand, under Share Production remuneration, the worker is able to understand far more clearly the real meaning of economic adversity and to realise the vital part which he plays in applying the remedy. When sales diminish in a trade depression, it heralds a period of shrinking prosperity, and whether he is paid by money wage-rates or by shares in production, the worker must, in the end, receive a lower money income. But there is a great deal of difference in the way in which this comes about under the two systems. Under the present system, the shrinkage takes place, in the first place by way of reduced employment. Those who remain in work are probably on short time and put up a strong resistance to any reduction in money wage-rates. This tends to keep the cost of *work* up and, therefore, to frustrate the natural remedy of adjusting prices. Under Share Production, however, not only is the worker's income reduced without recourse to unemployment, but the cost of work is automatically adjusted to any reduction in prices. This means, then, that reduction under Share Production sets in motion one means for providing the remedy. It is true, that, measured in hourly earnings, the Share Production worker may get an immediate reduction where the wage-rate earner may be able to resist it for some time. But it is surely only common sense that there should be such a reduction. The remedy for poverty or shrinking prosperity is harder work, which may either take the form of more work for the same money or less money for the same work.

But, whatever the merits of theoretical arguments, the practical experience of the Nunn-Bush Company illustrates that, on the only

occasion when a radical reduction became necessary for some time, the workers more than responded, although there was a certain hesitation at the start. The occasion was the sharp, but not deep, depression of 1938. When the first signs of a set-back to the trade recovery which had gathered momentum through 1937 became apparent, the Management wished to reduce drawings. The Union, however, resisted, not because they were determined to keep worker incomes up at all costs, but because they genuinely believed that the Management was wrong in fearing more than a temporary set-back. By the time that the Management's judgment had proved right, a considerable deficit had appeared in the group fund, and the Union at once accepted a reduction amounting to about 15 per cent. The Management at that time proposed, in fulfilment of their contract, to lay off all temporary workers who were not covered by the plan, constituting about 11 per cent. of the total. But the Union insisted on their being retained, and, since all workers are paid from the one group fund, it meant that these temporary workers were to be kept on at the expense of the Share Production workers. This, of course, reduced earnings still further. Thus, although the Union did, in fact, resist the reduction in the first place, it did so on factual grounds. But when it realised the true position, the workers showed themselves more than ready to take the rough with the smooth.

It has already been suggested that the principle of work sharing in times of depression might be taken a great deal further (see page 34 *seq.*). What effect did this voluntary work sharing have upon the real annual income of the Nunn-Bush workers in comparison to other workers in the industry who retained employment? The following table shows that they apparently suffered rather less:

	<i>Percentage by which employment fell during the years:</i>		<i>Percentage by which real average annual income fell</i>
	1937	1938	
Nunn-Bush	0.3%	0.9%	12%
Men's Shoe Trade (average of 65 plants)	3.3%	4.5%	13%

Obviously, a single example of this sort is not worth much. But there is so little experience of the effects of a depression upon a share production system that it is worth while to state the evidence such as

it is. It can only be surmised that the flexible wage reduced the cost of work, thus enabling the company to produce at lower prices which attracted a larger volume of business than that enjoyed by the trade, as a whole.

Finally, it is in times of shrinking employment that the value of the weekly salary is most fully demonstrated. It is then that the security it affords rises to the first consideration in the mind of the worker.

PERSONAL RESERVES

In 1943, it was agreed that each worker should keep a personal reserve. This was built up, in the first place, by retaining the period-end balances instead of paying them out in cash, until each worker stood credited with the amount he contracted to keep. This reserve may be used for vacations, for illness and, if necessary, to maintain the level of drawings if, for some *temporary* reason, earnings do not cover them. The amount of the reserve was first set at 12½ per cent. of the yearly differential. It was later raised to 15 per cent., and, in 1947, it was agreed to retain half the monthly balances with a view to building up the reserves to a percentage as yet unspecified. Late in 1948, they stood at 45 per cent. These reserves are invested in Government Bonds and the interest is credited to each account.

OTHER COMPANIES RUNNING SHARE PRODUCTION

A year after the Nunn-Bush Plan had been started, a Canadian Shoe Company, Scott McHale of London, Ontario, after sending a deputation of their work people to Milwaukee, adopted the system almost intact.

In France, the Bureau D'Etudes du Salaire Proportionnel has succeeded in establishing a similar system in a number of small factories and in one or two of considerable size. In one of the latter, a report carries the remark: "La mentalité du personnel a été transformée."

In 1947, a large paper manufacturing company, the Continental Paper Company of Ridgefield Park, N.Y., entered into a share production contract with their Union (C.I.O.) largely through the recommendation of their industrial consultant, Mr. A. W. Rucker. The way in which this came about is instructive. In June, 1947, the Union made a demand for a 15c. an hour flat wage increase for all the workers. Since the ending of the war, workers had already

obtained three advances amounting, in all, to 36c. an hour, although one of the Union demands had not been acceded until after an eleven-week strike. The Company refused to consider the new demand, but countered with the offer of a Share Production contract. The principles are the same as those worked out in the Nunn-Bush Company, one or two minor variations being of interest. Instead of a *drawing rate* for weekly salaries, it was agreed to use the present scale of wage payments. *Earnings* are calculated upon *net production*, on which a fixed percentage (found by analysing the past experience in the paper industry) of 30.51 per cent. is paid. The balance between wages paid and shares earned is struck every four-week period, but its allocation is rather different. First, 25 per cent. is retained by the Company as a reserve against the possibility of wage payments exceeding share earnings. The balance is then divided. Half is paid out in cash, and the remainder is used to buy each worker a life policy plus a cumulative retirement annuity which is the personal property of the worker. At the end of each six months, the reserve fund, less any sum used to make up a deficit, is paid out to the workers in the same proportion—half cash and half insurance—after which it is re-accumulated.

This plan is, of course, too young to have proved itself, although, so far, it has brought the workers considerably more than had been demanded by the Union.

Mr. Rucker has also introduced a plan of the same sort in the following companies: E. F. Mehady Co., Boston, Surgical Instrument Makers (started 1939); Tailby-Nason Co., Pharmaceutical Manufacturer, Boston (started 1943); Wabasso Cotton Co. Ltd., Three Rivers, Quebec (started 1946); Orangeburg Manufacturing Co., Electrical Engineers (1948). The Wabasso Cotton Co. employs 1,500 workers.

THE APPLICATION OF SHARE REMUNERATION IN OTHER INDUSTRIES

The purpose of describing the details of the Nunn-Bush Plan is not to suggest any hard and fast method, but to show that in one industry at least (and incidentally the shoe industry is one that calls for a very complex form of organisation), the practical problems of administering remuneration by weekly salaries based upon shares in production have been solved. But it is only one method.

A detailed examination of the appropriate form of organisation suitable for various types of industry is beyond the scope of this book.

Although the form developed by the Nunn-Bush Company might be applied with only minor modifications to a number of industries, it would not be suitable, for instance, for factories dealing with a wide variety of specifications involving radical differences in process. In shoe making, each pair of shoes goes through each department with only minor variations in the process. In addition, there is no great variation in the values added to raw materials.

In many factories there are a number of alternative processes worked in different shops, so that one order may pass through an entirely different sequence of operations from another. For instance, in light engineering, a product may start either in the form of a casting or it may be cut and stamped from sheet metal. Such alternative processes may, then, require further differences in subsequent operations, resulting in a wide variation of the price structure which requires a method of costing more detailed than that of the over-all percentage system.

A solution of this problem might be found by breaking up the total labour percentage on the Finished Product and treating each department as a separate unit earning its own percentage rate. The Nunn-Bush Company has considered this method even though the costing problem did not arise. It was felt that, if the unit of co-operation were to be reduced to departments, workers might display an even greater interest in their part of the process. Organisation by departments would also hold advantages for companies in the initial stages. For there is a good deal to be said for introducing a plan of this sort gradually, extending it as experience in management and confidence among the workers is gained. A West Country manufacturer, for instance, introduced the system into the factory canteen in which an analysis showed that wages had always been about 33 per cent. of the value of the meals served. The plan was successful and gave complete satisfaction to the workers, who, hitherto, had complained that, with men coming back from the Forces, they were having to provide many more dinners than their original wage-scale had allowed for. This company then introduced the plan into one of their production departments, and two years' experience has shown that production has increased considerably, and workers' earnings in proportion.

It may be found that, for technical reasons, there are certain departments in which a direct system of production sharing would be impossible to administer. In the Nunn-Bush Company, this is the

case with their sole-cutting and heel building department. This department prepares many different components which are used alongside others which are bought. The problem here has been solved by putting the workers on to a basic wage system and augmenting their earnings by the same proportion that the earnings of share production workers exceed drawings. In this way, the share production principle dominates their remuneration.

For the company working on large contracts, again, another form would be required. For instance, one method would be to pay normal time rates with a proviso that the difference between the total paid out in wages during the contract and the sum allowed for in labour costs would be credited, *pro rata*, to each worker engaged in the contract. This group bonus could then be used either to maintain weekly salaries between contracts, to the building of personal reserves, or either wholly or partly paid out in cash. By such a method, the link between the worker and the Finished Product is maintained and he is assured of earning the full contribution of work values in its price. It would, of course, be just as necessary that the labour organisation should have adequate safeguards as to the amount allowed for in labour costs in the contract, to correspond with the safeguard which the percentage contract gives in the Nunn-Bush system.

Yet another application of the principle might be found by linking a differential wage system to a sliding scale based upon net output per man-hours. The wage scale would be based in the first instance upon a conservative estimate of net output per man-hours, which, for example, we will assume to be sixty pennies. During the year, at stated intervals, the actual net output per man-hour would be calculated by dividing the net values of production achieved (gross production less cost of materials and supplies) by the number of man-hours worked. If, for instance, it came out at sixty-three pence, all wage payments would be credited with a bonus of 5 per cent., such credits being used either to regularise weekly salaries, create reserves, or for cash payments.

The disadvantage of this method would be that it might *look* too much like a "hotting-up system." In fact, it would achieve the same result as directly sharing production by means of a certain percentage. For, any increase in prices would automatically increase the values of net production. Any increase in productivity would do the same, so that the worker would be thus assured of an automatic adjustment

of remuneration to the two vital factors, price and productivity, and would receive a constant share of the values created.

The most complete form of production sharing, namely, that in which the net distributable income is divided out by a set formula between the Capital, Management and Labour interests, will be discussed later—see page 144 *f*.

CONCLUSION

The above are merely suggestions which serve to show that there are a number of ways in which the principle of remunerating labour by its share of production might be developed to suit various industries. But it is vital to realise that this principle is one part of the whole plan of organising the industrial process round the *Finished Product*, and that to take it by itself as just an incentive plan might earn for it the reputation of another hotting-up system to encourage the operative to work himself out of a job and to earn increased profits for the owners. In organising a method of sharing values there are, therefore, certain principles which must be observed :

1. The principle that labour is entitled to the *whole value* of its contribution to production. Anything less is simply exploitation.
2. The principle of the *double incentive*, group and personal.
3. The principle of the *regular weekly salary*.
4. The principle of *worker control* in the administration of their contributory function, involving joint consultation in all decisions which influence labour remuneration.

CHAPTER XV

SALARIED SHARE REMUNERATION— THE ACTUAL RESULTS

LABOUR RELATIONS AND INDUSTRIAL EFFICIENCY

To-day, the Nunn-Bush Company is an exceedingly prosperous concern which has attained a high reputation among the leading shoe manufacturers of the country. A first-class reputation in the shoe trade is never to be won very quickly. Shoes are not like food or soap, whose merits can be tested quickly. It takes considerable time for the public to test out and to pass judgment on a new make of shoe. Moreover, so much personal comfort is at stake, that the average person tends to be rather conservative about embarking on experiments with new makes. For these reasons, reputations are hard come by and, it may also be said, not easily lost. It is, therefore, a considerable achievement to have won a place among the leading makers of high-grade shoes within thirty-five years, and perhaps even more remarkable that its workers now earn the highest annual rate of remuneration in the trade. In 1947, their average for *all* factory workers, men and women, was \$4,500.

The reasons for this success cannot be accurately analysed. Able management, high technical ability and good marketing have all played a vital part. But perhaps the most outstanding contribution has come from a policy which has tapped the greatest source of power—human co-operation.

From the technical point of view, with a process such as shoe-making in which there are between two and three hundred small operations, the mental attitude of the worker is a decisive factor in the building up of quality. So many of the operations are small and, by themselves, it is not easy to check the quality with which they are performed. Small faults cannot be corrected without a disproportionate wastage of valuable materials, although, in passing them on they detract from the quality of subsequent operations. Thus, in this industry, quality depends to a very great extent upon the cumulative results of co-operative conscientiousness.

From the outset, the creation of co-operative labour relations formed a major part of the company's policy. While operations were

on a small scale, the day to day contact between "master and man" made the task easy. When the business grew to that size where such personal relationship became no longer possible, and intermediaries, foremen and superintendent, had to take over the direct contact with the working force, the company insisted that the men should organise their own independent union. At the same time, the management surrendered their right of arbitrary discharge. It was agreed that the dismissal of a worker should only take effect after joint agreement between management and union, failing which, after arbitration. Fellow manufacturers at the time prophesied that dire consequences would follow so revolutionary a labour policy. They proved entirely wrong and, in fact, the necessity for arbitration has never arisen.

By 1919, a joint council was meeting regularly. This was all part of a policy of the company to build up the strength and prestige of the Union, to give it complete independence and to take it into full association in the conduct of the business. The "closed shop" has followed as a natural part of this policy.¹ All workers taken on must apply for Union membership, and if rejected, the management is under obligation to terminate their employment. The chief executive has an office on the premises, the Union rents floor space for a cafeteria which it runs, and all Union subscriptions are deducted from wages and paid over in bulk. In other ways, too, the management endeavours to strengthen the prestige of the Union; for instance, announcements which mainly affect workers such as those relating to holidays, hours of work, etc., are made by the Union.

Thus, through good will and a lively sense of justice, the relations between Management and Union had been developed, perhaps, as far as is ever likely to be possible under the insecurity of the money wage-rate system of flexible employment.

The effect of the Fifty-Two Pay Check plan based on share production had the effect of developing the relationship into the sort of working partnership which, hitherto, no amount of goodwill had been able to achieve. For, however co-operative the Union had been, it had remained of necessity a primarily defensive organisation. The new economic relationship dissolved this negative character. With

¹ There is a difference in British and American terminology in connection with the term "closed shop." In U.S.A. this would be called a "Union Shop," one in which all workers had to be members of the Union, while a "closed shop" is one in which the Management cannot hire labour direct, but must apply to the Union.

the new assurance of the percentage system which guaranteed to labour its full share, the Union was freed to turn its attention to positive industrial activities.

The transformation of the Union's activities has been remarkable. To begin with, there is tremendous competition to be elected on to the executive committee, and general meetings are very fully attended. Meetings of the executive committee which take place during working hours are now mainly taken up with such problems as discipline, production, damages and faulty work. Foremen may be invited to attend and to discuss difficulties. Representatives of departments may be asked to make enquiries and to invite suggestions from workers.¹

It is difficult to over-estimate the benefits of a system in which the responsibility for industrial discipline has been decentralised upon those who must be regulated by it. In this respect, the system has achieved an outstanding success in industrial democracy, and the enormous benefits which this self-imposed discipline have achieved were illustrated during the war. In 1941 demand increased and, in the words of H. L. Nunn:²

"... we started a policy of running overtime, fifty hours a week, and if our competitors did not do so well after that time, it was due to one thing—our ability to keep a well-satisfied labour group working, and their inability to do so. Our competitors not only lost help (workers) out of all proportion to ourselves, but the help they did have took advantage of the labour shortage so that the resulting lack of discipline caused terrible inefficiency in many plants. Our people showed a grand spirit and we got out full production every week of the year that we worked. I sat at many meetings during those days with other manufacturers and they complained of losing production of anywhere from 20 per cent. to 40 per cent. Our system certainly paid big dividends in those days."

The actual figures of production which will be compared in the next chapter, entirely bear this out.

¹ When I visited the factory in 1945-46, I was invited to attend a meeting of the Union executive. After accepting two new members and recommending a worker for an increased differential rate, the meeting discussed penalties for habitual late-comers in one department. They went on to discuss a bottle-neck in the flow of work from one department to another, the foreman of which was present. There was some criticism of the planning of the work, but it was constructive, and one was left with the impression that the meeting really wished to find out how far, they, the labour force, could help to find the remedy, and what action, if any, the Union ought to take.

² In answer to a letter asking if he could account for the increased production from 1942-45, compared to the very severe fall in that of the Company's competitors—see Figure 15, p. 129.

JOINT CONSULTATION

In this country, joint consultation has had a chequered career. The two periods when it appears to have flourished have been during the two wars. After the first war, the Whitley councils, which many had hoped would inaugurate a new era in joint consultation, came to nothing. Although the movement was revived with considerable success in the second war, it appears to have lost ground since, and, except in rare cases, it appears to need a good deal of nursing to keep it alive. It is noticeable that both these revivals coincide with periods of secure employment, and the recognition of a primary purpose which over-ruled all other considerations, a purpose shared alike by both Management and Labour—that of winning the war. But once the conditions of security and common purpose are removed, the essential economic conflict of the wage-rate system appears to re-assert its evil influence, and spontaneity tends to die out of the movement.

In the Nunn-Bush organisation, joint consultation flourishes quite naturally because it is rooted in an identity of economic interest on a background of security. It further gains reality because the labour side has full access to any facts and figures it may require, and this enables it to make an independent contribution.

THE COMPANY'S ACCOUNTS

Each worker receives a copy of the Annual Accounts together with a simplified statement which shows, in graphic form, how the distributable income of the company has been divided. The wisdom of this policy is amply borne out by an article which recently appeared in the *Management News*, entitled "Where the Money Goes." One investigator reported that, out of 5,000 people questioned, 61 per cent. believed that large companies keep as a clear profit from 10 per cent. to 60 per cent. or more; 32 per cent. believed it to be 30 per cent. In point of fact, the average is less than 4 per cent. Another investigation among wage-earners showed that 54 per cent. believed that total Management salaries absorbed more than was paid in wages, some setting it as high as 75 per cent. The average ratio, however, is—salaries 13 per cent.—wages 87 per cent. There could hardly be a better illustration of the fact that secrecy generally defeats its own object. The suspicion it creates will invariably set people guessing the wrong way where they feel their interests are at stake.

THE COMPARISON OF ECONOMIC RESULTS

How do the economic results of the Nunn-Bush Company, since it adopted Share Production, compare with those of its competitors?

In his survey of *Guaranteed Wage Systems*, Murray W. Latimer has compiled certain statistics from which it is possible to make comparisons between the economic record of Nunn-Bush and that of four (and in some cases six) leading men's shoe manufacturing companies. It would be misleading to place too much reliance on these comparisons. Nevertheless, the fact that the Nunn-Bush Company comes out favourably is strong evidence of the practical value of the plan.

Over the whole period, 1935 to 1945, the results are shown in the following table:

Mean Indices for the period 1935-45. 1935=100

	(1) <i>Production</i>	(2) <i>Output per Man-Hours</i>	(3) <i>Hourly Wage-Rate</i>	(4) <i>Unit Cost of Work</i>	(5) <i>Average Annual Earnings</i>
Nunn-Bush	117	107	115	107.5	139
Competitors	112	108	121	113	126
	+5	-1	-6	-5.5	+13

(1) A comparison of *production* shows that, although Nunn-Bush fell behind the average during the early years of the war period, it more than made up for it later—see Figure 15.

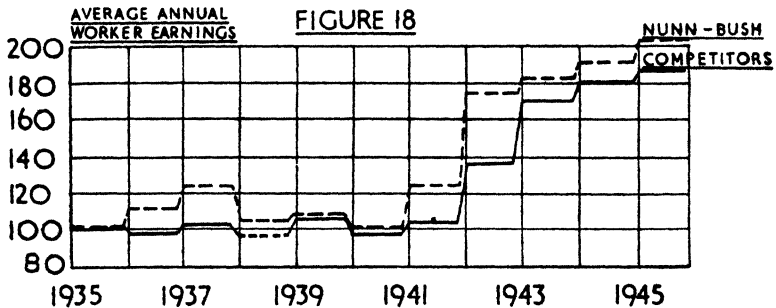
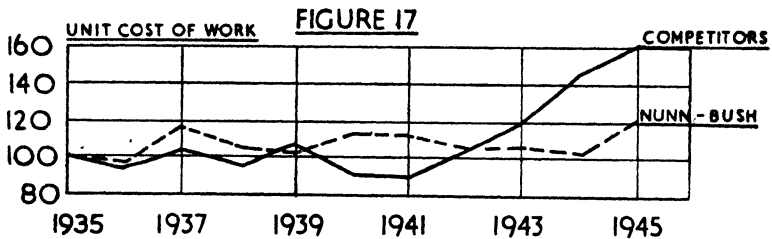
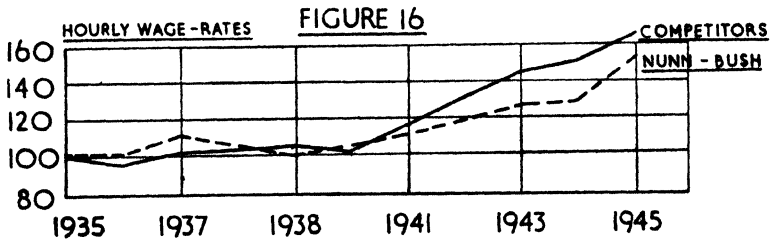
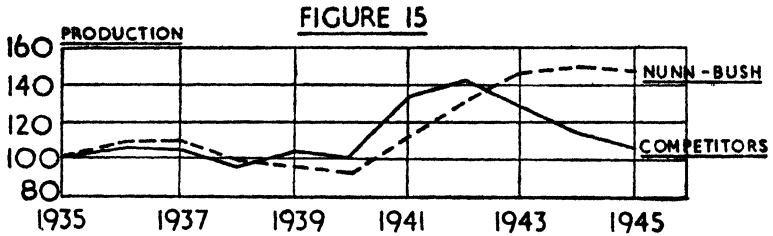
The point referred to earlier regarding labour discipline is seen in the greatly increased production figures for 1943, 1944 and 1945.

(2) The *output per man-hour* was nearly equal, Nunn-Bush averaging one point lower. Difference in price ranges might account for this.

(3) The *hourly wage-rates* paid by Nunn-Bush did not increase nearly so rapidly as those of its competitors. See Figure 16.

(4) The *unit cost of work* in the case of Nunn-Bush remained more stable than in the case of its competitors. See Figure 17.

(5) The *average annual earnings* of the workers in Nunn-Bush was consistently higher than that of its competitors. This result was obtained in spite of the fact that the *hourly wage-rate* was lower. See Figure 18.



FIGURES 15, 16, 17, 18
Comparison between the records of Nunn-Bush Shoe Co. and the four leading competitors over the years 1935-45. Production, Hourly Wage-Rates, Unit Cost of Work and Average Annual Worker Earnings.

Sources. As for figure 19.

It will be remembered that, in discussing the merits of a wage system there are two main tests which must be applied, the one to satisfy the Labour interest, and the other the interest of Management. The above results show that the Nunn-Bush plan of share production compares favourably with the conventional wage-rate system on both these tests:

For the *worker*, it produced *higher annual earnings*, 13 per cent. mean over the period.

For the *management*, a lower *unit cost of work*, 5.5 per cent. mean over the period.

There are, unfortunately, no figures with which a comparison of profits can be made. The mean index of the profit rate of the Nunn-Bush Company over the period works out at 115 which, when compared to the Production index of 117, would appear to be satisfactory.

CHAPTER XVI

THE ABILITY OF THE MANAGEMENT TO PROVIDE REGULAR EMPLOYMENT

Any system of guaranteed employment lays upon the Management the necessity of giving the problems of regularising production their first consideration in the conduct of the business. Generally speaking, it is found that Managements tackling this problem are forced to relinquish the apparent advantages of short term tactics, and to base their operations upon long-term expectations.

STABILISED EMPLOYMENT—THE PROCTOR AND GAMBLE PLAN

The Proctor and Gamble¹ plan was based upon the principle that, since the final consumer of soap uses it at a rate that varies little throughout the year, the fluctuations which produce irregular employment are caused through the organisation and buying habits of wholesalers and retailers. The company therefore reorganised its selling organisation and proceeded to set the level of production to the level of final consumption. This change was made in 1921, and its effects upon employment fluctuation may be seen in the following table:²

	1919	1920	1921	1922	1923	1924	1925	1926
Percentage Employment Fluctuation	50%	43%	31%	25%	16%	14%	19%	16%
	Unstabilised production			Stabilised production				

The Guaranteed Employment Plan was introduced in 1923 after two years' experience of the new selling policy.

The company rightly claims that the advantages of its plan are not confined to itself, for the stability of employment tends to pass itself back and to regularise the operations of its suppliers. For

¹ See Richard R. Deupree, *Management's Responsibility Towards Stabilising Employment*. Also Chernick and Hellickson, *Guaranteed Wages*, and Murray W. Latimer, *op. cit.*

² Murray W. Latimer, *op. cit.*, Table IV, p. 313.

instance, the fact that the company is now in a position to order not (to give the example quoted by Deupree) 300 car loads of boxes per year, but one car load to be delivered each week-day throughout the year, not only places the company in a position to obtain a more favourable contract, but automatically tends to stabilise employment in other industries. In this connection it would appear that, in the economy as a whole, the distributing section has a far greater responsibility than has hitherto been recognised. One may well ask, for instance, how far the deliberate policy (backed by enormous advertising expenditure) of splitting the year up into buying and sale seasons which infected almost all retail distribution before the war was anti-social, encouraging factories to carry a ridiculous margin of reserve productive capacity resulting in much under-employment during certain seasons, with the further repercussion of a cycle in working-class purchasing power.

There is another benefit which has been claimed for the Proctor and Gamble plan. Before the plan came into operation, the reserve productive capacity had been 40 per cent. above the average. It has since been reduced to 5 per cent. The company claims that this saving more than cancels out any losses it has incurred through having occasionally to carry a larger stock on a falling market. The most striking result has been the creation of a settled and co-operative labour force. If this is taken into consideration, the company's claim that the savings effected by stabilising employment are considerably greater than the costs incurred is probably more than justified.

STABILISED EMPLOYMENT—NUNN-BUSH

The problems of regularising production in the shoe industry present much greater difficulties than in the case of soap manufacture. For, while it may be true to say that the actual quantity of shoe leather being worn out by the public may vary little from day to day, types of shoes are seasonal, while even men's shoes are subject to some changes in fashion. These conditions complicate the problem of carrying stock over from one season to another.

Before the adoption of the Share-Production Plan, the company had successfully used the two chief methods for stabilising production which had been developed by the trade—running an instock system and the opening of a certain number of its own retail stores. By these means, fluctuations had been reduced to within manageable proportions. Even then, the monthly index of man-hours employment for

the year 1934 showed a variation of 40 per cent., and the obligations to which the plan committed the company necessitated the introduction of further ways and means to reduce this figure a great deal further. The success with which the problem has been solved is shown by the following table of the index of employment:

	Before		After		
	1930	1934	1936	1940	1944
Percentage Fluctuation of Employment	20%	11%	3%	2%	4%

Figure 19 illustrates very plainly how the company succeeded in levelling out the fluctuations in man-hours worked per month.

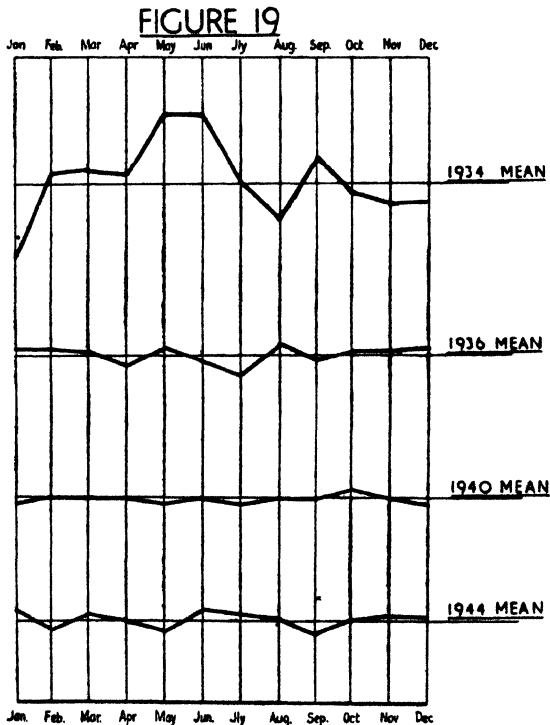


FIGURE 19
 Nunn-Bush Shoe Co. Index of Man-Hours Employment per month before and after the Employment Guarantee.
 Source. *Guaranteed Wages*. Report to the President by the Advisory Board Office of War Mobilisation and Reconversion Office of Temporary Controls, Murray W. Latimer, Research Director, January, 1947.

STABILISED EMPLOYMENT—GEO. A. HORMEL—MEAT PACKERS

This company started a guaranteed employment and earnings plan in 1929. At the start, it only covered a small proportion of the labour force and was not received by them with any enthusiasm. It was only after securing the co-operation of the Union that the management succeeded in extending it to all departments. This process was spread over a number of years, but, by 1937, 93 per cent. were covered by the plan, and in 1940, 100 per cent.

It is entirely different from the Nunn-Bush plan. The annual volume of work required in man-hours is estimated for each department, and each employee is guaranteed and paid for an average of so many hours per week throughout the year at the hourly wage-rate attaching to his job. The adjustment between actual hours worked and hours paid for is done on a system of borrowing and paying back hours from one week to another.¹ Earnings are augmented by a profit-sharing plan.

Although, as a type of industrial society, the Hormel plan falls a long way behind the originality and democratic conception of the Nunn-Bush plan, the introduction of stabilised employment and earnings into one of the most seasonal and unstable of all industries is a spectacular achievement. For, not only does this industry have to deal with seasonal fluctuations in consumption, but also, owing to the weather and other natural conditions, violent fluctuations in the receipt of livestock. These cannot be accumulated in the same way as ordinary stocks of raw materials but must be dealt with quickly. For these reasons, meat packing has the highest labour turnover of any of the major industries, and has been characterised by a great deal of industrial strife arising from the extreme insecurity of the wage-earner. Thus many observers have concluded that, if stabilised employment can be achieved in meat packing, it should be possible in nearly every industry.

Although the company only succeeded in reducing the monthly fluctuation of man-hours employment from about 40–45 per cent. to 30–35 per cent., the fluctuation of the index of employment has fallen from about 30–35 per cent. to something under 10 per cent.

One of the most notable results has been the achievement of a far more efficient use of the labour force. Although physical production increased by 117 per cent. from 1929–40, the labour force of 3,336 averaging 25 hours' work per week actually decreased to 3,012,

¹ See Murray W. Latimer, *op. cit.*, p. 317.

working an average of 40 per week. The extra production is accounted for thus:—Increase in man-hours worked, 69 per cent; increased productivity, 48 per cent.; total 117 per cent.¹

Austin, Minnesota, is a small town almost entirely dependent for its prosperity on this one large company, and it is notable that, during this same decade, the population increased by 49 per cent., and, from an investigation into the economic effects of stabilised employment,² its economic prosperity increased at considerably greater rate than that of towns similarly situated. In particular, there was a marked increase in home-ownership and in the sales of more durable products such as refrigerators and cars. Although the investigator points out that some of this improvement must be attributed to greatly increased earnings of the Hormel employees (*real weekly earnings* in 1929 were \$23.66: in 1940 \$38.51), a very noticeable change in the consumption habits can be traced after the introduction of the plan. The whole investigation, most carefully carried out, leaves little doubt that the security afforded by the Hormel plan had the effect of both stabilising and vitalising the local economy.

This experiment, too, created a great improvement in the attitude of the workers towards the company and towards their work. Not only has there been a very marked increase in co-operation, but also a tendency amongst employees to study the problems of their industry from the point of view of the management. Finally, one observer has pointed out the great difference which the workers now make of their spare time. The great variations in the length of the working week cannot be avoided; but, whereas in the old days, the insecurity of being laid off resulted in hours at home being spent in idle and bitter introspection, the men now use the time off in useful and recreational ways—shooting and fishing in the surrounding country.

CONCLUSION

Progress towards achieving guaranteed employment and weekly salaries for factory workers has been frustrated so far for three bad reasons. There are those who still argue that security is a bad thing since it weakens industrial discipline. The experience of the three companies who have tried it entirely contradicts this outworn relic nineteenth-century capitalism. In the second place, the various systems of State security have relieved managements of any sense of

¹ Jack Chernick, *The Economic Effects of Steady Employment and Earnings*.

² *Ibid.*

urgency in grappling with the problem on an industrial rather than a political basis. And third, many who yet regard it as an ideal tend to argue the case the wrong way round—if demand were steady, if we could be sure of raw materials, if, in fact commercial activity stopped fluctuating, manufacturers could guarantee steady employment. Quite so. But then there would be no problem.

The experience of these three companies all go to show that, if manufacturers set themselves the obligation of a guarantee, the means for stabilising their operations to a great extent follow. So long as managements feel justified in pursuing a policy of flexible employment and stabilisation is thought of as a secondary consideration, fluctuations on the one hand and rigidities on the other continue to appear as insuperable barriers to this most vital step in raising the status of labour to that of a partner in the process.

But, while it is true that guaranteeing employment necessarily entails the sacrifice of certain short-term sources of income, the experience of these three companies is that, if looked at purely in terms of money, gains more than cover losses; indeed, it is the main argument in favour of their plans used by Richard Deupree and Jay Hormel—that guaranteed employment is good business. Nor should this argument invalidate the rightness of the principle. Good, stable units of society are bound to “pay” just as a good system of education “pays,” however costly it may appear to be; and it is the greatest mistake to imagine that these good things can only be created out of the proceeds of charity.

CHAPTER XVII

THE SECOND STAGE—THE INTEGRATION OF THE MANAGERIAL GROUP

THE SCOPE OF THE THREE PLANS

The successful results of these three widely different experiments suggest that the first step towards the integration of labour into the industrial process should prove possible in most industries. But it must not be concluded that the three plans are by any means equal either in scope or in social value.

In the first place the Proctor and Gamble plan goes no further than that type of guarantee which is being demanded by orthodox trade-unionism in this country. For it merely accedes the principle that the Management is willing to treat a large proportion of the labour force as a fixed charge on the business. Provided the guarantee does not cover too large a percentage of the workers, and provided the Management is able to retain the main control over wage-rates, there is no reason to suppose that the plan would founder from the effects of cyclic depression. But it is significant that, since its inception, the coverage of the plan has been considerably reduced, while, at the same time, the influence of trade unionism has steadily grown. In the second place, the company has done little to bring the labour force into active association with the Management. The plan has been organised, administered and, from time to time, modified, entirely on the sole initiative of the Management.

The general effect of such a plan is to soften the inherent conflict of the wage and profit system, but in no way to eliminate its potential danger. It may create a better relation between Management and Labour but it does not organise a new or different relation.

The Hormel plan goes much further. To begin with, it covers every employee, and, because of this, the wage guarantee is on the far more realistic basis of production volume. Provided the labour force is prepared to accept the Management's estimates, there is good reason to suppose that the plan would weather a cyclic depression. On the other hand, there remains the question of wage-rates which, under the plan, are still left to be determined by the unscientific decisions of

collective bargaining. Thus, while the workers may be said to share production in *volume*, the fact that there is no deliberate link between prices and wage-rates means that they have no assurance of sharing in the *values*. This leaves untouched a good deal of the old cause for conflict against which, however, must be set whatever assurances workers derive from the profit-sharing plan. In the matter of labour relations, in contrast to Proctor and Gamble, the company makes a good deal more use of the independently organised union. Executives are now convinced that their early difficulties are mainly to be explained by their attempt to impose the plan from above, rather than to get it accepted first by their workmen's own independently organised union, in other words, through joint association rather than by benevolent dictation.¹ Since that time, the policy of the company has been to make full use of the union and to welcome its independence. Although the association thus approaches much more nearly to that which may be described as a partnership relation, it can hardly hope to achieve the full benefits so long as the union remains an organisation which must defend the commodity price of labour.

In two respects the Nunn-Bush plan has developed the ideal of integration further than these other two. Based upon a full realisation that any guarantee of income can only be based upon the production being there to pay for it, it not only provides a basis on which labour can be assured of sharing prosperity, but it also provides the only true basis upon which the risks of cyclic depression can be insured against once the use of flexible employment has been renounced. In the second place, because it recognises that labour can only be remunerated in terms of the Finished Product, the Management has rightly taken labour into full association in pursuit of the main industrial object—to produce Finished Products. As a democratic industrial form, therefore, the Nunn-Bush organisation stands in a different category altogether from the other two.

DEVELOPMENTS

But there is a third point on which the Nunn-Bush plan proves its wider scope: its structure is such that it has only to be developed to its logical conclusion to arrive at a form of integration in which the present conflicting interests of all three contributors to the industrial process are brought into harmony.

¹ Hormel spent a great deal of time explaining the plan with employees before it was tried, but he did not succeed in dissolving suspicion.

Already the plan has been extended to cover certain groups outside the factory. The packing department receives an allotment of 0.75 per cent. of the value of all shoes packed, and the office staff 1.45 per cent. of the net value of sales, division in each case being made upon the same system as that used in the case of factory workers. In each case the contract has been made through the Union, on which these departments are represented. In many businesses there is a sharp distinction drawn between office and factory worker which creates much bad feeling. This largely arises from the fact that office workers are employed upon far more favourable and secure terms than factory workers. The Nunn-Bush plan has made away with this distinction.

Even more far-reaching is the extension of the plan to the managerial staff, who, in various groups—foremen, heads of departments, managers and top executive officers, now draw their salaries from their own group allotment.

It will be seen, then, that Share Production remuneration forms a single system which can be extended to cover the whole team of active contributors to the industrial process, providing an economic basis for the closest co-ordination, while still giving the utmost freedom to exercise personal initiative.

CHAPTER XVIII

THE THIRD STAGE—THE ALIGNMENT OF THE CAPITAL INTERESTS

The cause of the economic conflict of capitalism has frequently been referred to in these pages as the wage-rate and profit system. The occasion of this conflict was the misuse of the Finished Product.

It has now been shown that sharing the values of production with labour destroys the commodity wage-rate principle, and, if taken to its logical conclusion, it provides the means for abolishing the use of profits as such, as a source of remuneration. This would simply mean that the Capital interests would receive dividends limited to a certain fixed percentage of the values of production just as the Labour and Managerial groups are paid from certain fixed percentages in the Nunn-Bush organisation. Such a development would link all three contributors to the Finished Product—the material *end* for which the industrial process is undertaken. Providing one single basis and source of reward, conflict arising from the opposing interests of wage-earners and profit seekers (or their nominees) would then be eliminated. By taking the spotlight off wage-rates and profits, and concentrating upon the real business of producing the maximum value of serviceable¹ production, industrial society might then claim to be organised upon the democratic ideal of public service through private enterprise.

THE CONTROL OF DIVIDENDS

Although the movement towards the limitation of rewards on capital has not yet crystallised into a definite form, there are three well defined trends of economic forces which are working in this direction. First, and most obviously, there is the potentially powerful, but, so far, ineffective forces within the Labour Movement. Their origin is to be traced partly to the natural resentment at the extreme inequalities of wealth distribution, and partly to the inherent wage

¹ The tremendous emphasis upon *production* to-day should be balanced by reminders of the pre-war problem of distribution. Production is only of value if it is saleable production.

and profit conflict. Second, there is the movement within the managerial class. The technical developments of the industrial process together with an economic condition of under-production are forcing managements into a form of administration which demands a higher degree of co-ordination with Labour. Under such conditions, many managers are coming to feel that this is inconsistent with those unlimited obligations towards Capital to which they are committed by our Company Laws. Third, the present trend of inflation is bringing into sharp relief the truism that Wages, Profits and Prices must be treated together : that a limit to the wage and price level cannot be enforced unless there is some limit to the rewards on capital.

THE VALDER PLAN

For concrete proposals in the solution of this problem, we must turn to those who have argued on the more theoretical ground of finding a true balance between Function and Ownership. In this country, the representative movement was Guild Socialism. But the most practical representative is probably Harry Valder, the founder of the Employee Partnership Institute in New Zealand. Briefly, Valder's plan is based upon the assumption that there are only two contributors to the Industrial Process—the *active*, which includes Management as well as Labour, and the *inactive*, the contributors of capital. He proposes that, after making reserves, the distributable income should be divided by the reverse of the method employed in the capitalist system. On capital, he proposes, should be paid a fixed rate of interest "on a predetermined standard such as the rate paid on National Loans averaged over each financial year. To such a rate should be added a premium for insurance against risks of loss involved in the different classes of industry ensuring, in the case of the winding-up of a company, payment of the amount of the capital contributed."¹ The remainder is then to be paid to the active contributors in the form of wages, salaries and profit shares.²

But is this not an over-simplification of the problem? For, in essence it merely reverses the exaggerated emphasis upon Property control which allowed owners to treat labour as a commodity, and lays it upon the Functional contributors who would be empowered

¹ *Basic Principles of a New Order in Industry*, New Zealand Employee Partnership Institute.

² For a full exposition of the principle, see *Lost Property*, by Paul Derrick.

to treat the investor's contribution as no more than a commodity cost in *their* Finished Product at a rate of interest which, being based upon National Loans, bears no relation to the purpose for which it is required. It may be true to say that "Capital" has more resemblance to a commodity than does the labour of human beings. Nevertheless, the function of investment brings into play a number of psychological factors which must surely disprove the notion that dividends are a payment to a purely inanimate substance called "Das Kapital."¹ It should not be overlooked that, in the contribution of property to the industrial process, we have to deal primarily with *people*—the investors—not *things*—capital, just as the "Labour" problem has arisen because men started to think in terms of a "thing," labour, rather than *people*—the labourer.

If it is accepted that the principle of sharing production is vital to the integration of contributions to the industrial process, then we must reject any proposal based upon the dissociation of *any* one contributor from the central purpose—which is to produce. The only logical method of dealing with the investor's reward is to relate it directly to what it jointly achieves in the purpose of production. Furthermore, to accept the principle of incentive in the case of worker and manager, but to deny it completely to the investor who performs the enabling function seems to be illogical. The real fault to be found with the investor's status in capitalism is that the incentive offered to him has been such that it has seriously interfered with the rights of the other contributors, especially with that of Labour. The remedy, therefore, is to *regulate and to control* this incentive rather than to abolish it.

It might be argued that to set aside (say) 3 per cent. of the values of production sold to pay dividends might not, in fact, produce financial results very different from those proposed under the Valder plan. This is not easy to judge. It would, however, ensure that the capital contributor would share to some small extent in the fortunes of the company, and that the dividends he derived would maintain him with a steadier *real* income.

To sum up: while the Valder and other similar systems would treat the investor as a mere cost to the Functional interests, limiting dividends to a rate determined by forces outside industry and rewarding him as a rentier, under a full system of Federal Share Production, the investor would still be in association with the other contributors, but

¹ See, for instance, J. M. Keynes *General Theory of Employment*, especially what he has to say on the psychology of investors, pp. 154, 317, etc.

his remuneration would be *controlled* by the same factor which controls the remuneration of his partners—namely—the values produced.

RISKS OF CAPITAL

There still remains the question of reward for risk-taking. Under the Valder system, risk is “insured” by the addition of some extra percentage to the normal rate of interest. How is this risk rate to be assessed? For the risk rate of an industry is not simply to be determined by the nature of the goods produced. Consideration must be given to all those fluid conditions which cause the risk rate to fluctuate violently at different periods of the trade cycle.

If any system of controlling the risk rewards on capital is to be found, a great deal more actuarial research is required. Here, therefore, I shall confine myself to a few tentative suggestions as to the lines on which a system might be worked out.

The rewards for investment may be divided into three. First, a rent for the use of certain property which enables a *normal* rate of useful production to be achieved. Second, a reward for enabling a *more than normally successful* enterprise to function. Third, a reward for taking risk.¹ In a system of Federal Share Production, the normal reward represented by a fixed percentage share of production would cover the first two rewards, the “rent” reward and the “success” reward. This total reward may be called the “production dividend.”

¹ I am aware that many people will dispute the claim to any extra reward for abnormal success, on the grounds that once money is invested, success is the result of an efficient Management and Labour Force. Against this argument it may be claimed that the investor who enables *efficient* functional contributors to produce has performed a better service to the public than those who back the inefficient. But the strongest argument I would advance is that a “success” reward does harmonise with the natural shape of the industrial process. In the analysis of this which I have advanced in this book, the natural form of remuneration seems to be to divide whatever is produced into three piles, a method which would remunerate abnormal success. In a free economy, too, such reward performs a valuable service in helping to direct investment into the most productive channels. There is a very real menace in any economy in which capital earns no more than a uniform rent that it will become equally available for inefficient as well as efficient production. From the meagre sources of information available (such as Kravchenko's *I Chose Freedom*), one gathers the impression that the misuse of capital in Soviet Russia has been phenomenal. In our own country would the ill-fated R.101 ever have been built if capital had been a consideration?

Perhaps a compromise might be reached by enabling the functional interests to redeem shares after they had received a specified return by way of dividends, and to issue some form of debenture in place of them.

In the matter of the organisation of share capital there seems no reason to alter the accepted forms of preference and ordinary shares. Whatever sum was available would go first to the payment of the fixed rate on preference, the balance being distributed on the ordinary. There remains the question of risk reward. Would it be fair to assume that if, in addition to the normal production dividend, the capital interests received an extra payment which may be called a "risk dividend" each year that trading results justified, until they had received a sum related to their original investment, the risk taken by them would have been rewarded? For example, when preference shares had, over a number of years, received in "risk dividends" a sum in all amounting to (say) 10 per cent., and ordinary shares had received (over a number of years, say) 100 per cent., all risk dividends would cease to be paid, and thereafter, shareholders would only receive the production dividend. It is here, of course, that far more actuarial information is necessary, for, in choosing the figures 10 per cent. and 100 per cent. as suitable risk rewards, I am using entirely arbitrary figures. The determination of risk reward would not, of course, be as simple as that. For it would be necessary to introduce some *time* qualification since the repayment of the risk reward in five years would constitute a much higher rate than if it could not be paid off under twenty. Here the principle should be that the longer it takes to pay off the risk reward, the higher that reward should be. If a business met with immediate success after it had been established, obviously the risks run by the capital interests are smaller than in the case of an enterprise which takes years to establish a secure position.

The vital principle which needs to be established in a system for rewarding risk is that such rewards should diminish and, in the end, disappear as risk is eliminated. This is just the reverse of how our capitalist system functions, and, until it is changed, it is difficult to see how industrial society can move its centre from the strongly entrenched position held by Property.

THE ELIMINATION OF RISK

It may be argued that risk is never eliminated. This, of course, is strictly true. But it is equally true that the main weight of this assertion depends upon the fact that, under the capitalist system, the only source from which capital can be remunerated is profits. Under a Federal Share Production system, however, in which production, not profits, formed the source of capitalist remuneration, risk would

not only assume a different shape, but could be reduced to within certain well defined limits. This will be more easily seen by speculating on the form in which the final account might be presented.

From the gross income received from sales would be deducted payments for raw materials, supplies, contract work, selling expenses, power, depreciation and bank interest. The balance would represent the "functional income" from which would be set aside reserves for losses, expansion, pensions and, if results justified, a sum for risk dividends. The remainder, which may be called *distributable income*, would be divisible on an agreed percentage formula for the remuneration of the contributors, Labour, Management and Capital. For the sake of argument we will assume the formula to be:

Labour	..	..	84 per cent.
Management	..	..	12 "
Capital	..	..	4 "

From the shares of Labour and Management would be deducted the total amounts drawn by Management and Workers in monthly or weekly salaries. If these exceeded the percentage allotments, reserves for losses would have to be drawn upon, and no extra payment could be made for the year. The capital interests would receive their percentage, being their *production dividend*. If reserves had been drawn upon, it would be necessary for the Management and the Share Union to reduce the drawing rate of all the functional interests for the coming year. There might be some plan, too, whereby, in the event of drawing on reserves, the production dividend would be withheld wholly or in part and made cumulative. But, in these conditions, there must be no question of altering the percentage allotments to any of the three contributors in order to meet losses; for the sanctity of the formula is the one assurance that no single contributor, or combination of contributors, can benefit at the expense of either one, or both, of the others.

From this brief outline it will be seen that, since the system of rewards on capital forms one part of a single flexible plan, the risk element is very largely reduced. Orthodox trade unionists might here strongly object to a system which throws a part of the capitalist's risk on to the Labour interests. But this is only what happens in a different and far more cruel way under our existing system. For now the capitalist's interests are protected by the anti-social practice of flexible employment. Under Federal Share Production it is borne by a system of flexible remuneration for all.

CAPITAL ACCUMULATION

Under our present system, the whole surplus, after paying the functional contributors and preference shareholders, becomes the property of the equity shareholders. The system is defended on the grounds that the equity shareholders take the whole risk. Enough has been said, both here and elsewhere, to disprove this naive, albeit convenient assumption. Even if it were true, a system in which the risk-taker receives increasing rewards for diminishing risks is illogical and immoral.

Under a Federal Share Production system, since provision is made for adequate remuneration of the investor both for his contribution and for the risk he takes, capital accumulations would not become his property. If we take the distribution formula already used, such "equity" is 93 per cent. the fruits of the functional contributors. It would seem far more reasonable, then, that such capital accumulations should be held in trust by (say) two representatives of the Management, one of the Share Union and one of the Shareholders. Interest or dividends received from the investment of this reserve would become a part of the distributable income; or, if used for the development of the enterprise, distributable income would be increased by the extra production which it enabled. In both cases, such income would find its way to the contributors in the ratio of the distribution formula.

SPECULATION AND EXPERIENCE

These proposals are largely speculative. They can offer no more than a rough suggestion as to the lines on which the problem of *controlling* (rather than *limiting rigidly*) property rights might be solved from a development of existing tendencies while yet recognising the vital part played by the enabling function of the investor.

It would be far tidier to be able to present a neat blue-print. But to do so would contradict the principles which I have followed in developing the idea of Federal Share Production to its logical conclusion. It is vital to the maintenance of a free economy that institutions should grow from experience. It is for lack of experiments in reforming capitalist remuneration on the lines proposed that makes it impossible to offer more than a speculative outline of the final shape which the principles of Federal Share Production might take.

While the Nunn-Bush Company has not, so far, extended its system to cover capitalist remuneration in the form suggested, it is

interesting that their method of dealing with dividends has moved in very much the same direction.

Early in the Company's history, a profit-sharing plan on fairly conventional lines was instituted. In 1935, the plan was amended to form a pension fund. It is now called the Profit-Sharing and Retirement Fund. After setting aside reserves and paying the preference dividend, the balance of profit is divided between the Common Stock Holders and the Retirement Fund on a variable ratio agreed upon between the Company and the Union. This provides that stockholders receive 100 per cent. up to a certain sum, after which an increasing proportion becomes available for the Retirement Fund. So far as experience has gone, the effect of this is to keep the Common Stock dividend to a fairly constant proportion of the net distributable income, but in no way to limit it as a percentage on the Stock.

Since the variable ratio formula was put into operation in 1942, the percentage of the net *distributable income* paid out in dividends to Common Stockholders has been:

1942	1943	1944	1945	1946	1947
3.57%	4.90%	4.94%	4.71%	9.03% ¹	2.81% ²

Thus, although the Company has not consciously adopted a three-fold distribution formula, it is interesting to see that experience of the share production system is, in fact, developing something very much like it.

THE PROBLEM OF INFLATION

Further evidence that the close association of interests is leading the Company to think in terms of the *relative* remuneration to Capital, Management and Labour has come to light in dealing with a problem raised by present inflation. Since price controls were lifted, the price of shoes has risen rapidly by 50 per cent. Late in 1947 the average earnings of *all* workers was \$4,500 per annum, while those of Share Production were earning at \$5,000 average. This was about twice the average for the American shoe trade as a whole. Management and perhaps, more doubtfully, stockholders were doing equally well, and the Company was well in the market as regards competition. The Management was of opinion, however, that everything should be done to check the advance in prices as far as possible. A proposal was made that all remuneration, to Labour, Management and Stockholders, should be frozen on the present level of prices, and that the

¹ In this year, nothing was placed to Reserve, even then, the dividend is higher than the normal.

² If these years are taken together, the average would have been 5.07 per cent.

goods should only be advanced to prices which would cover the actual costs incurred by the advances in raw materials. This proposal was not in fact adopted. Instead, the basis of the Labour rate was changed from 20 per cent. on gross production to 36 per cent. on net production. Nevertheless, its real interest lies in the fact that the company was in a position to be able not only to make it, but to be so organised that it could have been carried out. This matter is of particular interest in Great Britain to-day, where many industries are trying to grapple with the problem of wages and profits chasing each other in a spiral of inflation. So far as can be seen, there is no scientific means of control under our wage-rate and profit system, since there is no common basis for the remuneration of Capital, Management and Labour. For the fact that wage-rates are controlled so largely upon an industry-wide basis, while profits and management salaries are determined on the site of the job, robs both Trade Unions and Managements of the necessary common denominator. Proposals that the Government can effect the necessary control by freezing wages and taxing profits are utterly unrealistic mass measures which contradict the very nature of the industrial process and the individuality of organisation necessary for its performance.

It thus appears that an industry organised upon a Share Production basis for the distribution of rewards is in a far stronger position to put into force remedies to correct the adverse effects of conditions over which it has no control—inflation and deflation.

This experience gives an excellent example of the far greater flexibility of manoeuvre possessed by a Management in a Federal Share Production system. Not only are the rigid items of cost in the price structure of the Finished Product reduced to a minimum, leaving a flexible margin which may be as high as 33 per cent., but the close association of the contributors, bound together in pursuit of a common purpose, enables the company to think and act far more quickly as a unit.¹ So long as the functionless and, industrially, absent shareholder remain in nominal control: so long as labour is paid upon a scale of wage-rates which must be defended by large National Unions, the controllers of which are industrially functionless and largely absent from the site of work: such flexibility will be impossible, leaving the course of events to be far too strongly influenced by "blind" forces which gather momentum until they burst in a storm of exaggeration and chaos.

¹ See *infra*, Chapter XXI, p. 171.

VOTING POWER AND COMPANY LAW

The Company organisation enabled by the New Zealand Company Laws accords voting rights to Labour Shares, thus bringing the Labour interests into the Annual General Meeting. The more extreme types of organisation based upon the principle that Management and Labour hire capital at a fixed rent go even further by transforming the Annual General Meeting into an association of only those who are engaged functionally. Property shareholders would thus have no voting rights.

In this country the new Company Law, based upon the Cohen Report, assumes that the property-centred basis of economic activity requires no modification. Incidentally, no better proof of the property-centred nature of British socialism is required than the fact that a Socialist Government has accepted this report as the basis for the new law which merely serves to protect still further the property interests.

Now, whatever position has been accepted for the time being, it is certain that the future trend of Company Law will be determined, not by the Financial interests whose power is waning, but the Managerial. Their growing disinclination to accept the unlimited obligations of our present Company Law, indeed in some cases an almost open defiance of it; their growing sympathy with the Labour interest; together with the increasing weakness of shareholders as a class, caused by the diffusion of shareholding; all point to the conclusion that, when the Managerial class is ready to forge new company law, it will take voting power from shareholders and transfer it to the functional interests.

In working out the way in which a full Federal Share Production Company would remunerate its contributors, nothing has been said on this matter of voting power. This omission has been made on purpose, for a redistribution of voting power implies a need for a new Company Law. But, just as our first Company Laws grew out of an already developed capitalism, so it is that the new industrial form, whether it be Federal Share Production or some other, that will create the new Company Law. New Company Laws do not create new forms. Instead, their function appears to be that of enabling the development of what economic society has already worked out in part. And it is, perhaps, the fact that the Cohen Company Law visualises no new development, that it must be considered no more than a necessary, though rather unimportant, bit of tidying up, which will do nothing to shape the industrial organisation of the future.

PART FOUR—WIDER ISSUES

CHAPTER XIX

THE STATE AND FEDERAL SHARE PRODUCTION

In the democratic conception of the State, the rôle of the Government is that of a leader. This is of particular importance in assigning the part the Government should play in the development of economic and cultural life, for it means that it must use initiative, but forbear dictation; educate, but avoid propaganda; bring to birth new forms, but express them from the will of the people; use, tradition and experience, but only as the springboard for encouraging originality; plan and design, but inspire the execution outside political circles; regulate, but not manage; and thus, broadly speaking, to maintain the independence of an arbiter, mentor and protector of the essential human rights.

Such a rôle thus precludes the State from assuming the functions of Manager of the industrial order or Director of the cultural life, for these lie outside the technicalities of its own sphere, the political.¹ When a Government claims these functions, gone is its status as the arbiter of human rights, for it at once becomes a judge in its own cause, while the pursuit of that continuity of policy, which is a necessary condition of economic order, tends to drive government into a one party channel. Totalitarianism is the logical conclusion of a *State-managed* economy.²

The movement in this country towards a more corporate social structure is a right and necessary corrective to the exaggerations of the nineteenth-century rulers who extended the protection of human freedom so inequitably. But it is a movement which has great dangers—not merely for the vested rights of those who were privileged under the old system, but for the working man. And, it is not only the advocates of *laissez-faire* who issue warnings; it is significant, for

¹ The essential distinction between Management and Control, dealt with (*supra*, p. 81) should be carefully borne in mind here.

² I would like here to acknowledge my indebtedness to Charles Waterman's *Three Spheres of Society*, from which I have freely borrowed. This clear and well reasoned exposition of the relation between the cultural, political and economic spheres of society deals with one of the most important problems of this century.

instance, that the Trades Union Congress has had to warn a Socialist Government off its economic preserves with sharp reminders that wage-rates are no business of the Government—a grand Liberal sentiment, but very hard to reconcile with State Socialism.

THE STATE AND ECONOMIC TRANSITION

There are times when the State is forced to increase its activities in the economic sphere—to increase regulation and to guide economic movements into shapes which will correct inequalities of human rights and maintain essential freedoms. These are the signs of the great economic transition periods. Such, for instance, was the case in the transition from Guild to Domestic under Queen Elizabeth and the Stuarts. Since about 1928, a tremendous increase in State economic activity has been one of the characteristics of political life; and it is recognised on all sides—but to varying degrees—that the Government must devote a great deal of its time to assisting in the birth of the new economic era.

If, however, the ideal of democracy is to be preserved, any notion that this political movement forms the bridge towards a State organised and managed economy must be repudiated at all costs. It may be a good thing for the State to own the means of production in a number of large monopolies. But if it claims unlimited obligations from, and control over, those who perform the managerial and labour functions, it will merely perpetuate one of the evils of the nineteenth century—namely—that control can only be vested through ownership. The principles put forward in this book would suggest: Let the *Means* (Capital equipment, etc.) be controlled by the State where necessary,¹ so long as the *End* (the Production) is principally controlled by those who organise and make it. Furthermore, the very large measure of acquiescence in and demand for a certain degree of Nationalisation should be interpreted as part of a national movement to limit the rights of property. Nationalisation will only thus interpret the real will of the people if property rights in nationalised industries really are transferred to the functional organisers and workers. There can be no doubt in this respect, that nationalised industries offer the Government unrivalled opportunities for working out forms which will embody this new balance of controls.

¹ Mainly, I suggest, in those industries in which long-term developments must necessarily be carried out at the expense of immediate profitability in the general National interest.

But it is just as important, perhaps even more so, that the Government should give equal attention to the creating of those conditions which will encourage private enterprises to work out new forms.

In this book, I have put forward Federal Share Production as a form. It is based, as I see it, upon the nature of the industrial process. It seeks to correct those inequalities and injustices which the distance of history now enables us to see in focus. It is a form evolved from the existing system, and it is woven from the threads of current movements. What sort of State help would be most conducive to the growth of experiments on these lines ?

UNEMPLOYMENT INSURANCE

The conditions under which unemployment benefit is paid under our present law entirely discourage the incorporation of the two chief principles of Federal Share Production, namely, the employment guarantee and the payment of wages from production. The rule whereby only those who have contributed *nothing* to production are eligible for benefit is not only destructive of economic wealth, but puts any manufacturer who offers a guarantee at a disadvantage with his competitors. To offer an incentive for non-production is obviously anti-social and cannot be justified on the grounds of administrative expediency. Again, a law which, for instance, penalised those socially minded employers who paid wages all through the shut-downs of the coal crisis of 1947 to the advantage of those who recognised no such obligations, is obviously a bad law.

U.S.A. UNEMPLOYMENT COMPENSATION AND GUARANTEED EMPLOYMENT

In U.S.A., when unemployment insurance was introduced following the slump of 1929, the provisions were designed with the object not only of relieving the economic necessity of the unemployed, but also of acting as a preventive measure against unemployment. States were enabled to base manufacturers' contributions upon a sliding percentage of their wage bills, the rate paid in any one year being determined by the extent to which the workers of each firm had been obliged to draw compensation during the previous year. In the seven States which adopted this experience rating, manufacturers were given an incentive to institute guaranteed employment plans. In the State of Wisconsin, the incentive was considerable, rating varying from 4 per cent. to 0 per cent. of the wage bill.

This system, as drawn up, had two defects. In the first place employers, desiring to qualify for the lowest rating, were able to organise employment so as to disqualify their workers from drawing any compensation. Second, the system reduced taxation during prosperous periods, and increased it when it could least be afforded. The passing of the Social Security Act of 1935, however, robbed the system of much of its incentive, and, by 1946, all but one State had repealed the experience rating provisions.

LINKING UNEMPLOYMENT INSURANCE WITH GUARANTEED EMPLOYMENT

This attempt to encourage industrial planning and organisation so as to reinforce the obligations of the State towards the working population embodied a thoroughly sound economic as well as political principle. Its failure is attributable to careless framing, but for which, both defects might have been avoided.

Nevertheless, the combination of State unemployment insurance with industrially guaranteed employment is not an easy matter. On the one hand, it must avoid a repetition of the Speenhamland¹ abuse by which the State came to subsidise wages in such a way as to lower the general level; on the other, it must make full provision for such unemployment as lies beyond the scope of managements to control.

To fulfil these conditions, it would seem that there should be two alternative forms of unemployment insurance: an individual form, as at present; and a collective system which could be offered as an alternative to companies prepared to institute guaranteed employment plans.

It is obvious that there could be no uniform system which could apply to industry generally, and the principle of the experience rating method of dealing with each company separately would have to be accepted. The provisions might, therefore, be embodied in a yearly contract entered into by the Company, the Labour Organisation and the Ministry of Labour or some other government authority. The terms of the contract would provide that the present contributions from employers and employed would be divided off and paid into a single Unemployment Contingency Fund, to be held by the Ministry of Labour. The Company would produce the terms of its guarantee, the Ministry satisfying itself (if necessary calling upon the Company to produce evidence) that it was reasonable: that it would not call for undue implementation from the contingency fund, but would yet confer a status of increased security upon the labour force.

¹ See *supra*, p. 14.

Unemployment benefit, at a standard rate per hour, uniform for the whole country, would then be paid upon the number of man-hours employment by which the Company fell short of its guarantee. It would be necessary to provide certain safeguards, for instance, a Company could not be permitted to work 55 hours one week in order to draw unemployment benefit on the basis of 20 the next—although something like this abuse was frequently practised between the two wars under our present system.

In a Federal Share Production system, the allocation could probably be left largely to the Share Union which would determine whether the difference between the level of benefit and the level of earnings was to be borne by the less fully guaranteed groups or whether it should constitute a charge upon the group fund.

The contract might further provide terms upon which employer and employees' contributions could be reduced or totally suspended if the guarantee had been so well implemented that little or no call were made upon the contingency fund. If the fund, say, reached a certain percentage of the normal wage bill, the limiting provisions might then take effect.

One further point remains. How far should unemployment insurance benefit be made a strictly industrial liability? Should the State subsidise it from taxation? There are those who may argue that, if it is desirable to make the industrial unit economically self-contained and free from "State interference," unemployment must be treated strictly as an industrial liability: that it is for the producers who derive their living from the industrial process to insure themselves against its risks. But a wider conception must apportion a part of the liability to another group who also derive benefit from the industrial process, namely, the consumer. On these grounds, it would seem only just that the Government, in the absence of any effective consumer organisation, has an obligation to devote some taxation towards the provision of adequate benefits.

THE OBLIGATIONS OF THE STATE IN THE CONTROL OF PROFITS AND DIVIDENDS

Methods of taxing profits which can be expected to act as an incentive towards the development of a right kind of industrial organisation, must fulfil certain conditions:

1. Taxation must not discourage the right kind of initiative;
2. Taxation of profits should be related to the social purpose for which capital is employed, viz. to enable production;

3. Taxation of profits should encourage an equitable division of the income derived from the industrial process between those who work it.

To fulfil these conditions, the taxation of profits should be related to what is performed by way of production. This embodies the same principle suggested as the basis for the distribution of dividends. In other words, the tax should not be levied merely in accordance with the amount of the profit, or determined upon the proportion of the amount distributed, but upon the *ratio of profit to production*. Thus, if a small profit is earned upon a large volume of production, the rate should be low, and *vice versa*.

A reasonable *profit-production ratio* could only be determined in accordance with the experience of separate industries, which could then be placed in categories. Example: if it were determined that the standard profit-production ratio for the shoe industry was 4 per cent. (i.e. the percentage of production values earned in profit were 4 per cent.), then a company making a profit of 4 per cent. on its production would pay the standard rate, say 8 per cent. on the whole profit; if the company earned, say, 2 per cent. or 6 per cent., it would pay at tax rates of 4 per cent. or 12 per cent. respectively.¹

This method would offer an incentive to increase production rather than to make high profits, and would form a basis of profit taxation which would, therefore, encourage a social form of industrial activity, by treating the rewards of industry according to the public service it performs.

THE NON-INDUSTRIAL WAGE EARNER

If the industrial wage-structure were to be re-modelled upon the principles of Share Production, there still remains the problem of the non-industrial wage-earner, all those whose work cannot be measured or defined in terms of a Finished Product or a money-measured service. Although the scope of this book does not allow a discussion of the problem of wage-levels outside the industrial process, a word on the subject is apposite.

It has been shown that it is not necessary for all the workers in a factory to be directly remunerated by shares in production for the share production principle to control all earnings on this basis. The example given was that of the Sole Cutting department of the Nunn-Bush Factory, in which a conventional wage system is linked to the

¹ In a Federal Share Production system the profit figure would be represented by the Reserve percentage actually realised.

production earnings by a sliding scale.¹ If Share Production were to be adopted on a wide scale, it would not be difficult to construct a number of industry-wide indices from which either a sliding scale or a monthly bonus system could be devised. This could be used for non-industrial wage earners who could be paid either by a standard guaranteed wage plus monthly bonuses, or a full weekly wage adjusted to the general index of production wages.

The principle which prompts this suggestion is that, by and large, it is the *industrial* wage level which determines the general level of all wages. This is certainly as it should be, for it is the degree to which the *producers* in the economic system are able to fulfil their function which determines how far the country can support the non-producing services. The suggestions made above, therefore, merely put this principle upon a more scientific footing, so that the proportionate earnings of industrial and non-industrial workers would keep step with each other, so helping to preserve stability in the distribution of Labour.

LEGISLATION AND THE UNIFICATION OF THE LABOUR FORCE

One condition necessary for creating a full partnership relation of any sort is that the labour force should be organised into a strong, unified independent body. The development of horizontal integration in the trade union movement makes this almost impossible in the many factories which employ a variety of crafts; for, in far too many cases, the unions themselves are at such loggerheads with each other that, however willing a management may be to create a condition of co-operation, their efforts are frustrated by the competition of unions to obtain sectional advantages.

This dangerous weakness in the trade union structure is one which should be dealt with by the movement itself. Unfortunately, however, the slashing of vested interests in the movement would not be an easy matter unless legislation to encourage and to promote more unified labour representation were introduced to reinforce the purge which would be necessary.

Very much the same problem had to be dealt with in the U.S.A. during the recovery period, and it is suggested that legislation of a similar pattern is required (for rather different purposes) in this country. For instance, any management might submit plans for unified labour representation in its factory to the Ministry of Labour,

¹ See *supra*, p. 121.

the unions concerned being invited to submit counter proposals if they wished to do so. The Ministry might then have power to select the two best proposals and submit them to a secret ballot among the workers in that factory.

The underlying structure of such unified labour representation should be such that all trade union negotiations would be carried on upon a factory-wide basis which would preclude sectional bargaining, and that the Management would have one representative committee through which it could negotiate with the whole labour force. Such a unified body should, of course, have full representation on the Works Council or Joint Production Committees.

LABOUR IN A NATIONAL ECONOMY

To-day, largely owing to the consequences of war, this country finds herself thinking in terms of economic nationalism which, in certain respects, bear a striking similarity to the thought of the eighteenth century. In the matter of Labour economics, again we are hearing a good deal about labour indiscipline, absenteeism, labour shortage, and the limitation of wages.

The worst feature of eighteenth-century economic nationalism was the loss of freedom suffered by the working classes in an age which was fast developing political democracy. This loss took two forms—the loss of freedom to select an employer, and the loss of protection in the determination of wages.

LABOUR MOBILITY

In the eighteenth century, the worker was forced to accept employment offered by a master without any corresponding obligation on the part of the master to employ; in other words, a general authority to direct labour was vested in the employing class. It is a disturbing feature of our present economic nationalism that we have again resorted to the compulsory direction of labour—this time through State administration against which there is no appeal to the courts.

In the nineteenth century, *laissez-faire* liberals felt that the freedom of the individual and the needs of industry were sufficiently protected by leaving the mobility of labour to be determined upon an individual basis. This solution failed because the free mobility of the worker was circumscribed by economic necessity. Instead of being directed under threat of legal penalties, he was forced by the economic threat of starvation.

MOBILITY AND NATIONAL SHARE UNIONS

In a free society, no system of controlling labour direction either by legal compulsion or by economic sanctions can be tolerated. The only reasonable basis is a system of organised self direction, an ideal for which the status and function of the Share Union in a system of Federal Share Production could be admirably developed to fulfil. For a number of Share Unions with obligations towards members to preserve security of tenure and of income would tend to work out amongst themselves plans for encouraging workers to move from unproductive and over-manned industries to those requiring larger labour forces and whose production would assure workers good prospects. In such a way, regional affiliations of Share Unions would probably fulfil far more efficiently the industrial work of the present system of Labour Exchanges. Central affiliations would deal with the larger national problems such as the location and distribution of industries; while purely local affiliations might do much towards solving the problems of seasonal employment by means of seasonal exchanges.

It will be seen, then, that even if the focal point of power in labour organisation were to be vested in the Share Union of each company, the larger aspects of the Trade Union movement would not only find a place in the national economy, but would extend the principle of self-government in matters which, under our existing system, are administered externally. Ultimately, the democratic ideal would be to vest the whole labour movement with the responsibility for providing the economy with a well-balanced and efficient labour force. The positive functions inherent in the Share Union as opposed to the Trade Union could hardly fail to develop the movement in this direction. And such a development would transform it from a purely "working-class" movement into a fully integrated organ of the national industrial structure.

A NATIONAL WAGES POLICY? POINT RATING

In the eighteenth century, the repeal of those statutes which protected the workers' wage-rates, together with the anti-combination policy deprived the worker of his freedom to determine jointly the wages for which he would work. Instead, the determination of wage-rates lay with the employer, outside the control of the worker.

Nothing so drastic as this has at present been proposed during the present wave of economic nationalism. Nevertheless, the demand, heard from many quarters, for a National Wages Policy has certain dangers in the same direction.

There are two purposes behind the demand. The first is to check the spiral of inflation which endangers our export trade; and the second is the claim that it would make possible a re-assessment of the incentives as between industries so that a better distribution of the available man-power could be achieved.

The most concrete proposal so far put forward is that of C. A. Lidbury who advocates the institution of a National Point Rating system as a (partial) substitute for collective bargaining.¹ In this system, the value of different types of jobs is assessed by awarding points under various headings. For instance, in one system, the headings are:

1. Skill, training and experience;
2. Responsibility and mental requirements;
3. Physical requirements such as monotony, abnormal position, disagreeableness, etc.
4. Hazard, such as disease, accidents, etc.

The assessment takes the form of a differential which is applied to a wage-rate scale determined by collective bargaining. But before the final rate is awarded to any individual, it is adjusted by a system of Merit Rating which takes into consideration the actual performance of the individual.

In his advocacy of this system, Lidbury is, however, somewhat inconsistent. He rightly points out that collective bargaining belongs to the past era of *laissez-faire* economics (p. 9) and proposes Point Rating as a substitute "based upon equity" (p. 6). But he has to admit that *money-rates* will still continue to be determined by collective bargaining (p. 22). The issue is certainly narrowed in so far as there would be no sectional bargaining between grades or crafts, once the appropriate differentials had been fixed.

POINT RATING AND FEDERAL SHARE PRODUCTION

The greatest contrast between these two systems is that, while Point Rating continues to determine labour remuneration on the old money wage-rate principle, Share Production starts with the assumption that labour remuneration can only be defined in terms

¹ C. A. Lidbury, *A National Wages Policy*.

of the Finished Product. The similarity is that, in each case, the differential principle is used. In Share Production, as hitherto practised, the point and merit rating is not so complicated except, perhaps, in the case of new jobs. From the worker's point of view, the most important difference is that the Share Production worker does not have to rely upon collective bargaining (except, perhaps, on the one occasion when the percentage is being fixed) for protection against exploitation.¹ Lidbury certainly hints that only by means of higher production can a general increase in money rates take place, but he does not propose any direct connection between the two, neither does he make any proposals for extending security of tenure to the worker. The general proposals, therefore, still conceive of labour as a commodity cost rather than a producer of wealth.

When he comes to develop the application of the system upon a National scale, he appears to contradict many of the conclusions to which the arithmetical study of the money wage-rate system point, in addition to his assertion that Point Rating gives Labour the assurance it needs.

He points out, rightly, that many of the most important basic industries such as coal mining have developed into Cinderellas (p. 25). In order, therefore, to secure a right distribution of man-power, he suggests that Point Rating might be extended to cover industry in general, setting a scale for each industry which would determine, in order of priority, the value of each to the national economy. This plan carries a grave inconsistency. For the whole purpose of the Point Rating system is to determine wage differentials by means of a scientific appraisal of the nature of each job, its skill, the strength required, its discomfort and dangers, etc.

But there is also the suggestion that differentials should be determined by the national importance of each industry (in itself an extremely fluid conception). But which is to be the governing factor? Professional skill, etc., or national importance? As an example, take Coal and Cosmetics. No doubt the policy to-day would be to grade up the differentials in all coal-mining jobs, and to grade down those in the manufacture of cosmetics. In the first place, the mere alteration in the grading of differentials will not necessarily affect wages either one way or the other, for, if the increased production values are not there to pay the higher rates, wages will not move;

¹ I use the term in its technical, not demagogic sense—the withholding of a part of the *work* values from the worker.

similarly, if, in cosmetics, the value of what is produced remains the same, the down-grading of differentials will make no difference. If, however, we assume that the grading up of differentials does increase worker income, what sort of confidence is the workman to feel in the point rating system? What, for instance, is to be the policy if a state of "over-production" in coal comes about? Why should trade union leaders be expected to accept cuts in differentials for their industry with any better grace than they welcome proposals for wage reductions under our present system? In other words, we are brought back to very much the same relationship as exists under the present system of collective bargaining.

There is one further point. The suggestion is made (p. 27) that there should be also a "horizontal" treatment of point rating to ensure that "tradesmen in one industry were paid the same as tradesmen in another." Behind this proposal there is the same pattern of thought which has prompted the Trade Union Movement to press for National wage-rate agreements, presumably upon the supposition that if wage-rates are equalised, earnings will follow suit. This, in point of fact, does not happen for, in any case, earnings do not primarily depend upon wage-rates.¹ But the real objection to proposals for levelling up in such ways is that, in a relatively free economy, it is impossible to have both *vertical* and *horizontal* integration in the wage structure at the same time. The workman must either be treated primarily as a sharer in the wealth of the enterprise *in* which he works (giving him vertical integration—the pattern of co-operation): in which case he is bound to share adversity as well as prosperity; or he can be treated primarily as a member of a craft outside the industrial structure, working *for* the industrial enterprise (giving horizontal integration, the pattern of competitive conflict): in which case the ideal of partnership must be discarded.

The evidence produced in Chapters 7 to 9 goes to show that vertical integration is right, and that the idea that workmen of a certain type can all draw similar rates of income regardless of the other factors is an illusion. Only in a system such as that in Soviet Russia, in which production is valued by a rigid system of centralised price control, could a universal horizontal wage structure produce level incomes.

If the primary principle underlying the arguments set forth in this book is accepted—namely, that the level of wage-earning is set by the values of production—the logical means to increase the labour

¹ See factual evidence *infra*, p. 167.

force in, say, coal mining is to re-value coal and to raise the efficiency of productivity. The level of earnings will then automatically adjust themselves, offering an incentive for new entrants. Such re-valuation may, in times of emergency such as the present, have to be put upon an artificial temporary basis by means of subsidies, just as the devaluation of cosmetics in order to discourage the flow of man-power can be carried out by the imposition of a heavy purchase tax. Thus, if in the national interest it is found necessary to control the relative wage-earning opportunities as between industries, this method—that of controlling the value of production, does at least catch hold of the stick by its handle.

Some system of point rating may have its merits within an industrial group of workers, particularly in so far as the problem of balancing sectional interests is concerned; but its limitations should be recognised. For, in rating jobs for such characteristics as effort required, unpleasantness, monotony, etc., practical considerations make it imperative to assume that these can be measured by an objective test. The fact that the subjective must enter into the truest analysis means, therefore, that point rating must not be treated as infallible scientific means of measurement, but an abstract device which has similar dangers to that of the invention by nineteenth-century economics of the once famous, now happily and entirely debunked, economic man.

CHAPTER XX

LABOUR AND FEDERAL SHARE PRODUCTION

BRITISH AND AMERICAN CONDITIONS

The theoretical arguments for the development of a system of Federal Share Production have been drawn from the social evidence provided by the history of this country together with economic evidence common to all capitalist countries. When it comes to pragmatic support, however, we are forced to rely upon certain American experiments, one in particular. The question which must be asked is: are not the conditions of the two countries, and particularly those relating to the "labour situation," so very different that such an experiment is quite inapplicable in this country?

Superficially, there appears to be much that will support this argument. In broad terms, the development of trade-unionism in this country is far more advanced than in America. If a factory in this country were to develop an intra-mural Union such as exists at Nunn-Bush, it would not be left long in peace. It would be "absorbed" (not affiliated) by some large trade union which would tend to force the employer to drop his "fancy scheme" and conform to some National Agreement.¹ In America, employers are far freer to make experiments in the organisation of industrial relations whereas, in this country it is not infrequently assumed that we have reached a national pattern. But have we? Are not these the arguments of a static mind?

How far, for instance, do these great national agreements really level up the standard of living of our workpeople? The answer is that, since they are made upon the fallacious foundation of a commodity money wage-rate principle, the results are entirely illusory. For example, take the Shoe Trade, one of the oldest industries to

¹ Both the C.I.O. and the A.F.L. have tried to get the Nunn-Bush Union to affiliate, but, although the Management encouraged the workers to hold a public meeting and decide for themselves, they turned it down. On the other hand, the Company's Egerton Factory is organised by the C.I.O. largely at the suggestion of the Management and is running on a Share Production System similar to that of the parent factory.

organise wages upon a national agreement. The *Working Party Report* shows that, in an enquiry into the earnings of 216 federated firms, the highest average earning was 28.3d. per hour, and the lowest 12.5d. For men on piecework, the figures ranged from 44.5d. to 21.0d.¹

But wages are only a part of the picture. Far more important is the undoubted fact that British labour is not really satisfied with the nation-wide Trade Union Movement, and, as every Union official knows, the attendance at meetings is infinitely worse than attendance in Churches and Chapels. The fact is that neither the Trade Unions nor the Labour Party appear to have any policy for satisfying the syndicalist aspirations—the need to integrate the workman into his industrial environment. So to-day, although the trade unions have never been stronger, nor wage-rates higher, there is a grumbling revolt amongst the rank and file. Shop Stewards tend to usurp the authority invested in district and central administration. The claim for vertical integration can never be satisfied by centrally organised trade unions—short of an Owenite revolution followed by national syndicalism such as failed so dismally in Russia. It is typical that the miners, who, for years have supported the Miners' Federation claim for Nationalisation, now realise that they thought this meant syndicalism. Little wonder, too, that this disappointment has resulted in a serious breakdown in union discipline and bitter complaints against the administration of the National Coal Board, which, in turn now recognises that Labour participation cannot be confined to the top level, but must become an integrating factor at the pit-head and on the seams.

Labour conditions, both in Britain and America, offer Managements the opportunity to develop new industrial forms, although such opportunities arise for two entirely different reasons. In America, the condition is under-unionisation. In Britain we are in a condition of what might be called over-unionisation, a state of affairs in which this vast, over-ripe movement is ready to undergo another great change such as history shows occurred twice in the last century. To-day, it might be said that British Trade Unionism has gone as far as it is possible in the defence of Labour as a *commodity*. The matrix offered by Capitalism has produced a well-nigh complete impression.

¹ *Working Party Report*, p. 66. The Report makes it clear that the enquiry was by no means exhaustive. But there is enough evidence to show very great discrepancies exist.

If Managements seek the way towards the treatment of Labour as a co-operative producer of wealth, what reason have we to suppose that the trade union vitality will fail to adapt itself to this new matrix, once it has been enabled to shake itself free from the shibboleths of an outworn capitalist individualism ?

Examples are not wanting to show how precarious is the hold of the national movement over the rank and file when it comes up against the steady and patient pressure of managerial initiative of the right kind. For instance, in one company which decided to pay full wages all through the shut-down of the coal crisis in 1947, the employees on the Works Council, on their own initiative, called a meeting at which it was agreed to offer the Management one week of their holiday pay and three Saturdays' full work without wages. The two trade unions concerned forbade their members to do any such thing and further threatened the Management that acceptance would constitute a breach of their agreement. Men and Management, however, ignored these strictures, and the offer was partly accepted and carried out (the offer of holiday pay was refused). Here is an excellent example of the fact that if Labour is given industrial security—made to feel that it belongs—it will be inspired to think of itself as a producer of wealth, however strongly the trade unions remain wedded to the orthodox commodity-cost conception.

Orthodox Trade Unionists very strongly resent the sort of criticism contained in the above example. They immediately conclude that it is a veiled attempt to smash the power and to disintegrate the strength of the whole movement. It is, of course, nothing of the sort. The real danger of disintegration lies in that character of strongly centralised administration. To decentralise—to move the power out towards the fingers of the movement—and to develop from the present bureaucratic uniformity strong local unions which derive strength from national affiliation of a federal nature, is probably the only way in which the present vast structure can avoid disaster. There were those who regarded the Statute of Westminster and the granting of Dominion Status to the Colonies as “throwing away the Empire.” But can anyone doubt, after the experience of the last war, that this act of decentralisation has infused a strength into the Imperial structure which could have been created in no other way ? It is when institutions exalt their own preservation as the first purpose for their existence that they may, with safety, order their coffins.

THE ADVANTAGE OF BRITISH MANAGERMENTS OVER AMERICAN

What has been said above refers to the group labour conditions of this country and those of America. What about the individual outlook of the working man ?

America, compared to Great Britain, is still a largely undeveloped country. Consequently the hope of rising to an independent position is still very real in the minds of a large proportion of the wage-earners. It is this—the most vital group—which sets the whole pace for American labour. Those with most initiative work tremendously hard in order to save capital to start up on their own. Such men have only a minor interest in the long term status of the wage-earner, just as the journeyman of the middle ages tended to sympathise with the Masters rather than with their own “class,” for they, too, looked upon the wage-earning status as transitional. High wage-rates and the opportunity for a large output satisfy their demands of the unit in which they work. Consequently, among the many factors which contribute to the superiority of American productivity over British, this personal contribution is, probably, by no means the least important.

In this country, that incentive to independence is well-nigh dead among the wage-earners. This is probably the real reason for that noticeable difference which any one who has observed workmen in factories here and in America cannot fail to see. The tremendous zest and energy of the American worker which apparently is lacking in ours is not due to a degeneration of character such as the modern Dean Tuckers are so fond of arguing. We need no further proof of this than was afforded in the war. The main reason is to be attributed to a vastly impoverished economic environment.

This condition has advantages as well as disadvantages, for it means that any genuine effort on the part of Managements to fulfil the general ambitions of the working man through a plan of integrated co-operation should receive a more undivided attention—and this applies in particular to those with most initiative—the men who, during the war, found an outlet in leading their fellows through hair-raising adventures, but who, now, have returned to lead them in unofficial strikes.

On balance, then, it would be reasonable to suppose that British Managements, although very differently situated from American, have just as great an opportunity to develop human efficiency by extending to Labour that sort of independence which a system of

integrated co-operation would provide. For true co-operation such as a system of Federal Share Production produces, does confer real independence. It is the very antithesis of the pseudo "Co-Partnership" which, perhaps unconsciously, robs the worker of all independence. Much as we admire and respect the tremendous human efficiency of the American worker—the very picture of go-getting individualism—yet the source which lies untapped in the realms of the real kind of co-operation would certainly produce results far more astonishing. One thing is certain. If British Managements are to be able ever again to compete with the human efficiency borne of undeveloped natural resources, it can only be done by drawing upon the powers of co-operation.

Here lies the great task of our Managements—to organise industrial efficiency on the basis of human co-operation. And to find the peak in the graph of human efficiency, they must search after a federal system midway between American individualism and the regimentation of dictatorial State Capitalism such as has been imposed upon the decayed feudalism of Russia.

CHAPTER XXI

MANAGEMENT AND FEDERAL SHARE PRODUCTION

The most difficult problems which managements have to solve are those which arise from the instability of the capitalist economic system. This instability does not arise primarily through what are (somewhat irreverently) known as Acts of God, fire, pestilence and famine, but is generated within the system itself by a number of forces which, in combination bring about cyclic rise and fall in the price level, causing those fluctuations in employment which have wrought such havoc in the social life of the nation.

It has, perhaps, been too easily assumed that the problem of maintaining a steady price level, sufficient to absorb into employment the whole of the available labour force, and of matching costs of production with the purchasing power of the community, are to be solved wholly by a more scientific control of the monetary system. In this connection the warning of Lord Keynes, who has made the greatest contribution in this direction, is of great significance: "referring to the 'uncontrollable and disobedient psychology of the business world'" he says:

"The return of confidence . . . is the aspect of the slump which bankers and business men have been right in emphasising, and which economists who have put their faith in a purely monetary remedy have underestimated."¹

MANAGEMENT AND THE SLUMP

We shall now consider the part which managements play in the solution of this problem and the degree to which their contribution is conditioned by the form in which industrial production is organised.

The contribution of the industrial manager revolves primarily round one aspect of the problem, that of matching costs of production to the purchasing power of his customers. This is not merely a mathematical problem for it is vastly complicated by psychological factors which arise very largely from the particular way in which industrial production is organised. His power to manoeuvre the

¹ *General Theory of Employment* . . . p. 317.

forces at his disposal in order to defeat a slump is severely limited, and it is this limitation which undermines confidence.

A slump has many of the characteristics of a military defeat in which an unexpected break occurs just at the moment when final victory appears certain. We may imagine an army on the morning of battle filled with a certain buoyant confidence. The position appears to be good, but perhaps there may not be much room to manoeuvre. Then, in the deployment, it may be necessary to stretch the line, to make commitments, and to take certain risks which bring anxiety into the whole undertaking. Shaken certainty is unconsciously reinforced by a backing of obstinate determination which, in turn, brings a measure of inflexibility into the operations. It is this inflexibility which, more than anything else, contributes to the final disaster. In the heat of battle, uncertainty may be forgotten, but, instead of confidently giving way here and there in order to reinforce advantageous positions elsewhere, the original commitments are rigidly adhered to. The result of this is that a break in one place rapidly turns to a rout along the whole line. Every section is committed to positions which they cannot hold and the whole brave show of determination collapses. For a time they may try to hold a rigid line, but this merely adds to the final disaster. Those who survive the first slaughter have the prospects of a long, harrassing retreat before them.

An economic boom starts with a good deal of uncertainty—with lack of space in which to manoeuvre and these uncertainties produce inflexible plans. Undue commitments have to be rigidly pursued. When the break occurs every section of the economy is found committed in such a way that it cannot disengage. Obstnacy dictates a tenacious grasp of gains already won, a course of action which merely turns defeat into rout.

The fatal characteristic is rigidity. Its disastrous effects are to be seen in the social and political sphere no less than the economic. The stability of human associations, which by their very nature are always dynamic, can only be achieved so long as stability is not equated with rigidity, but rather with adaptable flexibility. Societies ranging from whole nations down to village cricket clubs have perished through the failure to observe this. The tenacious rigidity of the Czarist regime, the rigid adherence to the laws of usury in the later middle ages, the rigid refusal of nineteenth-century capitalists in the matter of trade unions, all illustrate the truth that rigidity in the matter of human associations always defeats its own purpose.

Now, when we come to consider the field in which managements have to manoeuvre in the balancing of costs of production with the price at which they can dispose of the Finished Product, it will be found to be severely limited; for, under the existing system, a large number of the factors in the price structure are rigid or, at least, extremely inflexible. There are industries in which such rigidities do not make as much difference as in others according to how far prices are the controlling factor in the volume of sales. The sales volume of quickly consumable goods, such as clothes, is very largely governed by price. But if, for instance, a company offered to build locomotives at half the normal price it is unlikely that railway companies would increase their stock of engines to any considerable extent. Nevertheless, broadly speaking, it is true to say that the main device employed by managements in maintaining stability of sales is by means of regulating prices. What are the factors within the price structure which limit their power to do this?

The following is a fairly representative price structure taken from the accounts of an electrical manufacturing undertaking:

(A)	Raw Materials and Supplies	..	..	39.8%	
(B)	Renewal of Plant	..	..	3.6%	
(C)	Taxes	..	..	3.4%	
(D)	Wages, Salaries and other Expenses	47.9%	93.8%
<hr/>					
(E)	Balance for Interest, Dividends and Reserves for Expansion	6.2%	
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	Sales	100%	
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When a management considers it necessary to adapt prices to a shrinking purchasing power, it is found that items A, B and C are items of rigid cost over which it has little control. Of the fourth item, D, salaries and expenses can probably be cut to some extent, but they do not represent a large proportion of this item. The largest portion of this item is the wage bill, but on account of the wage-rate technique of collective bargaining, this item can only be adjusted painfully and slowly. The wage bill is reduced, not by lowering wage-rates, but by reductions in the form of short time and lay-offs, a method which does not affect the cost of work. The only complete shock absorber, theoretically, is therefore, the remaining margin of 6.2 per cent. which in many businesses does not anything like reach this figure.

So far as the relation of Labour to the industrial purpose is concerned, as in the military analogy, it is the elements of instability and uncertainty which create the rigidity of the wage item. This is a phenomenon which applies to all human behaviour, for example, if a child is brought up with the feeling of insecurity and uncertainty, it is almost certain to develop some form of fixation. So, when wage-rates are fixed by collective bargaining, it is certain that, directly economic conditions change, one side or the other becomes discontented with the agreement and will seek revision, while the other will try to maintain it. In order to overcome this instability the custom has grown up of setting a fixed term to agreements before which no revision can be considered. Regardless of the economic needs of the productive unit or of the equity of an agreement under changing costs of living, the purely arbitrary expedient of trying to preserve stability through rigidity is entered into with the usual disastrous results.

It should be realised that an agreement with which one side becomes discontented through changes over which it has no control, is an unstable agreement right from the start; and when the time for revision arrives, both sides enter into the business of collective bargaining with the knowledge that they are about to negotiate another rigid agreement. Under these circumstances neither side is encouraged to accommodate the other even if economic prospects are entirely unpredictable. Consequently, the fresh agreement is made in terms which may bear little or no relation to the economic events through which it is to determine work costs and labour remuneration. Thus, the basis of collective bargains is not necessarily truth or facts, but relative strength. The obstinate determination so created is not borne of confidence, but uncertainty; with the consequence that wage-rates tend to rise too late, to rise too slowly, thus creating undue optimism as to profit-possibilities; then, once on the move, they tend to rise too high, creating loss of confidence; and, when the break comes, they fall too late, and, at first, too slowly, and in the end too far. Moreover, the whole cycle is punctuated by the senseless waste of discord and strife.

In any economy in which price changes form one of the main means for regulating production and distribution, it appears that, instead of a wage system which half ignores the natural rise and fall which invariably follow such fluctuations in prices, a scientific approach to the problem demands a flexible wage system of the kind set forth in

Federal Share Production. The arguments given in Chapter VIII show that the price of the Finished Product is not determined by the money price of labour, but that the money price of labour is determined by the price the public is prepared to pay for the Finished Product. It is in the adaptation of costs to match the consumer price that Federal Share Production gives the management far greater room in which to manoeuvre, for a reduction in the price automatically brings about a reduction in the cost of work. There is another factor which may also be considered. Normally it is not easy to bring about a quick reduction in the very large raw materials item. But in a fairly complete system of Federal Share Production, it may be taken that reductions would be far more quickly effected, so that the degree of flexibility is extended not only (to take the example quoted) to cover the wages and salaries items, but also, to some extent, the raw materials item of 39 per cent.¹

However, the advantages of the system of Federal Share Production in this respect should not be over-estimated. For, while it would undoubtedly effect a certain measure of control over the oscillation in the price level, or at least mitigate the worst effects of rigid costs, and also provide a shock absorber for adjusting the balance of labour as between various industries, it would be ridiculous to claim for it that it would solve the problem of boom and slump as has been done by certain American writers.²

Perhaps the most important influence would be the psychological. A flexible cost system does not mean, *ipso facto*, that wages and prices would be in a continual state of oscillation. For the attitude of Labour towards Management and *vice versa* would be entirely altered if the conflict which revolves round the adjustment of wages to prices were to be abolished. To return to the simile with which we started, if the commander knows he has room in which to manoeuvre, it does not follow that he will at once set about manoeuvring his forces. Indeed, the mere confidence of this knowledge may be the very reason why he will make no changes. So, too, if managements *know* that labour costs will fall at once when it is necessary to reduce prices, and Labour *knows* that remuneration will at once be restored when prices start to rise, actual changes might become less frequent. This would remove, perhaps, the most frequent source of conflict and

¹ See *supra*, p. 173.

² See Elisha Friedman. Memorandum, p. 579. S. Res. 215. Sub-committee of the Committee on Finance. U.S. Senate.

would leave Labour free to enter positively into the problems of boom and slump, instead of, as at present, being tempted to sit back and throw stones.

CONCLUSION

The theory that rigidity creates stability is a dangerous illusion so far as human societies are concerned. Inflexibility, so far from mitigating the evils of boom and slump merely aggravates them. If I may be forgiven for introducing yet another analogy: the problem of providing a smooth running vehicle is not to be solved by giving it rigid wheel mountings, but rather by providing independent springing on all four wheels. And this principle applies to our economic system, not merely in the give and take necessary for harmonious relations between Managements and Labour, but also in the arithmetical expression of a share wage system such as has been outlined in Federal Share Production.

CHAPTER XXII

THE MEANING OF VALUE AND PRICE IN A FEDERAL SHARE PRODUCTION SYSTEM

We shall now discuss some of the difficulties which would be involved in any economy developed upon Federal Share Production principles. The two questions which might be asked are: upon what theory of values is the system based, and, what exactly would be meant by the term "price" in such a system?

It is no part of this book to stray into the realms of theoretical economics, still less to attempt the formulation of a new theory of values, badly as it is needed. The discussion will be confined, therefore, largely to comments which may throw light upon the nature of the problem.

There are two main theories of value, neither of which is satisfactory taken by itself, nor, apparently capable of reconciliation with the other. The Labour Theory starts at the production end and explains value in terms of labour expended. It is unsatisfactory because the final value in exchange may not correspond to the labour expended as, for instance, in the manufacture of white elephants. The Marginal Utility Theory in its earliest form starts at the consumer end, determining value in terms of demand. Later, economists have linked it up with production costs, but have not, so far, produced anything very illuminating.

Arguments have been put forward in previous chapters to show that there is a strong case for believing that the true order of cause and effect in the matter of wage-rates and prices is not that which is usually accepted and that it is prices and productivity which determine wage-rates rather than *vice versa*. For this reason, we shall accept marginal utility as the basis of value rather than the "units" of labour expended.

But while it is broadly true that value can only arise in so far as there is a demand to be met, when we come to attempt the measurement of demand, and especially relative demands, we are not dealing with something which obeys the laws of mathematics. Demand can

only be correlated to an unpredictable association of every social and psychological phenomenon of human behaviour at given times and under certain conditions, cultural, economic and political.¹ This, perhaps, is another way of stating the theoretical economist's argument that the Marginal Utility Theory only holds good in a "perfect" market.

In the conduct of capitalist production the two theories are both employed without any attempt at a reconciliation. The employer's costing sheet is based, theoretically, upon the Labour Theory. He appears to build up his calculation of value from the cost of raw materials plus the cost incurred in labour. The term Prime Cost, thus belongs to the Labour Theory. But when he comes to sell his article, he must pay attention to the Marginal Utility Theory. What value does the customer set upon his product ?

In a Federal Share Production system it appears that the Labour Theory has very little meaning. In its accepted meaning, the term Prime Cost can hardly apply, for it amounts to the cost of raw materials plus a percentage of the values added to them. But does this matter ? It only seems to have any real meaning if we continue to accept the theory that wages do determine prices.

There is another more practical angle from which we may see that there is little objective meaning in the idea of prime cost. We have outlined very roughly the sort of way in which a manufacturer thinks of the process of costing his product. In actual practice, the labour unit is not a true controlling factor. The only truly objective control lies in the marginal utility. In certain cases this can be seen clearly by the way in which a manufacturer actually sets about costing, for instance, in the case of many of those articles which are made for retail sale. For here he starts with a "range" price and then costs backwards, deducting the retail margin, manufacturing overheads and expected rate of profit and the estimated labour cost, leaving a balance which represents the sum available for raw materials. In a less direct way, this backward process may be seen in the costing of a motor car or a bicycle. The over-all control of the value of each part is the fact that a car is to be built for a certain price. At each stage, therefore, the first question is not : What does it cost to make this or that part ? but : What sort of part can be procured or manufactured

¹ A woman was recently reported to have paid £20 for a hat. The equivalent value in coal would be four tons—in butter it would provide her ration for 2½ years.

for so much money allocated from the final selling price? And, although in such works as bridge building, the backward control of costings becomes more obscured, yet the principle of tendering for a contract means ultimately that the customer controls the price which, incidentally, may not be that of the lowest tender. Finally, it should be realised that there is the same lack of objectivity in the value of the raw materials since in each case the labour cost in their production is a relative percentage.

To attempt to construct value from the producer end, therefore, appears to be something of an illusion. We know that all products are composed from certain raw material and labour values, but these can only be assessed in terms of the product they make.

COSTING IN A FEDERAL SHARE PRODUCTION SYSTEM

In Federal Share Production the process of costing is built up on the full recognition of the consumer control. For the only factor which can be said to have any degree of objective value (and this only arises from the fact that the manufacturer is the consumer) is the item of raw material and supplies. Thus the process of costing, to give an example, would run as follows:

Start with the fact that the manufacturer is to make an article to retail at

30/-	..	..	..	..	..	..	..	30/-
Deduct the retail margin (say) 33½%	on selling price	..	..	..	..	..	..	10/-
The Wholesale Price is, therefore	..	..	..	..	..	..	..	20/-

This price is divided into two items:

(a) Raw materials and supplies (say) 50%	10/-	(b) Values added to raw materials 50% ¹	10/-
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(a) Raw Materials, etc.	10/-	(b) Values Added: 100%	10/-
Power, Light, etc.	.. 1/-	Group Product: Shares	
Auxiliary Materials	.. -/6	(say) Labour 45% ..	4/6
Office Supplies	.. -/6	Office Staff 15% ..	1/6
Theoretical Allowance	8/-	Supervision 10% ..	1/-
Actual cost of Raw materials which are decided upon (say) ..	8/3	Service Depts. 5% ..	-/6
		Admin. Staff 5% ..	-/6
		Executives 5% ..	-/6
		Capital Ints. 5% ..	-/6
			9/-

Balance debit on Raw Materials	..	-/3
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Theoretical Balance for Reserve, Depreciation, Expansion and Pensions	..	1/-
Less Debit balance on Raw Materials	..	-/3
Realised Reserve 7½%		-/9

¹ The actual percentage added to raw materials will be discussed in the next chapter.

The group percentage allocations would form the basis of a budgetary control, but, unlike present systems, such controls would be self-administered by each group.

The above is an extremely crude example which is given merely to show the principle and to shed some light on the sort of change in our use of the theories of value. No attempt is here made to define exactly what that change implies except to state that:

Whereas the old conception of constructing value implies that so much labour can be valued objectively in terms of money and fixed, regardless of its producing capacity as valued by the consumer, under Federal Share Production, labour (and, indeed, all contributions to net value) is a relative rate defined in terms of the ultimate value of the product it makes.

This squares up to the fact that the wages which have gone to pay labour are always proportionate to production, and also to the experience that labour in a badly-managed factory always earns less than in one well managed. In other words, we may say that in Federal Share Production:

The Money wage-rate is displaced by the Product wage-rate, and industry is conducted upon Real values as opposed to Money values; which suggests that the classical economists who developed the theory in "real" terms and then translated it back into practical money terms were, in spite of much criticism, not so far from the truth.

THE RELATIONSHIP BETWEEN MANUFACTURER AND SUPPLIER

Federal Share Production has been shown to alter the relationship of those who contribute to the industrial process. It also defines far more explicitly the true relationship between the industrial producer and the public.

One of the arguments used to deduce the partnership relation of labour in the industrial process was the fact that labour has always taken a constant share of the values produced. Now it is also true that, taken as a single group, the raw material suppliers also receive a *fairly* constant share of the ultimate gross product. Should it be concluded, then, that in some sense this group is in a partnership relationship to those whom it supplies? Obviously, if each manufacturer had only one supplier whose whole production he took up, the partnership relation would be a fairly direct one. This is, of course, very seldom the case; and where such a condition develops, an amalgamation usually takes place.

Under Federal Share Production, it is probable that the relationship would become far closer because manufacturers would be conducting

their operations upon long-term forecasts. It will be remembered that, in the case of the guaranteed employment plans described, managements were forced into planning their operations on a long term basis, and this applied not only to the planning of employment, but also in buying. Proctor and Gamble, for instance, were seen to translate their own stability back by ordering their supplies on longer term contracts with absolutely regular running deliveries. Although the variety of supplies in the case of shoe manufacture is far more complex, it is worth noticing that the buying policy of the Nunn-Bush Company has developed along the same lines, long term contracts and running deliveries being given wherever possible.

Such a buying policy does, in fact, build up a relationship between manufacturer and supplier far closer than that in which buying is conducted upon a day to day, and purely competitive, basis. A steady outlet is obviously of such value to the supplier that he does readily enter into the problems of his customer. Instead of studying merely how he may get the advantage of him, he recognises that his own prosperity is largely derived from the prosperity of his customer. Once the old nineteenth-century relationship of mutual opportunist-exploitation is laid aside, the reality of the mutual interest between supplier and manufacturer becomes apparent. This realisation is half way to being fully recognised to-day, for, in this respect too, the old nineteenth-century pattern has been largely obliterated. Buying and selling has in many industries ceased to be the short term battle of wits it once was, and to-day buyer and seller are far more engaged in the creation of a co-operative relationship.

It is thus perfectly logical to suppose that such a co-operative relationship would be stimulated by a system of Federal Share Production, and, if this were to be the case, it might exert an important influence upon the problems of the trade cycle; not the least, perhaps, being the fact that long term regular contracts would cut down the ridiculous margin of reserve productive capacity which was an evil feature of the industrial economy both here and in the U.S.A. between the two wars.

FEDERAL SHARE PRODUCTION IN ECONOMIC DEPRESSION

It may rightly be pointed out that the period over which the guaranteed employment plans have been described, has been one of general economic expansion and that Federal Share Production may be little more than a good fair weather system. Some answer should,

therefore, be given to the question: What would happen in the case of a serious depression, something far longer and more serious than the short, checked slump of 1938 to 1939?

When, in the last century, the Bill to cut down working hours from $11\frac{1}{2}$ to 10 per day came to be debated, one M.P. who opposed it, used the theoretical predictions put forward by Nassau Senior, at that time Professor of Economics in the University of Oxford. His argument ran thus: if manufacturers expect to earn a profit of 10 per cent., the first ten and a half hours' work each day go to pay the costs of production, and therefore the net profit is all earned in the last hour's work of the day. He prophesied that if the working day were to be cut by one hour, all net profit would disappear, investment would cease and industry come to a standstill. The Bill was passed, and the results, as we know were almost the reverse of his prophecy. No better example exists of the danger of trying to predict the working effects of some change of this sort. In the matter of Federal Share Production, it would be even more dangerous and foolish. Perhaps the greatest danger comes from theoretical economists who, like Nassau Senior, tend to argue the case upon the mathematical factors alone, and who, like him, entirely ignore the social and psychological factors involved. In the case of the Nunn-Bush Company, there is a clear, if incomplete example. Argued upon mathematics alone, the prediction would have been that, under the conditions of 1938, the workers would either have to take a cut in their real group income by a general cut with no unemployment, or maintain the real income of the permanent group by laying off the temporary workers. On psychological and social grounds, however, the temporary workers were not laid off, and, in point of fact, the whole group maintained its real income better than was the case in the industry in general, where unemployment rose to 3.6 per cent.

It is because it is utterly impossible to predict the psychological and social influences of a system of Federal Share Production that a detailed prophecy as to the working of the industrial system, either in the case of a deep cyclic depression or in that of a serious secular depression, would be worse than useless.

Nevertheless, it is important to say something on one obvious criticism which might be made. If the fundamental idea of a relatively fixed labour unit is removed and all remuneration is allowed to move flexibly in tune with prices, what is there to check a spiral of inflation or deflation once prices start to move one way or the other?

There is one arithmetical factor which has not so far been discussed: the question of the actual percentage of values added to raw materials which may appropriately be charged in various industries and under varying conditions.

First, what has been the experience in the past ?

An examination of the way in which the percentage of the gross product represented by values added has altered under varying economic conditions may be seen in Figure 20, in which the results for the *U.S.A. All Manufacturing* (A) and those of a single British firm (B), appear to be fairly representative. It will be seen in both cases that the percentage of values added moves inversely to the movement of the price index. In each case, too, it appears that the movement in the values added *precedes* the inverse movement in prices, though this tendency is more marked in the *U.S.A. All Manufacturing* results. For example, for the years 1925 to 1929, the rise in values added was far quicker than the fall in prices, and the fall in values added after 1931 was not accompanied by a rise in prices until 1935. It might be supposed that the movement in the values added index would show some relation to the fluctuations in the percentage of values added, which goes to Labour. Investigations show, however, that there is no regular correlation, negative or positive, between them. Where any correlation is discernible it is inverse as might be expected; but in the case of the British firm, where there is a fairly irregular correlation between 1922 and 1937, after that year and right up to 1943, the fall in values added is accompanied by a fall in the Labour percentage. (The relevant figures for this company will be found in the table on page 48 Company No. 2.)

There are a number of further interesting points in these figures. For instance, why, in (A) did the price not return to 100 between 1935 and 1937? Discussion of such points would, however, take us outside the scope of this book.

It should be noticed that the degree of movement in the two indices is different. In the case of A, the movement in the price index is about one-third of the movement of the index of values added. In B, the difference is about one-half. From evidence in other industries, it appears this difference in movement appears to run between one-third and one-half; that is to say, if the values added index moves from 100 to 106, the price index falls to between 97 and 98.

FIGURE 20

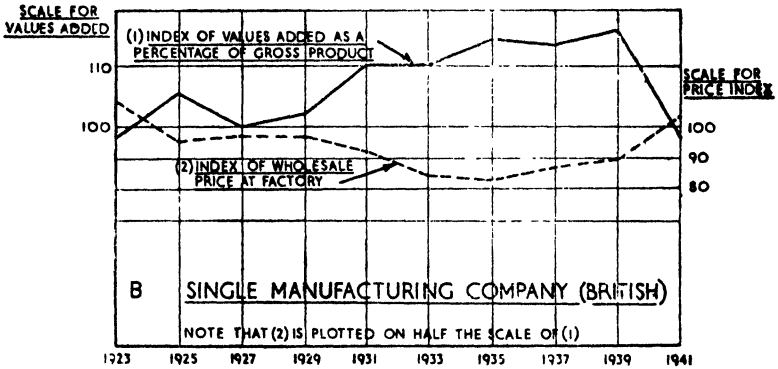
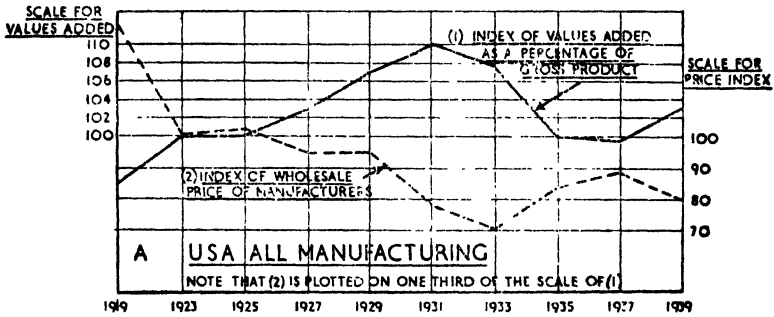


FIGURE 20

See text.

- Sources. A. U.S. Census of Manufactures and Handbook of Labor Statistics.
 B. Collected privately from the Company's Departmental Accounts.

THE EFFECT OF VARIATIONS IN THE PERCENTAGE OF VALUES ADDED

It is impossible to trace out the overall effects of a movement in price accompanied by an inverse movement in the percentage of values added. We may, however, safely assume that a rise in the values added does two things:

1. Other things being equal, it increases the amount paid out in wages, since wages are proportionate to values added, and so stimulates purchasing power.
2. It presumably gives the public rather less value for money, for the real work and organisational values in the product will be unaltered. It thus discourages consumers from buying.

But, as has been shown, such a rise in the percentage of values added tends to be followed by a fall in prices (see Figure 20). This, of course, tends to stimulate consumption but to reduce industrial remuneration.

Under the present system, the percentage of values added, as such, is not a figure which is used as a direct instrument of control. But one is tempted to ask what would have happened in U.S.A. (see A, Figure 20), if, from 1925 to 1929 manufacturers had deliberately maintained the percentage of values added instead of increasing it? Again, one may ask, might not the steep fall in values added from 1921 to 1935 have been a contributory factor to the rise in prices from 1933 to 1937?

Without falling to the temptation of isolating this group of factors from the whole picture, it is suggested that, in a system of Federal Share Production, and in so far as industrial as opposed to monetary control is concerned, it is in the deliberate control of the percentage of values added that managements can make their contribution to the problem of averting either a spiral of inflation or deflation. This would be possible under Share Production whereas, under the present system, it is not. For at present, those who ultimately control industry are rewarded from a profitability which is directly related to the percentage of values charged over and above material and labour costs, hence there can be no agreement between them and the labour interests.

Under Federal Share Production, therefore, as prices tended to rise (due to a rise in the price of raw materials) manufacturers would tend to cost their goods on a lower percentage of values added. This would have a number of effects:

1. It would tend to keep the price of the product down, countering the effect of the rise in the price of raw materials. Or, alternatively—
2. On the costing backward principle, manufacturers would tend to buy rather cheaper raw materials.
3. It would tend to reduce the purchasing power of all industrial contributors to a small extent, since they would be receiving their percentage shares upon a rather smaller percentage of values added.

Moving in a contrary direction:

1. By charging a smaller percentage of values added, the manufacturer would be giving slightly better value. This would tend to stimulate demand.
2. In so far as the rise in prices exceeded the effect of a reduction in values added, industrial contributors would receive larger incomes, thus stimulating purchasing power.

The reverse effects might be expected in the case of a fall in prices, in which case the manufacturer would raise the percentage of values added.

Although we cannot here go into the matter, it should be noted that the manipulation of the values added would also have an effect upon the percentage allocated to reserves, and the tendency would be for less to be available for investment for expansion on a rising market, and more on a falling.

These arguments may, perhaps, have a certain amount of logic on their side, but the isolation of these factors into the realms of abstract reasoning must be deeply distrusted. They are only valuable in so far as they illustrate that, in a Federal Share Production system, the manipulation of the percentage of values added does appear to collect together a number of vital influences and, so to speak, put them under the control of a single lever which can be moved at once when required.

CONTRASTING CONDITIONS

It is a major contention in this book that economic movements are phenomena which must be treated at their real source which is psychological and social. In what has gone before, the implications of a number of social and economic factors in a Federal Share Production system have been drawn out. It is very necessary to recognise that the sort of social relationships which might be expected to develop from a Share Production system would produce a social climate so different from that to which we are accustomed that an economic depression would appear in a very different light to that which we associate with such periods as the 1930's:

(a) The Labour Movement would be contributing positively to the problems of industry; for instance, it would be taking upon itself the major responsibility for the re-distribution of labour where long-term prospects were poor;

(b) Managements would be possessed of a far quicker and more effective means of adjusting costs through the flexible remuneration system and the deliberate control of the percentage of values added;

(c) Industry would be organised, economically and socially, upon a co-operative basis.

But, when all this is said and done, there is hardly the barest practical experience on which to judge how the system would withstand a severe depression.

In conditions such as obtained in the Textiles and Shipbuilding industries between the two wars, where the cause of the decline lay outside in the international sphere, Federal Share Production, while obviously incapable of averting the main trend, might deal with it far more effectively.

In the first place, the system would throw into clear relief the true facts and possible future prospects at a far earlier stage. Adjustment would be an immediate and *continuous* process governed by the plain facts rather than by a series of delayed compromises and temporary expedients brought about as a result of opinion and vested interest doing duty for an honest recognition of the law of the situation. Furthermore, Labour would be in a position to judge the prospects far better by being presented with a forecast of the annual earnings which may be expected, rather than, as at present having nothing more to go by than the rate of wages over a week or by the piece. Again, it is hard to over-estimate the effect upon the conduct of Labour which could be expected in a system where the psychology of exploitation would not have to be reckoned with. If the situation, as defined by the plain, accepted economic facts, demanded a re-distribution of Labour, it would be the Labour organisations which would undertake the organisation and administration of the measures necessary to bring it about. And, if we have any belief in democratic means, we may be sure that such a re-distribution would be a great deal more effective than the attempts made between the two wars to effect industrial transfers through the setting up of State controlled Labour Exchanges.

In the second place, a declining demand and falling prices would be accompanied by a deliberate advance in the values added to raw materials. This would tend to arrest the decline in the values produced and therefore the purchasing power of those engaged in the industry. In this connection, however, it may here be pointed out that the devices of flexible wages and a flexible percentage of values added are not in any way substitutes for an overall control of investment and employment through the monetary system. They should not be regarded as mutually exclusive means, but rather complementary devices for ensuring the same results in rather different fields. The flexible wage principle would be the means for taking care of the short-term and particular as well as for making adjustments as between industries; while monetary control would provide an overall control of prices, investment and employment in general. Those

who advocate sole control of employment through the monetary system have not taken into consideration the psychology of industrial co-operation, and are, therefore, arguing upon the old assumption that industrial well-being is the magic bounty dispensed by the City of London Financiers. The industrial world, however, rightly distrusts the production of an endless ribbon of paper out of a top hat which has been borrowed from the audience.

In the third place, from the national point of view, it might well be considered undesirable, that a great industry should be allowed to decline, especially such a one as shipbuilding. To maintain it, therefore, the State should apply what amounts to the reverse of taxation, namely, a subsidy which artificially raises the percentage of values added. Subsidies have always proved a doubtful expedient under capitalism, for, under the wage and profit system there is no guarantee that the chief benefit will not be appropriated by those who own the profits. Under Federal Share Production, the subsidising of the values added would mean an increase in the earnings of all the contributors engaged in the industry, a result which would tend to keep the labour force of that industry intact, as well as maintaining the plant in working condition.

Lastly, and by far the most important is the fact that, when those faced with adversity are organised upon a co-operative basis, their whole conduct is different to that which is pursued when there is internal competition, suspicion, jealousy, economic and social frustration. Surely, we can by now cast our bread upon the waters and learn that one good lesson which war teaches us? Under our present system we go into action against depression as troops who cut the only bridges by which their allies can bring their tanks into action. And if such madness can be replaced by a state of affairs in which allies are integrated into a single unit under a single purpose the results would be so different—so utterly unlike any experience of economic adversity which has hitherto obtained under our present system that it is beyond the power of imagination to predict what the outcome might be.

Since, then, the problem is primarily one of people, their conduct and their relationships, this book will end as it began, and we shall now consider how we may set *whole* men to work.

CHAPTER XXIII

INDUSTRIAL EFFICIENCY AND THE SIGNIFICANCE OF THE FINISHED PRODUCT

When the term industrial efficiency is used, we conjure up visions of machinery, of experts laying it out, assembly lines, new and faster devices for speeding up production, office systems of punched cards, records, controls and costing systems. All these wonders represent the application of the natural sciences to the art of the industrial process. Taken by themselves, however, they are an abstraction which assumes that the work of man can also be treated as an independent factor which answers the working of a mathematical formula. An example may be seen in the blind belief of production engineers, that to break down and to further breakdown jobs into more and more unskilled operations, must of necessity lead to greater efficiency. Seldom do they stop to consider the effect of robbing the work of all human satisfaction.

Now, if human co-operation is to be the basis of industrial efficiency, the use of mechanical aids will have to occupy a rather different place. For instance, there is the world of difference in the use of a budgetary control system in a factory organised upon the assumption that men will naturally tend to waste time and material, and one organised on lines which start with the reverse assumption. This does not mean that industrial efficiency is not a scientific study in a system of co-operation, but rather that its nature needs to be re-defined and enlarged so as to place the human sciences, psychology, sociology and ethics in the place they must occupy.

Such a change may be compared to that which has transformed the science and art of education. We are all familiar with the type of nineteenth-century education from whose victims Dickens drew some of his best known heroes. It was based on the assumptions that masters and boys *must* be in conflict; that boys must naturally hate work as so much pain; that the most efficient way of teaching was by means of mechanical repetition, which must be reinforced with other forms of pain inflicted from the end of a stick, and, finally, that results were only to be measured in one way—the examination paper,

by which they could be reduced to a mathematical formula. To-day, all these assumptions stand reversed from the basic fact that the boy is now regarded as a *person*. If work is pain, it is now assumed that the remedy lies more with master than pupil, for the method of teaching is largely the art of awakening interest—in organisational terms, it might almost be called a process of decentralisation. Similarly, the school is visualised as a place of co-operation in which the object of all rules is to draw forth self-discipline rather than to impose it from without. The examination is still seen to be necessary, but is realised that, as a complete test of efficiency, it must be supplemented by the personal test of the interview, *viva-voce*, and personal knowledge.

It is not difficult to see the analogy between this transformation and the conditions and assumptions of efficiency in the industrial process. If the worker is to be treated first as a person—a producer of wealth, rather than a commodity-cost; if his place of work is to be transformed into a place of co-operation by superseding the whole money wage-rate system; it may well be that the tremendous paraphernalia of timing, watching, checking, controlling, etc., may be vastly simplified.

THE WHOLE MAN GOES TO WORK ¹

In considering the sociological and psychological aspect of industrial efficiency, few would deny that the most difficult task is to find a solution to that problem which is broadly called the monotony of mass production. It is so called, but it is a bad name, for the problem is not caused solely by monotony. Monotony is as old as work itself. We have only to think of a farm boy hoeing field after field of turnips, to read Dean Tucker's account of making pins by hand, or to watch a woman knitting a jumper in which, about 40,000 times, she has to repeat that monotonous little wriggling action, to realise that monotony does not account alone for that malaise associated with the assembly line or the automatic machine.

There are two main differences between these conditions of work. First, whereas the free worker is able to suit the speed of work to his or her own liking, the second group is compelled to conform to the speed over which it has little or no control. On this matter, it will

¹ The title of this sub-section has been taken from *The Three Spheres of Society*.

only be pointed out that there is a growing recognition that consultation with those who are to work an assembly line is coming to be recognised as a vital part of its organisation. The second difference is that the function of the mass production worker has been largely divorced from the Finished Product; whereas the agricultural labourer sees a clean field and improved growth, the pin maker saw pins which he could call functionally his own, and the woman rushes off to admire herself in her new-made jumper.

Now this suggests an interesting parallel. The economic and social tension set-up in the capitalist system coincides with the disinheritance of the worker from his share in the Finished Product: while that same separation between the worker and the Finished Product is, perhaps, a main cause of the psychological tension of that mass production technique which capitalism has developed. So that, just as men could not separate the labour of men from the *whole man* and purchase it as a commodity for their own convenience without doing grave social and economic injustice, so, too, that treatment of men as impersonal cogs in the industrial process which divorces work from its final purpose, does grave injury to his psychological integration.

And what does he do for a remedy? The poorer types seek to lead a second life—one of phantasy, stimulated by the insidious dreams of gambling and Hollywood-Happy-ever-after. The stronger seek a healing of their wounded spirits in personal ventures, such as a garden allotment, in which they can work as their own masters and love what they have made.

INDUSTRIAL SOCIETY AND THE PSYCHOLOGY OF THE FINISHED PRODUCT

But what is the *industrial* answer to this problem?

In the middle ages, social life revolved round the organisation of daily work. The guilds were organisations through which men made their social contribution to the spiritual and cultural life of the age. Digested in the spiritual sphere, it returned to infuse economic life with the discipline of civilisation. But in that process of the disintegration of the whole man, which, amongst other things, released the forces of a new economic era, work fell from its high place of honour as a creative social centre, and came to be equated with "pain." Since men do not usually form societies round pain centres, cultural formatives came to grow up round anything but the old

honourable ideal of that work which brings men their daily bread.¹ To-day—go into any town and you will find the Society for this and that and the Association of What-nots all contributing something to the civilisation of the age. But not one in a thousand is formed round the centre of daily work. If further evidence were needed, we have only to look at the squalor of our manufacturing districts to realise that we have for too long ceased to associate industrial work with civilisation.

Nevertheless, while economic associations have, for the most part, become entirely utilitarian, the ideal of using the industrial unit as an organ for the enrichment of the spiritual sphere has never entirely died. The factory schools of Owen and his successors, the sports ground, the factory social, the attempt to create complete industrial communities, such as Bournville, and, to-day, the employment of works chaplains, are all pale reminders that the place of a man's work should be a creative social centre. But it is uphill work—generally dependent upon the vision of some outstanding personality. And, in so far as it fails to represent the spontaneous creative urge of a group life dedicated to a worth-while purpose, it carries the mark of a certain artificiality.

One reason is obvious. The innate conflict of the wage and profit system obviously vitiates social unity. The other is probably attributable to the character of so much modern factory work which, though I hesitate to say so, does amount to so much spiritual pain.

It is partly a despair of finding a solution to this latter problem and partly the persistence of this insidious identification of work and pain, apparent in monotonous and discordant drumming of the word "incentive," that has tempted many to flee to the comforting idea of the Leisured State. The ideal associated with it may not be wholly wrong, but as a substitute for an honourable and dignified solution of the social problem of modern daily work, it is sheer escapism.

What has Federal Share Production to offer? Could not its principles—the organisation of the industrial process round the

¹ In this connection, nothing is more significant than the elements chosen for the consecration of human life—bread and wine which, until comparatively recently, represented the main staple diet of man. This was very well understood before the decline of the Church in the later middle ages, one great theme in the teaching of the Mass being that men must look mainly for the consecration of life within the field of daily work. The offertory was not the clink of a penny in a green velvet bag, but the fruits of daily work literally offered in kind—bread and wine.

Finished Product—form some sort of economic spring-board from which industry might recover *work* from its psychological degradation? And if so, how is this to be done? It is easy to answer—by restoring the workers' pride in the Finished Product. But how?

There are those who will at once object—"My workers are not interested in the Finished Product." Yes, but if that is so, it is an obvious symptom of a psychological disorder one might expect from generations who have been bought and treated as bits of men. If men were whole, they would have no need of the physician—and men who find no interest in the final results of their work are not whole. Then, perhaps, there is the influence of a social convention amongst an excluded class of commodity-hired wage-earners that it is just "not done" to be too much interested in what the bosses have claimed as their sole concern. It is much the same case as putting baths into slum houses. They will be used for coal until the tenants have been re-educated out of the slum mentality which has been forced upon them—and that takes time.

The most obvious, but singularly neglected means is to ensure that every workman has been right round the whole factory and has been given an opportunity to discuss the organisation and industrial processes with one of the chief executives who can not only answer questions, but who is genuinely interested in getting ideas and suggestions. At the Nunn-Bush Factory, this has been organised to a fine art, and has been in practice for about twenty years. Two workers at a time are taken round the factory and shown everything. The factory managing director then has each into his office separately, and may spend anything up to an hour talking over the whole concern. In this field of the industrial and commercial education of the worker, there is a great opportunity for further exploration, especially in the excellent experiments now being made in induction training.

Then there are certain industries in which managements have been able to demonstrate the part each man plays by the display and examination of the Finished Product. Peter Drucker in *Big Business* gives a most illuminating example of the effect of displaying a completed aeroplane to the workers in a factory which made its components. The morale in this factory had been bad. Multiplication of welfare work and higher wages seemed to make no difference. After the display, however, the Management found that the attitude of the men to their work and to the organisation rapidly improved.

Another example of this sort is the organisation of mannequin

parades for cotton spinners and weavers. Generally speaking, it does not require a great deal of imagination to devise means for stimulating the interests of those workers who are engaged in making goods for retail sale. They are naturally interested and proud of seeing their products advertised in shop windows. In such cases, the need is for means to sustain the interest.

In industries where the link between work and the Finished Product carries no natural psychological interest, a great deal more imagination is required. This suggests that, if the human sciences are to be accepted as the basis for industrial efficiency, the development of mass production technique cannot be made upon the calculations of natural science alone. In this connection, perhaps the most important point is to remember that mass production is not a static conception. There are countless ways of breaking down the skilled operation into a series of unskilled, and just as many different ways of putting them together again. It may well be that the sort of assembly line whose horror has been immortalised by Charlie Chaplin may one day come to be classed along with child labour and the truck system as outside the pale of civilisation. Other forms which place machinery at the service of groups, and which derive their main stream of efficiency from willing, purposeful co-operation, may well prove to be far more efficient industrially than the enforced mechanical co-ordination of an inexorably moving assembly belt. It is a commonplace to remark that machinery must be made to serve men, not men machinery. But it needs a new interpretation. Too often it has been taken to mean that machinery must be made to serve those who *own* it, and those who use the products which come off it. First and foremost, however, it should be used to serve those who *use* it.

ECONOMIC RELATIONSHIPS AND INDUSTRIAL PSYCHOLOGY

Enough has been said to show that there is a very intimate connection between the Finished Product and the whole man. *Work* cannot be separated from the *Finished Product* neither can it be bought or sold apart from the *whole man*.

This brings us to the threshold of the techniques of industrial psychology, a subject which lies outside the scope of this book. It should be clearly understood, however, that, while the creation of an associative economic relationship has been put forward as of primary importance, such a development would in no sense provide a substitute for such diagnostic and therapeutic techniques as industrial

psychology has to offer. At the same time it is reasonable to suppose that an associative economic relationship would provide a far more fruitful field for the industrial psychologist. For, inherent in the present dominant employer-employee relationship, there is the assumption that management is alone responsible for the efficiency of the labour force, and to discharge its responsibilities it takes the whole initiative, as may be seen from the run of verbs associated with the techniques of industrial psychology. It *introduces* scientific selection, it *institutes* joint consultation, it *puts in* a system of training or of merit rating. Frequently, as for instance when industrial consultants are called in, these things are done with no reference to those whose efficiency is to be improved by them. The more progressive firms will try to get the workers' acceptance beforehand and this is what generally goes by the phrase—'bringing the worker into the picture.' But who's picture? In every case it is the management's, and this is justified by such platitudes as—"Management must manage."

One of our most progressive managers, Wilfred Brown, is never tired of saying that it is time managers stopped doing things *to* workers and started doing them *with* workers. If a new associative economic relationship were to be created as has been suggested, the worker group, invested with a full economic responsibility, might well become the party which would take the initiative in the adoption of scientific, social and psychological techniques, in order that it might make itself fully efficient. There is an incipient development in this direction within the Nunn-Bush organisation, where the worker group is economically interested in the whole field of industrial psychology: in selection, in efficient training, in merit or differential rating, in joint consultation, as well as in such matters as labour turnover and absenteeism.

Industry is primarily an economic organisation. If its economic purpose is not fulfilled, social disintegration follows. Industrial peace, a social and psychological conception, can only be created within a framework of the right economic relationships. Surely this can be achieved in our time?

APPENDICES

APPENDIX 0. (See page 6.)

The Moral Flavour of Mediaeval Economics

A good example of this moral approach to economic problems is to be seen in the attitude towards the use of machinery. One of the earliest uses of machinery was the invention of the fulling mill for woollen cloth. In 1298, 1376 and 1404, the fulling of cloth at mills, instead of "by might and strength of man, and that is with hand and foot," was forbidden. The wording has a strong moral flavour about it.

(See E. Lipson, *Economic History of England*, i. p. 484.)

APPENDIX 1. (See page 6.)

Economic Social Theory in the Middle Ages

In speaking of the social theory of a past age, it is important to avoid the romantic illusion that everyone understood and accepted it, or that results matched the ideal.

In the old order of mediaeval Christendom, God had been the centre round which the whole conception of society revolved, and every man, be he king or pauper, was expected to put the salvation of his soul before all else. Every activity of man was judged from this angle, and, where there was no inner faith to accept the resultant scale of values, other powerful influences supplied the deficiency, superstition, ignorance and ecclesiastical authority. In the matter of economic conduct, the sin of avarice, which drew men's eyes from the true heavenly treasure to the food of moths and the corruption of rust, formed the burden of economic casuistry.

The ownership of property was conditioned upon service; it conferred a responsible office besides a private income. The owner's rights were limited: limited by the Church, by the State, and by his obligations to the community. Trade was tolerated, but the trader regarded with suspicion which grew in proportion to his wealth. For, where manual work plainly fulfilled a necessity in the order of creation, "trading, considered in itself," as St. Thomas Aquinas wrote: "has a certain debasement attaching to it, in so far as, by its nature, it does not imply a virtuous or necessary end."

(Quo. from Bede Jarrett, *Social Theories of the Middle Ages*, p. 162.)

The intense crusade against usury, an occupation strictly forbidden to Christians, illustrates the determination of the Church to prevent the accumulation of wealth, apart from the performance of some function, becoming the governing purpose of economic activity. The ownership of property was to be widely distributed; its use to be confined to the provision of that which was necessary for a man to perform his allotted function in the corporate life; in other words, its purpose was to be no more than an enabling one—a *means* rather than an *end*. Property, therefore, could in no sense form the basis of society, nor the distinctions of class within it. Mediaeval society had its class distinctions but these were

based upon function rather than property. Even the great landowner's status depended upon his ability to fight. It was what men *did* that threw them into classes and largely determined their property rather than, as in capitalist society, what men own determining in what walk of life they shall perform some function.

In this "other-worldly" conception of life, the ideal Christian virtues revolved round the practice of asceticism, celibacy, prayer, solitude and alms-giving. Poverty was held in reverence, and charity rather the privilege of the giver than of the receiver.

APPENDIX 2. (See page 7.)

The Comprehensive Character of Apprenticeship

The following indenture gives a good example of the sort of relationship created between master and man (date 1459):

"This indenture made between John Gibbs . . . of the one part and John Goffe, Spaniard, of the other part, witnesseth that the aforesaid John Goffe has put himself to the aforesaid John Gibbs to learn the craft of fishing, and to stay with him as apprentice and to serve from the feast of Phillip and James next . . . until the end of eight years then next ensuing; . . . throughout which term the aforesaid John Goffe shall well and faithfully serve the aforesaid John Gibbs and Agnes his wife as his masters and lords, shall keep their secrets, shall everywhere willingly do their lawful and honourable commands, shall do his master no injury nor see injury done to them by others . . . shall not waste his master's goods, nor lend them to any man without his special commands, And the aforesaid John Gibbs and Agnes his wife shall teach, train and inform . . . John Goffe their apprentice . . . in the craft of fishing in the best way they know chastising him duly and finding for the same John their apprentice food, clothing, linen and woollen and shoes sufficiently as befits such an apprentice to be found during the term aforesaid. And at the end of the term . . . John Goffe shall have of . . . John Gibbs and Agnes his wife 20s. sterling without fraud. In witness whereof . . .

(Quo. from Bland Brown and Tawney, *Select Documents English Economic History*, p. 147.)

APPENDIX 3. (See page 7.)

The Guild's Protection of the Apprentice

The protection of the apprentice as afforded by the guild is illustrated in an incident in which a certain tailor of Exeter was found to have chastised his apprentice unlawfully in 1482 "in bruising of his arm and broke his head"; the master and wardens of the craft ordered him to pay to his servant 5s. to cover the doctor's bill—"for his leech-craft"—3s. 4d for a month's board—"for his table,"—15s. damages—"for amends"—and also they fined him 20d.—"to the craft for his misbehaviour." (Quo. from Ashley, *An Introduction to Economic History*, p. 106.)

APPENDIX 4. (See page 8.)

Gild Search Regulations

The following is the ordinance regarding the "search" in the regulations of the Dyers of Bristol:

"First it was ordained and asserted that each year two masters of the said craft be elected . . . and their names presented to the Mayor of Bristol . . . and these be sworn on the Holy Gospels within the quinzaine of Michaelmas . . . to survey well and lawfully all manner of defects which

shall be made henceforward as well in dyed cloth as in wools put in woad within the franchise of Bristol. And if any damage is done to any person through defect of dying by any man or woman of the craft, that then he shall pay sufficient amends . . . according to the discretion of the said master and of four other indifferent persons. . . . And if so be . . . (he or she) will not abide by the award . . . then the said Mayor and his Council shall cause them to be compelled to pay and satisfy the said persons . . ."

(Quo. Bland Brown and Tawney, *op. cit.*, p. 141.)

In rare cases, guilds would hold themselves responsible for such damage. Night work was generally forbidden since it encouraged bad workmanship and also made inspection difficult. Some guilds encouraged members to work in full view of the street.

APPENDIX 5. (See page 9.)

Municipality versus Guild

Municipal authorities frequently prosecuted guilds for over-charging, and this became much more frequent towards the close of the middle ages:

"Further they say that dyers, tanners and drapers are dwelling in the town of Ware . . . and that the same . . . use their craft in too excessive wise . . . to wit . . . (they) . . . take for a cloth sometimes half a mark, sometimes 40d and sometimes more, where they were wont to take for a cloth 6d only; and the aforesaid tanners buy ox hides . . . at a low price and refuse to sell them unless they gain on them fourfold, to the greatest oppression and damage of the whole people."

(Quo. King's Bench Ancient Indictment, 1354.)

APPENDIX 6. (See page 9.)

The Communism of some Guilds

The almost communist corporateness of the guilds (some at any rate) is illustrated in the ordinances of the White Tawyers:

"And that no one shall take the serving man of another to work for him during his term unless it be with the permission of the master. . . . And if any one of the said trade shall have work in his house that he cannot complete, or if for want of such assistance such work shall be in danger of being lost, those of the said craft shall aid him, and so the said work shall not be lost . . ."

Also, if by chance, any of the said trade shall fall into proverty . . . and have nothing with which to help himself; he shall have every week 7d for his support, if he be a man of good repute. And after his decease, if he have a wife, a woman of good repute, she shall have weekly for her support, 7d . . . so long as she behave herself and keep single . . ."

And if any depart this life and have not wherewithal to be buried, he shall be buried at the expense of the common box . . ."

(Quo. Bland Brown and Tawney, p. 136.)

APPENDIX 7. (See page 10.)

The Influence of Puritanism on Economic Conduct

Puritanism, the form taken by the religious reformation in England, was no systematic body of theology. It drew its doctrines from Calvin and, to a lesser extent, from Luther, in both of which, individualism is the ground of approach. Before all else, it is man's personal relationship to his Maker that mattered. To

him each is alone accountable, and it is by the action of the mind and will that the soul will be judged. Corporate religious observance must be ordered in such a way as to renew and reinforce human resolution. Where catholicism had emphasised the initiative of God, protestantism emphasised the response of man. Authority, "vain repetitions" in set services, outward forms and ceremonies, were abhorrent—"popish vanities"—wickedly misleading. The "elect" believed that the individual conscience provided the sole guide and authority and that the springs of salvation were wound from within.

Where the puritan temper permeated great minds such as Bunyan, Milton and Baxter, it inspired great dignity, simplicity and pure goodness of heart. But upon men of commoner fibre, its characteristics became excesses which exerted a tremendous influence upon the development of the economic system. To the great Puritans, outward authority was rejected because it was irrelevant to the serious business of life. To the lesser man engaged upon more mundane affairs, the new capitalist entrepreneur for instance, such rejection was accepted for very different reasons. Upon the great puritans, the love of moral goodness produced the purity of men like Milton. But upon the lesser, it bred a certain humourless disposition to self-righteousness.

This characteristic was further exaggerated by the scale of moral values evolved by the puritan philosophy of life. Catholicism had set store by "good works" as a necessary part of the scheme of salvation—almsgiving, pilgrimages, religious observances, etc. But to the Puritan, the one great field of endeavour in attaining the heavenly goal was his "calling"; and since industry and commerce came largely to be dominated by Puritans, the accepted scale of Christian moral virtues came to be identified, in great measure, with those that brought economic success. They were dry, austere and self-conscious virtues, untouched by the milk of human kindness: self-discipline, prudence, thrift, hard work, moderation, sobriety, etc.

In this way, it may be said that Protestantism came to reverse the whole scale of mediaeval human values in which poverty had been revered and the ideal Christian character had revolved round simplicity, prayer, mystery, and charity, while yet finding room for gay festivities and every form of rejoicing in the glories of creation. But so strangely complex is the weaving of human purpose on the threads of experience, that the actual fabric which emerges is generally chequered with paradox. Thus catholic sociology which had idealised disinterested poverty had led to all that luxury and extravagance which is usually associated with worldly success; while the protestant, idealising worldly success, produced that simplicity, thrift and economy which is generally associated with poverty.

It is not difficult to see the danger of a religion which declared that, in the words of one of its leading ministers, "you may gain enough of both worlds if you would have a mind to each in its place."¹ Little wonder, perhaps, that a century and a half later, Coleridge was to refer to:

"The distinguished and world-honoured company of Christian mammonists" as "a drove of camels, heavily laden, yet all at full speed, and each in the confident expectation of passing through the eye of the needle without stop or halt, both beast and baggage."

(Coleridge, *Lay Sermons*, p. 386.)

¹ Richard Steele, *The Tradesman's Calling*, p. 9.

APPENDIX 8. (See page 10.)

The Transition of Mediaeval Economic Theory to Capitalism

With the repudiation of the Catholic Church at the Reformation, it might be assumed that the chair in economic theory became vacant. But the divines of the newly-established Church had no mind to surrender the traditional authority of the Church to formulate the canons of economic theory and conduct, and in this they were strongly backed by the Tudor and Stuart monarchs. They had, however, no new theory to expound, neither did they make any serious attempt to re-state the old doctrines in terms of the new economic conditions. With diminishing results, they continued to denounce usurers, extortioners, sweaters, enclosers and other avaricious delinquents in the language which had been heard from the pulpits for centuries. Now, while most would have agreed with the moral sentiments of such teaching where applied to the relationship between landlord and peasant, master and man, village usurer and hard-pressed debtor, it seemed entirely irrelevant to those engaged in much larger scale operations. What, for instance, would a large capitalist clothier, worried about economic problems arising from credit, loans, bills of exchange, etc., have made of the guidance on such problems from such a prominent authority as Miles Mosse (1595), who informed him that a lender may expect three things of the borrower. First, the repayment of the principal, second, the protection of the law for the repayment, third, that the borrower will lend to him in time of necessity; "unto which three I may also add a fourth particular, and that is that the lender may lawfully expect the Love and Goodwill of the Borrower . . . love is not a thing that can be valued for money; and therefore he that expecteth Love cannot be sayd to expect Gayne from Lending."

(Miles Mosse, "Arraignment and Conviction of Usury," quoted from Tawney and Power, *Tudor Economic Documents*, III, 327.)

It is small wonder, then, that a new and realistic approach divested almost entirely of the old moral flavour, attracted the immediate attention of men who were involved in the new economic order. Thus Gerrard Malyne, in 1601, headed a treatise on the problem of exchange:

"A Treaty of the Canker of England's Common Wealth.
Divided in Three Parts, Wherein the Author, imitating
the rule of the goode Physition, First declareth the
disease; Secondly showeth the efficient cause thereof;
Lastly a remedy for the same."

(Gerrard Malyne, Merchant, *Lex Mercatoria*.)

He deals with exchange anomalies, under-investment, deflation and dumping.

Through this century, writers appeared, arguing economic problems from the fashionable point of view of natural science until, at the end, the appearance of *Political Arithmetick*, by Sir William Petty, fairly launched the new school of economic science.

"He was allowed by all," his admiring publisher wrote with unconscious irony, "to be the Inventor of this Method of Instruction; where the perplexed and intricate ways of the World are explained by a very mean piece of Science . . . to the Advantage, perhaps, of Mankind."

Petty explains his "very mean piece of science" thus:

"Instead of using only comparative and superlative Words and intellectual Arguments, I have taken the course (as a specimen of Political Arithmetick I have

long aimed at) to express myself in Terms of *Number, Weight and Measure*; to use only Arguments of Sense, and to consider only such Causes as have visible Foundation in Nature; leaving those that depend upon Mutable Minds, Opinions Appetites and Passions of Particular Men to the Consideration of others . . .”

In the opening paragraph, he reverses all the *obita dicta* of mediaeval economic teaching:

“There are Spare Hands among the King’s Subjects to earn two million more than they do.”

The object of trade is to make money. The means is not Workmen, but Hands. Property triumphant over Work. Mutable minds, opinions, appetites and passions, all that make men human, and all the complex relationships these attributes create are to be left out of the picture.

However much this new soul-less attitude to economic problems is to be deplored, its value must not be under-rated. Property *had* become very important; credit a vital factor; and the problems raised did require an entirely new approach. Unfortunately, like the latest discovery in drugs, the new science was hailed as the cure for all ills, and the old medicine of moral righteousness was thrown in the dustbin. But, like many a new drug, it created its own set of new diseases.

Pope’s lines from *Essay on Man*, written in 1712, gives a brilliant epitome of the contemporary thought on these matters:

“Go, wondrous creature, mount where Science guides!
Go, measure Earth, weigh air and state the Tides.
Instruct the Planets in what Orb they run,
Correct old Time, and regulate the Sun.

Go teach Eternal Wisdom how to rule
Then drop into thyself, and be a fool.

Two principles in Human Nature reign
Self-Love to urge, and reason to restrain

What ’ere the passion, knowledge, fame or pelf,
Not one will change his neighbour with himself.
The learn’d is happy Nature to explore
The fool is happy that he knows no more;
The rich is happy in the plenty given,
The poor contents him with the care of Heaven.

Two consistent motions act the soul;
The one regards itself, and one the whole.
Thus God and Nature linked the general frame
And bade self-love and social be the same.”

(From Books II and III.)

In mediaeval teaching, avarice, the lust for gain, had been the great evil from which economic society must be continually rescued. But gradually its importance began to be neglected. A new motive and main-spring for the mechanism of economic life began to be hinted at, tentatively suggested, and, finally, frankly proclaimed. Thus, by the middle of the eighteenth century, Josiah Tucker, D.D., Dean of Gloucester, and one of the leading economists of his time, wrote:

“Self-Love, the great mover of created Beings, determines each individual to aspire to those Social Goods, and to use the most probable Means of attaining them.” And “The Rules of Religion and the Rules of Social Industry do perfectly harmonise; and all Things hurtful to the Latter are, indeed, a violation of the Former.”

(J. Tucker, *Elements and Instruction*.)

So Avarice, the great bogey of the Middle Ages, changed her clothes and became the most respected lady of the land. To pursue self-interest was to confer public benefit. A comfortable doctrine at any rate!

To the ordinary man, what the whole change meant can be summed up in the phrase, *Business is Business*. Thus Defoe, in his treatise, *The Complete Tradesman* (1706), wrote:

"The Tradesman must neither cheat nor defraud, over-reach nor circumvent his neighbour nor anybody he deals with . . . (and much more to this effect) . . . But after all this is premised, there are some latitudes which a Tradesman is and must be allowed to take, and which, by the custom and usage of the trade he may give himself a liberty which cannot be allowed in other cases, no, nor to the Tradesman out of business . . ."

(Daniel Defoe. Works. 1841 ed. p. 178.)

Max Weber, in his *General Economic History*, speaking of a much later time, gives a "common saying amongst Baptists, Quakers and Methodists"; (though he does not give the source):

"The Godless cannot trust each other over the road; they turn to us when they want to do business. Piety is the surest way to wealth."

The classic on the whole subject, dealt with in this and the last Appendix, is R. H. Tawney's *Religion and the Rise of Capitalism*, from which I have drawn freely.

APPENDIX 9. (See page 10.)

The Rise of the Problem of Pauperism

The loss of economic stability was, of course, occasioned no less by the breaking up of the manorial system on the land; this being the most disintegrating factor in the early stages. To begin with, the plagues of the fourteenth century vastly reduced the population, which, in turn, caused inflation and a steady rise in prices. This put the "free" labourer at an advantage over the tied serf, causing many of the latter to desert their holdings and to wander in search of work, for which they could earn far more from landlords to whom they were not tied. Legislation, by which serfs were forbidden to move, and labourers to ask more than had been customary three years before the Black Death, entirely failed to check the movement. A similar movement towards "free enterprise" was also taking place amongst landlords who, owing to the prosperity of the woollen industry, and the shortage of labour, enclosed their land and took to sheep farming. This movement in turn forced large numbers of peasants off the land. Consequently, by the time of the Reformation a large proportion of the working population was on the move. The dissolution of the monasteries let loose upon the country an army of mendicants which hitherto had found shelter under their walls. Legislation against enclosure did little to stop the movement of rural labour to the towns, and various acts against vagrancy and begging failed to curb the wave of lawlessness, the terror of which is enshrined in the nursery rhyme:

"Hark! Hark! the dogs do bark;
the beggars are coming to town."

Although all transitions are bound to be accompanied by upheavals of some sort, in this case, two of its characteristics lasted on right into the new economic era. The first was the creation of that reserve pool of labour upon which a capitalism has relied for a great measure of its "efficiency"; and the second, the phenomenon of pauperism as a permanent problem for the State.

APPENDIX 10. (See page 11.)

The Expansion of the Woollen Industry

The expansion of the woollen industry may be judged from the number of "Broadcloths" exported:

1348	..	..	..	..	4,500
1440	..	..	..	..	56,000
1510	..	..	..	..	84,800
1540	..	..	..	..	122,300
1554	..	..	..	..	160,000

APPENDIX 11. (See page 12.)

The Combinations of Journeymen in the Sixteenth Century

Robbed of their chances of becoming independent craftsmen, many journeymen took to working on their own account at night or on Sunday so as to accumulate enough wealth to enable them to leave the town and to set up for themselves outside the jurisdiction of the guild. So, for instance, the master shoemakers of Norwich made accusation:

"That wher dyuers jorneymen and seruants of the seid crafte grety disposed to riot and idelness . . . agenst the avantage and profight wereby of them self and ther Mastres also . . ." they are then accused of working on their own account "qwikly on Sundays and festivals" . . . And "not onely that synefull disposicion but moche warse offending . . . and omytting the heryng of ther dyuyngge seruyce. . . ." They then demand that the municipal authorities bring the journeymen to heel.

As early as 1548 the Combination Act (1799) was forestalled when it was ruled:

" That artificers have made confederacies and promises and have sworn certain mutual oaths, not only that they should not meddle one with another's work and perform and finish that another hath begun, but also to constitute and to appoint how much work they should do in a day and what hours and times they shall work contrary to the laws and statutes of the realm."

For such offences the penalties were severe; the first offence fine of £10 or imprisonment, the second £20 or the pillory, and the third, £40 fine or the pillory or the loss of an ear.

Thus, as early as 1598, there is evidence that the manual worker was beginning to bargain his labour, and to increase the price asked by restrictions upon hours and conditions.

APPENDIX 12. (See page 13.)

The Statute of Apprentices

The most important protection afforded by the State was the Statute of Apprentices, passed in Queen Elizabeth's reign and supplemented from time to time. It sought to protect the artisan to two ways. First, capitalist employers everywhere sought to cheapen the cost of work by employing unskilled labour, a practice of which artisans themselves, pressed with more work than they could cope with, were also sometimes guilty. The Statute enforced the obligation of apprenticeship in various trades as these developed on capitalist lines. Second, as the guild mechanism for the regulation of wages failed, the State replaced it with a system of wage assessment by magistrates sitting at Quarter Sessions. This system did not work very well. In the early days, the magistracy was not strong enough to administer the law effectively. Later, as industries became more

complex, magistrates were found to lack the technical knowledge necessary to make fair assessments. But perhaps the most unrealistic characteristic of the wage assessment provisions was the fact that the Act specified that maximum and not minimum wage assessments were to be made. This presupposed that it was the artisan who tended to exploit his employer when all the evidence goes to show that the reverse was the case.

Nevertheless, both the Apprenticeship and the Wage Regulation clauses were frequently and successfully invoked on behalf of the artisan until the eighteenth century, by the middle of which, judges were beginning to show a marked reluctance to convict employers for contravening the provisions of the Statute. In 1775 the apprenticeship clause was repealed for the Hatters' Trade on the grounds (inspired by the newly-accepted *laissez-faire* doctrine), "that trade flourishes best where it is most free from interference." In one trade after another, the obligation of apprenticeship was repealed until, in 1814, a general repeal was passed. In the matter of wage regulation, the issue was fought out in the West Country clothing industry. Clothiers openly flouted an assessment made by the magistrates. The weavers appealed to Parliament which, at first supported them. But when, in 1756, the clothiers petitioned Parliament for a general repeal of the wage regulation clauses, their arguments were accepted. The repeal in the woollen cloth trade was followed by piecemeal legislation repealing the clause in one industry after another.

This deliberate change in economic policy, involving the principle that the State was obliged to afford protection in the matter of industrial relations, was not accomplished through any conscious theory of the freedom of contract; for by this time anti-combination statutes had been passed in most industries. Now, although the law forbade employers to combine as well as combinations of workmen, the restriction was most unevenly balanced. As Adam Smith pointed out:

"We seldom, indeed, hear of Masters' combinations to sink the wages of labour because . . . these are entered into with the utmost secrecy and silence."

(*Wealth of Nations*, i. p. 67.)

The general effect, then, was to invest the employer with the power to regulate wages in accordance with his interests, a state of affairs which fell into line with the new economic doctrines of *laissez-faire*.

APPENDIX 13. (*See page 13.*)

The Contrast between the Old Domestic and the New Capitalist Forms

Although the name of Josiah Tucker, Dean of Gloucester, is not well known, his writings on economic questions are some of the most important in the eighteenth century before Adam Smith. He was a humourless man with strong feudal prejudices, but he was an extremely acute observer, and the following extract from his *Instructions* (p. 24) is of great interest because it throws a great deal of light on the nature of industrial discord during the early part of the century. It was written in 1757. He contrasts the state of affairs in the woollen industry where it was carried on by free independent workers, as against those in which workers were dependent upon a commercial capitalist:

"In . . . Yorkshire, the Woollen Manufacture is carried on by small farmers and Freeholders; these People buy some Wool and grow some; their Wives, Daughters and Servants spin it in the long Winter Nights, and

when not . . . (otherwise) . . . employed; the Master of the Family either sells their Produce in the Yarn Market, or hath it wove up himself. It is then milled, cleaned and brought to Market . . . but when sold there . . . then Frauds in Stretching, Tentering, etc. are effectually prevented. The Persons who generally buy this Cloth generally act on Commission at a very low Rate; and afterwards cause the Cloth to be dyed . . . and to be properly dressed and finished. Thus the whole passes through various Hands independently of each other. And though, in fact, the Spinner, Weaver, Millman, Dyer, Dresser, etc. etc. are all of them Journeymen of the Agent or Commissioner, who stands in the stead of him that is Clothier in other Places; yet by acting thus upon a distinct Footing, *they conceive themselves to be independent of him*; and of each other as any buyer or seller whatever. And being thus independent they are thus Rivals, all animated with the same desire of excelling one another. Their Journeymen, likewise, if they have any, being so little removed from the Degree and Condition of their Masters, and so likely to set up for themselves by the Industry and Frugality of a few Years, *have no conception that they are embarked in any Interests opposite to that of their Masters* or that they are called to enter Clubs, Combinations against them. Thus it is that the Working People are generally Moral, Sober and Industrious; and that the Goods are well made and exceeding cheap; and a Riot or Mob is a Thing hardly known among them.

Whereas in Gloucestershire . . . the Manufacture . . . is carried on . . . by . . . one Person with a great Stock and large Credit, buys Wools, pays for the Spinning, Weaving, Milling, etc. . . . That is, he is Master of the whole Manufacture from first to last, and perhaps employs a Thousand Persons under him. . . . This is the Clothier upon whom all the rest are to look as their Paymaster. But will they not look upon him also as their Tyrant? And, as Numbers of them work together in the same Shop, will they not . . . vitiate and corrupt each other, to cabal and associate together against their Masters, and to break into Riots and Mobs upon every little occasion? The Event hath fully showed that these conjectures are too frequently supported by the Facts. Besides, as the Master is placed so high above the Condition of the Journeymen, both their Conditions approach much nearer to that of Planter and Slave in our American Colonies than might be expected in such a country as England; and the Vices and Tempers belonging to each Condition are the same kind, only in an inferior Degree.

The Master, for Example, however well disposed in himself is *naturally* tempted by his Situation to be proud and over-bearing, to consider his People the Scum of the Earth, whom he has a right to squeeze whenever he can; because they ought to be kept low, and not rise up in Competition with their Superiors. The Journeymen, on the contrary, are equally tempted by their Situation to envy the high Station and superior Fortunes of their Masters; *and to envy them the more, in proportion, as they find themselves deprived of the Hopes of advancing in themselves to the same Degree, by any Stretch of Industry or superior skill.*

Hence their self-love takes a wrong turn, destructive of themselves and of others. They think it no Crime to get as much Wages and do as little Work as they possibly can, to lie and cheat and do any other Bad Thing; provided it is only against their Master whom they look upon as their Common Enemy with whom no faith is to be kept. The Motives of Industry, Sobriety are all subverted by this one consideration, viz. That they shall always be chained to the same Oar, and never be but Journeymen. Their only Happiness is to get Drunk, and make Life pass away with as little Thought as possible."

(An American worker in a factory told me: "The day they took me on at my first factory was the day I learnt to hate the boss. He wasn't a bad guy, mind you, but we hated him all the same just because he was the boss!"

Author.)

It is difficult to say what proportion of these West Country cloth makers worked on their employer's machinery. Some rented looms which they worked in their own homes, and in other cases, they were worked in a factory. On the whole, the vast majority were still owners of their means of production. There were other capitalist trades in which relations were equally as bad, notably the Tailoring Trade, in which the whole means of production were still owned by the manual worker. (See F. W. Galton, *The Tailoring Trade*.)

APPENDIX 14. (See page 13.)

When the Worker Lost the Finished Product

The transition to capitalism in tin mining is exceedingly instructive. The guilds were known as *stanneries* in which independent prospectors were organised together. The following is an account of a dispute in the fourteenth century:

“Certain wealthier men of Cornwall . . . are said to have usurped divers stanneries by force and duress and to have compelled stannery men to work in these contrary to their will for a 1d for every other day, or a bit more, whereas before they worked 20d or more worth of tin per day; and for a long time have prevented tanners from whitening and selling their tin worked by them, wherefore the stannery men have ceased working, and some are impoverished.”

(Quo. from Lewis, *The Stanneries*.)

The usual procedure was for the merchants to visit the mining districts and to buy the tin through the stannery. But they gradually took to visiting the mines at rarer intervals so that the miners were hard pressed to support themselves in the meantime. Moreover, when the time came, the latter found themselves in an exceedingly weak bargaining position. In this way, the commercial capitalist gained control over the stannery men and forced them to work for a wage, whilst the tin became the property of an employer.

This gives a very good example of capitalist conflict arising through the manual worker being deprived, not of the *means of production* which, in this industry he retained generally up to the eighteenth century, but of his rights in the finished product of his labours.

Another excellent example is afforded by the transition in the Tailoring Trade which took place towards the end of the seventeenth century, and which brought to birth one of the strongest and most continuous combination movements of the eighteenth century. (In 1721, the London Journeymen's combination is said to have numbered 15,000.)

In this trade, the Master Tailors, in order to attract custom, began to take expensive shops, to lay out considerable capital in a varied assortment of cloth and to extend long credit terms to their customers. As they prospered, they began to split up the industrial process, doing the cutting out and fitting themselves and giving out the stitching to be done by journeymen wage-earners, no longer hired and paid by the year, but by the piece or the day. Lack of the necessary capital soon excluded the large body of journeymen from advancement to the master status, and thus, segregated from all control over and rights in the finished product of their labours, they soon formed a large permanent wage-earning class, dependent upon an employer. Instead of the old vertical solidarity of the producing establishment between master, journeyman and apprentice, a new horizontal solidarity developed.

Thus, the journeymen's combinations developed quite naturally from the withdrawal and combination of the masters under the new system. At first the movement was designed to organise what were known as Houses of Call to which masters could apply for journeymen and journeymen could register for work. But conditions of work soon forced the journeymen to try to exercise a wider control. There was, for instance, extreme poverty—(a Berkshire Gentleman in a tract entitled *A Trip Through London* (1728), refers to the Journeymen Tailors round Blackfriars as "those wretched Emblems of Death and Hunger")—and, even worse, insecurity, brought about by the growing "reserve pool of Labour" which later economists were to regard as an essential factor in industrial efficiency. This is shown by an appeal made to the Public in the middle of the century in which the journeymen tailors pointed out that the majority are seldom:

"Call'd or employed by the masters above one half or at most two thirds of the year . . . wages for the year very seldom amount to above 15d-18d although the wage assessment has been fixed at 30d per day."

But the combination was sternly rebuked by Parliament, for it was considered that, being "in restraint of Trade," it amounted to a conspiracy against the State. Parliament went a great deal further. In 1721 an Act was passed which not only forbade all combinations, but also enacted that journeymen leaving employment before their work was finished, or refusing to accept employment offered by a master were to be sent to the House of Correction or to be transported upon the summary jurisdiction of two magistrates. The imposition of this obligation to work was not balanced by any obligation on the masters to employ, a policy which was bound, in the end, to augment the reserve pool of labour.

(See F. W. Galton, *The Tailoring Trade*.)

APPENDIX 15. (See page 13.)

Very Early Forms of Capitalism

In the middle of the fourteenth century there was one, Abraham the Tinner, who employed over 300 men, women and children in his tin mines. (See Lewis, *The Stanneries*, p. 189.)

In the early fourteenth century the Bishops of Bath and Wells were owners of considerable undertakings in the Mendips, whence lead was mined and taken to smelting furnaces at the Bishops' estates at Wookey. (See Lipson, *op. cit.*, i. p. 509.)

From very early days, building, shipping and shipbuilding had been conducted on capitalist lines for obvious reasons. It does not appear that there were guilds in these industries.

APPENDIX 16. (See page 14.)

Paying Wages in the Coin of the Finished Product

The Coventry case is to be found in the Coventry Leet Book. (E.E.T.S., Part I, pp. 93-94.)

This system of payment in terms of the finished product is to be found in other industries.

In the sixteenth century coal miners are sometimes found hiring themselves as a group to work a mine, providing the necessary tackle themselves:

"John Collyer and eight others agreed in 1593 with Jhn Forrester Esq of York who held minerals on his estate at Kippax to work for him a pit already sunk. In return he was to have one-third of all the coal mined,

they to sell the other two thirds for their own profit. (Nef., *The Rise of the British Coal Industry*, p. 415. Quo. from Duchy of Lancashire Pleadings, 116/F/2.)

In 1706 Sir Francis Blake entered into a similar agreement with seven "hughers" at Gatherick. In this case the owner took one-fourth. (Nef., *op. cit.*, p. 415.)

Many Scottish landlords who owned salt pans as well as collieries contracted with the workmen:

"to whom they paid no certaine salary or wage, but upon receiving such a quantity of Coale, the makers (as these workmen were called) undertook to make and return the master such a quantity of salt as shall be agreed between them . . . in lieu of coales and the use of their pans . . . the overplus that is made remaying to themselves for theyre paynes."

(Nef., *op. cit.*, p. 416.)

Although there are numerous examples of such contracts in coal mining, the system was never tried out in a big way. Large scale mining required, even in those days, much capital and expert management.

The system was known as the Charter System, and a similar method known as the Tribute System existed in the tin mining industry. Here there is evidence that it broke down through one more enterprising "tributor" becoming a small entrepreneur, hiring workmen to whom he paid not a share of the proceeds, but the lowest wage-rate for which they would work.

Some sort of "share system" existed quite late on in Ribbon Weaving, although it is impossible to understand from the evidence exactly how it worked. (Reports Committee, 1818, vol. ix, Parliamentary Papers.)

Linen weaving appears to have been paid on this basis round about 1456 to 1497. In the ordinances of the London Weaving Company, it was laid down that for all kinds of check patterns the one-half was to go to the Journeymen. (Weavers Ancient Book, pp. 186-216. Quo. from Frances Consitt, the *London Weavers Company*.)

From the same source it is learned that the London Weavers were forbidden to accept the third part which was the customary share in Bristol and Coventry.

In the *Report on the State of the Woollen Manufacture of England*, 1806 (Parl. Papers, 1806, iii, p. 241), it is apparent that cloth dressers were, in some cases, paid a certain percentage of the value of the cloth. This varied from 1s. to 1s. 4d. in the £.

APPENDIX 17. (See page 14.)

The Money Class Distinctions of Capitalism

All through the eighteenth century, the wedge between employer and employed was coming more and more to be identified with the division between rich and poor. The general use of the term "Labouring Poor" to denote all those who worked with their hands is a sufficient reminder. This division had its roots in Puritanism. For the positive connection between worldly success and moral virtue inevitably carried with it a negative corollary. If goodness brings wealth, poverty must be the sign of sin—"labour being generally the barrier against Sin which doth usually come in at the door of idleness." (Dean Cary.) Defoe was even more outspoken:

"The Crimes of our People and from whence their Poverty derives, are Luxury, Sloth and Pride."

(D. Defoe, *Giving of Alms No Charity*.)

This condemnation of poverty on moral grounds was further reinforced by the growing sense of economic nationalism in the eighteenth century with its emphasis upon export trade and disregard of internal purchasing power. For it was agreed on all sides that the "treasure and strength" of the Nation lay in its "multitudes of labouring poor." In the anxiety to make work a national duty and to set the poor to work, exploitation was simply not considered. Thus, John Bellars, Quaker, in setting himself to solve the problem of pauperism, wrote:

"The Poor without Employment are like Rough Diamonds, their Worth is unknown, whence, Regularly labouring People are the Kingdom's greatest Treasure and Strength, for without Labourers there can be no Lords; and if the Poor Labourer did not raise much more Food and Manufactures than what they did subsist for themselves, every Gentleman must be a Labourer and every Idle Man must starve." The title of this famous and widely accepted tract is illuminating:

"A proposal for Raising a Colledge of Industry . . . with Profit for the Rich and Plenty for the Poor." (1690.)

All through the century there is a stream of bitter invective against the working population, and low wages and a high cost of living are openly advocated as being the only discipline which will force the labouring poor to enrich the nation's coffers. To give but a few out of many hundred quotations:

"People in low life who only work for their daily bread, if they can get it by three days work a week will, many of them, take a holiday the other three, or set their own price upon their labour."

(Anon, *Some Thoughts on the Interest of Money.*)

In Mandeville's *Fable of the Bees*, there is a dialogue:

Horatio: "The Poor . . . have nothing to stir them up to labour, but their wants, which it is wisdom to relieve, but folly to cure."

Cleomenes: "I believe the maximum to be just." (Page 128.)

Religious sanctions were supplied by the clergy. Thus the Reverend J. J. Collinges, D.D., wrote a book called *Weaving Spiritualised*, which starts:

"Our Spiritual Weaver is the Good Christian, his fastening his Warp to his Beam is the rooting of his Soul in Faith" etc., etc.

He then goes on (after remarking without comment upon the fact that a weaver must sit at his loom from 4 a.m. to 8, 9 or 10 p.m., in order to earn 7s. to 10s. a week), to extol the advantages of the weaving trade—"The second Advantage of this Trade is the little Time that it giveth either Servant or Master (but Servant especially) for Idleness."

Sir William Petty had proposed public granaries in order to maintain the price of wheat, not only for the benefit of landlords, but also to "curb the extravagance" of the poor, while Arthur Young, one time a Home Secretary, pleaded:

"Whatever may be your opinion of this point, the Price of Provisions, let me request that you will not give any credit to the pleas of (food) rioters. . . . The more such fellows earn, the more succeeding time and money they have for the alehouse and disorderly meetings."

(Arthur Young, *A Southern Tour*, p. 274.)

The manual worker was coming to be regarded from two angles. In the first place, his work was of vital importance to the nation, but in the second place, his subsistence was an expense to the nation. Wages came almost to be considered as a social cost. Many writers thus came to analyse the expenditure of the working classes as if it were a national expense. Snuff-taking, ribbons, silk, dram drinking and, in particular, tea were all denounced as debauchery, idle

luxury and extravagances which the *nation* cannot afford. Finally, we may quote, perhaps, the strongest condemnation because it came from the pen of one of the great English novelists:

“To be born for no other pleasure than to consume the fruits of the earth is the privilege of very few. The greater part of mankind must sweat hard to produce them. . . . Six days shalt thou labour and the positive command of God.”

(Fielding, *An Enquiry*, 1751, pp. 6-7.)

Enough has been said, perhaps, to show that the bitter class feeling borne of the era of capitalism grew up well before the Factory system came upon the scene.

When, therefore, John Weyland, at the beginning of the nineteenth century could break out into a paean of praise in these damning words:

“I could find no other country where the foundations are so truly laid upon an enlightened view of moral and political expediency.”

(John Weyland, *The Principles of Population and Production*, Preface.)

he was only summing up the results of a century of unprincipled economic thinking. It is hardly surprising that he also saw that:

“The lowest orders should endure a state bordering on want, that a necessity may exist for their labours.”

(*Observations*, p. 62.)

There are two particular abuses which are commonly associated with the factory system. These are Child Labour and the Truck System. But even these existed to a large extent long before the Industrial Revolution.

Very early on, when the woollen industry came to be performed under the domestic system, the employment of children in the family became a regular practice, and in the case of almost all industries coming under the control of the commercial capitalist, the same is true. Defoe, writing in 1725, records that in Taunton and the neighbourhood, there was not a child over five years of age “but if it had not been neglected by its parents and untaught, could earn its own bread.” In Westmoreland, children of four years old were employed in the manufacture of stockings, while the elder son of Crompton, the inventor, relates that he was employed in cotton manufacture soon after he could walk. (For these and much more evidence, see Lipson, *op. cit.*, ii, p. 62.)

Parents are not always merciful task masters, and, where ties of affections are lacking, or drink ran away with the meagre family income, it is probable that children’s sufferings under the domestic system were every whit as terrible as they came to be under the appalling conditions revealed at a later date in the Parliamentary enquiries into the employment of children in the mills.

The parliamentary enquiry into the payment of wages in Truck (1842) revealed an appalling state of affairs in which every device was being used by various employers to make money from their workmen’s wages. One writer has calculated that the Truck system at that time probably reduced *real* wages by about 10 per cent. (See J. H. Clapham, *Economic History of Modern Britain*.)

In some cases workmen were paid in goods (file makers were paid in wrought iron, for instance); in others they were given notes which could only be discounted at the employer’s truck shop in which, frequently, extremely bad value was given; in others, they were paid in food (in one case a weaver was paid in potatoes for six weeks running); in others workmen were forced, as a condition of employment, to live in their employer’s cottages at exorbitant rents.

Although the concentration of industry in towns facilitated these abuses, they had all been practised in one form or another ever since the coming of commercial capitalism. One of the earliest records occurs in a pamphlet *On England's Commercial Policy* (circa, 1470).

"By merchants and cloth-makers, for God's sake keep,
The which maketh the poor to mourn and weep
Little they take for their labour, yet half is merchandise
Alas for rewthe, it is a great pity."

(Political Poems and Songs, Rolls Series, ii, p. 285.)

It was in 1464 that the first Truck Act was passed, for, as the preamble states:

"Labourers have been driven to take a great part of their wages in Pins and Girdles and other unprofitable Wares under such price as stretcheth not to the extent of their leful wages."

(Statutes of the Realm, ii, p. 406.)

Further acts against truck followed at frequent intervals, most of which applied to the cloth or mining industries. In 1715 an Act forbade certain employers to force their workmen to inhabit their houses. In the 1726 Act it is apparent that truck was being practised in the manufacture of woollen, linen, fustian, cotton, iron, tailoring goods. (See T. S. Ashton, *An Eighteenth-Century Industrialist*.)

In the 1756 Act, West Country Clothiers are forbidden to pay wages by means of notes.

Without wishing to be tedious, all this evidence goes to show that the conflict and disharmony of the industrial system grew up, not as the manual worker lost control of the means of production, but as the commercial capitalist came to separate him from the finished product.

APPENDIX 18. (See page 16.)

The Church and Industrial Slavery

It seems strange that Bishop Wilberforce, who, more than any other man, was responsible for the abolition of Slavery could lecture the enslaved factory population of his time, reminding them that:

"... their more lowly path has been allotted to them by the hand of God; that it is their part faithfully to discharge its duties and contentedly to bear its inconveniences; ... that the peace of mind which religion offers indiscriminately to all ranks affords more true satisfaction than all the expensive pleasures which are beyond the poor man's reach; ... that all human distinctions will soon be done away ... etc. ... etc."¹

At an Anti-Slavery Meeting in Leeds, in 1830, the Rev. R. W. Hamilton had said:

"It is the pride of Britain that a slave cannot exist on her soil; and if I read the genius of her constitution aright, I find that slavery is most abhorrent to it, that the air which Britons breathe is free—the ground on which they tread is sacred to Liberty."

Oastler loudly challenged this sort of nauseating hypocrisy. In a letter to the *Leeds Mercury*, Saturday, October 16th, he wrote:

"... The pious and able champions of *Negro Liberty* and *Colonial right* should ... have gone further than they did; or ... before they had travelled so far as the West Indies, should ... have sojourned in our immediate neighbourhood and have directed the attention of the meeting to scenes of misery, acts of oppression and victims of slavery, even on the threshold of our homes!

¹ *Bishop Wilberforce, A Practical View of Christianity*, p. 301, quoted Carpenter. *Church and People*, p. 44.

“Let the truth speak out, appalling as it is. . . . Thousands of our fellow subjects . . . are at this present moment existing in a state of slavery *more horrid* than are the victims of the hellish system—‘*Colonial Slavery*’. These innocent creatures unpitied draw out their short but miserable existence, in a place famed for its religious zeal, whose inhabitants are foremost in professing ‘Temperance’ and ‘Reformation,’ and are striving to outrun their neighbours in Missionary exertions, and would fain send the Bible to the farthest corner of the Globe—aye in the very place where the anti-slavery fever rages most furiously, her *apparent charity* is not more admired on earth, than her real cruelty is abhorred in heaven. The very streets which receive the droppings of the Anti-Slavery Society are every morning wet with the tears of innocent victims at the accursed shrine of avarice, who are compelled . . . by the dread of the . . . appalling thong or strap of the overlooker to hasten half-dressed, *but not half-fed*, to those magazines of British Infantile Slavery—the *Worsted Mills in the town and neighbourhood of Bradford* . . .

“Thousands of little children, both male and female, but principally female, from seven to fourteen years, are daily compelled to labour from six o’clock in the morning to seven in the evening with only—Britons blush whilst you read it!—with only thirty minutes allowed for eating and recreation . . .”¹

He further pointed out that slave owners took a great deal more care of their slaves than mill owners of their workers. When these latter were worn out, they could be tossed on one side without any liability to employers. Very few employers would employ men over the age of forty. The average age of death in Bradford in 1848 was 20.

¹ Quoted from Bland Brown and Tawney, *op. cit.*, p. 592.

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INDEX

- ABSENTEEISM**, 160
Active industrial contributors, 141
American and British conditions compared, 166
American Federation of Labor, 166
American workers—productivity of, 169
Annual Earnings, Nunn-Bush Co., 128
Annual income—of the worker, 29
Annual wage income—relation to values produced, 41ff
 Canadian Manufacturing, 44 ff
 Great Britain, 48
 Individual companies 48 ff
 Industrial Groups, 45 ff
 U.S.A. All Manufacturing, 42 ff
Apprentices, Statute of, 204
Apprenticeship, 7, 13, 198
Arbitrary discharge, 102
Arbitrary right of discharge, 125
Artisan, 7
Associative economic relationship 194 ff
Austin, Minnesota, 135
Avarice, 202 ff
- BASE rates**, 36
Baxter, Richard, 200
Belonging, sense of, 88, 104
Boss, workers' hatred of, 206
Bournville, 192
Bowley, Professor, 31
Bradford Dyers' Association, 65 ff
Brain worker, 22
Briggs, Henry & Co., 58 ff
British and American conditions compared, 166
British statistics, paucity of, 48
Brown, Wilfred, 195
Buchez, 23
Bunyan, John, 200
Bureau D'Etudes du Salaire Proportionnel, 119
Business is business, 203
- CAPITAL**, accumulation of, 146
— circulating, 11
— disregard for need of, 23
— inefficient use of, 143
— interests, 140ff
— risks of, 143
— social purpose of, 156
Capitalism, 71 ff
— acceptance of, 16, 17
— and class distinction, 209 ff
— **Capitalism, conflict of**, 13
— domestic, 11, 208 ff
— early forms of, 11, 208 ff
— tenets, of, 18
— tin mines of Cornwall, 13, 208
Capitalist, 8
— Class, 13
— Commercial, 11, 15
— Industrial, 11, 13
Cause and effect, wage-rates and prices, 177 ff
Chemicals, U.S.A., 46
Child Labour, 211 ff
Christian morality, 6
Church, protection of learning, 80
Civilisation and industrial organisation, 86, 192
Class distinction and capitalism, 209 ff
Classification of Labour, industrial, 96
— — social, 96
Closed shop, 125
Clothier, capitalist, 11
Coal mining, U.S.A., 20 ff
Cohen report, 149
Collective bargaining, 91, 138, 162, 164, 174
— — assumption of conflicting interests, 53
— — right of, 19, 29
— — short-comings of, 34
— — the real function of, 39
Combination Acts, 17, 204
Combinations of journeymen, 204
— workmen's, 13, 14, 18
Commodity, labour as a, 19
— wage-rate principle, 140
Common purpose and joint consultation, 127
Communism, 8, 85
— of some Guilds, 199
Communities, industrial, 192
Company accounts and workers, 127
— Law, 67, 149
Competition, 6, 10
— self-destructive, 22
Competitive instinct, 7
— market, test of, 75
Compulsion, 81
Confidence, 171
Congress of Industrial Organisations, 119, 166
Conflict, 12
— of supply and demand, 30

- Consumer, obligation towards the unemployed, 156
 — organisation, 57
 Continental Paper Company, 119
 Continuing Labour Group, 96 ff
 Continuous employment, 30
 — salary, 106
 — service and pensions, 105
 — status, 88
 Control and Management, 81
 — by obligation, 83
 — of dividends, 140
 — of new factories, 74
 Co-operation and independence, 92
 Co-operative-production, 67, 79
 — workshop movement, 17, 23, 52
 Co-partnership, 5, 59, 65 ff, 85, 170
 Cost analysis, 75
 — of production, 13
 — of work, adjustment to price level, 117
 — of work in terms of the Finished Product, 41
 Costing—backwards, 178 ff, 185
 — in a Federal Share Production System, 179 ff
 — theories behind, 178
 Costs, matching with purchasing power, 171
 Cotton industry, 19
 — — wage-rates and earnings, 31
 Coventry journeymen, 14, 94
 Craft Guild system, breakdown of, 10 ff
 — Unions, amalgamation of, 24
 Craftsman, 7
 — separation from consumer, 12

 DECENTRALISATION, 90, 92, 189
 Deflation and Federal Share Production, 182 ff
 Demoralisation of unemployment, 97
 Derrick, Paul, 141 footnote
 Deupree, Richard R., 131, 136
 Dictatorships, Property and Managerial, 81
 Differential Rates, 90, 113
 Discarding Labour, 89
 Discharge, Management and Unions' interests in, 103
 — power of, 102
 Discipline, industrial, 90
 — self-imposed, 126
 Disharmony, industrial, 4, 26
 Dividends, control of, 140, 156
 Domestic and capitalist forms contrasted, 205
 Dooley, A. L., 106
 Drawing rate, 114 ff
 — — cut in, 116
 Drucker, Peter, 76, 193

 EARNINGS and prices, link between, 94
 — variation under National Agreements, 167
 Economic Expediency, 7
 — Man, 165
 — nationalism, 160
 — relationships and Industrial Psychology, 194
 — Theory, 10
 — transition and the State, 154
 — virtues in the middle ages, 198
 Economics and Psychology, 182
 Education, art of and human sciences, 189
 — for living, 7
 Education and industry, analogy, 190
 Efficiency and co-operation, 170
 — and the human sciences, 189
 — and job breakdown, 189
 Efficient employment of labour, 134
 Electrical Engineering, wage-rates and earnings, 31
 Employee, 8, 15
 — Partnership Institute, 141
 — shareholding, 65 ff
 Employer-employee relationship, 9, 12, 16, 195
 Employment, flexible, 136
 — fluctuations in, 133
 — regular, 131
 Entrepreneur, 8, 22
 Equal pay controversy, 99 footnote
 Expansion, economic, 6, 10, 11, 14
 Exploitation, 8, 23, 84, 91

 FACTORY Acts, 16
 — system, 13
 Federal Share Production, altered social and psychological conditions, 186
 — — — and Company Law, 149
 — — — and Economic depression, 181 ff
 — — — and inflation, 182
 — — — and slumps, 175
 — — — and the control of Values Added, 185 ff
 — — — Company, 87 ff
 — — — meaning of price and value in, 177 ff
 — — — social influence of, 182 ff
 Fifty-Two-Pay-Check plan, 109, 125
 Financial domination, 71
 Finished Product, 3, 4, 12, 15, 29, 77, 79, 84, 87, 89
 — — and the whole man, 194 ff
 — — focal point of industrial association, 5
 — — market for, 15

- Finished Product, organisation of industry round, 123
 — — ownership of, 4, 13, 19
 — — price of, 37, 53
 — — separation of worker from, 12
 — — share in, 20
 — — wages in terms of the value of, 208 ff
 — — worker's education in, 193 ff
 — — worker's loss of interest in, 207
 Fixed Dividends, 141
 Flexible costs, psychological aspect of, 175
 — employment, 145
 — wages, 35, 187
 — — system, 174
 Flexibility and slumps, 172 ff
 Fourfold incentive, 114
 Friedman, Elisha, 175
 Function and Property, 80
 Functional ownership, 84, 89
 Furniture Trades U.S.A., wages and net production in, 47
- GALLATIN, Albert, 58**
 Gas industry, 66
 General Motors, 20
 Gilbert's Act, 14
 Government 'interference', 57
 Grand National Consolidated Union, 22
 Gross and net values of production, 109 ff
 — production, 41
 — drawings, 116
 Group-earnings, 116
 — incentive, 106, 114
 Guaranteed employment, 84
 — — and the trade cycle, 138
 — — and unemployment insurance, 155
 — — plans, 131 ff
 — wages, 78 footnote
 — wage systems, 128
 — week, 19
 Guild, regulation, 8
 — search regulations, 198
 — socialism, 141
 — system, social contribution of, 191
 Guilds, 6
 — abuses in, 9
 — relations with municipal authority, 8, 9
 — wide activities of, 9
 Gulf between rich and poor, 16, 209 ff
- HAYDN, 81**
 Hormel, Geo. A. Plan, 134, 136, 137
 Hosiery, wage-rates and earnings, 31
- Hourly wage-rates, Nunn-Bush Company, 128
 Household system, 3
 Human relationships in industry, 6
 — satisfaction and job breakdown, 189
 — values, Protestant and Catholic, 200
- IDEOLOGICAL change, 10**
 Impersonal ownership of industry, 77
 Inactive industrial contributor, 141
 Incentive, 114, 192
 — denial of, 142
 Incentives, 77
 Independence, 88
 — and co-operation, 92
 Indiscipline, 160
 Individual incentive, 114
 Individualism, 6, 10, 14
 Induction training, 192
 Industrial conflict, acceptance of, 92
 — democracy, 84
 — dictatorships, 53
 — discipline, decentralisation of, 126
 — efficiency and labour relations, 124
 — — and the Finished Product, 189 ff
 — — social and psychological, 190
 — harmony, 3, 9, 14
 — — and authoritarianism, 52
 — organisation and civilisation, 192 ff
 — — round the Finished Product, 193
 — Process, nature of, 3 ff
 — — natural democracy of, 5
 — psychology and economic relationships, 194
 — revolution, 15
 — slavery and the Church, 212
 — society, 71, 191 ff
 — technique, 6
 — unionism, 24
 — Workers of the World, 24
 Industry and civilisation, 192
 — as a public service, 140
 Inefficiency, 74
 Inflation and Federal Share Production, 182 ff
 — problem of, 147
 — wages, prices and profits, 141
 Informing the worker, 21
 Initiative, 9
 Instability and slumps, 174
 Integral association, 13, 18, 20, 195
 Integration horizontal and verticle, 13, 18, 164
 — of Labour, 94
 — of Management group, 137
 — of worker, 84
 Interests, conflict of, 12
 — identity of, 9

- Interests, functional, 20
 — of the management, 19
 — of the shareholder, 19
 — of the worker, 19
 Investor, enabling function of, 25
 Iron and Steel, U.S.A., 48
 — — wage-rates and earnings, 31
 Irresponsible ownership, 22
- JOURNEYMAN, 7, 97
 — Guilds, 13
 Journeymen paid by share system, 14
 — temporary status of, 9
 — consultation, 90, 127, 195
 — — and war, 127
 — Production Committees, 160
- KEYNES, J. M. (Lord), 142, footnote 171
- LABOUR and Management, identity of interests, 53
 — as a commodity, 29 ff, 63, 163, 167
 — as a cost of production, 51
 — as a partner in industry, 51 ff
 — as a producer of wealth, 163
 — conduct of in Federal Share Production, 187
 — co-operation and guaranteed employment, 132
 — distribution of, 159
 — force, unification of, 159
 — group income of, 89
 — horizontal integration of, 159
 — income and the price factor, 112
 — 'interference', 112
 — market, 29
 — mobility, 160 ff
 — movement, 17 ff
 — qualifications for promotion, 101
 — relations, background of share production, 124
 — right to independent organisation, 21
 — shares, 67, 149
 — status, organisation of, 101
 — Theory of Value, 22, 24, 177 ff
 — Turnover, cost of, 106
 Laissez-faire, 57, 153
 Latimer, Murray W., 128, 78
 Leather Trades, U.S.A., 46
 Leisured State, 192
 Lewis, John L., 21
 Liberal party, 67
 Liberalism, 85
 Lidbury, C. A., 162 ff
 Limitation of dividends, 140
 Limited Liability, 16
 Livery Companies, 13, 84
 Lock-outs, 13, 24
 Losses, of U.S. Corporations, 72
- MACHINERY industry, U.S.A. wages and net production, 46
 Management and control, 81
 — and the slump, 171 ff
 — function, 81, 83
 — objective, a low cost of work, 36
 — obligations to Labour, 83
 — prerogative of, 20
 Manager, the 8
 Managerial group, integration of, 137
 — remuneration and the Finished Product, 93
 Managers' obligations to the shareholders, 78
 Mannequin parades, 194
 Manufacturer, relation to supplier, 180
 Marginal Utility Theory of Value, 177 ff
 Mass Production and the Finished Product, 194
 — — human problems of, 190
 Master Craftsman, the, 7
 Means and Ends, 85
 — of production, ownership of, 13, 15, 17, 19, 85
 Meat Packing industry, U.S.A., instability of employment in, 133
 Mediaeval civilisation, 7, 16
 — economic theory and capitalism 201
 — industry, 6 ff
 Mehady, E. F., 120
 Merit rating, 162, 195
 Methods of remuneration and Status, 100
 Middle Ages, economic social theory of the, 197
 Milton, 200
 Miners and Nationalisation, 167
 Mobility of Labour, 160 ff
 Money incentives, 77
 — wage rates, 180
 Monetary control, 187
 Monopoly, 8
 Monotony of mass production, 86
 —problem of, 190 ff
 Morale, industrial, 25
 — military and industrial, 89
 Moral flavour of mediaeval economics, 197
 — obligation, 84
 Morals and science, 81
 Mozart, 81
 Municipality versus Guild, 199
 Mushroom factories, 74
 Mutual interest, between buyer and supplier, 181

- NATIONALISATION, 78**
 — miners' disappointment with, 167
 — where justified, 154
National point rating system, 162 ff
 — wage-rate agreements, 164
 — wages policy, 161
Nationalised industries, 19
Net and Gross values of production, 109 ff
 — income, U.S. Corporations, 72
 — production, (values added to raw materials), 42
New-Lanark Mills, 22
New Zealand Companies Act, 67, 149
Newspaper publishing and printing industry, U.S.A., 34 ff
Non-industrial wage-earner, 158
Normal day, the, 18
Nunn, Henry L., 106 ff
Nunn-Bush, buying policy, 181
 — comparison with competitors, 129
 — induction of workers, 193
 — Plan and full integration, 138
 — — and industrial democracy, 138
 — — extension of, 139
 — Shoe Company, dividend policy, 146 ff
 — — — history of plan, 107 ff
 — — — workers' interest in industrial psychology, 195
- OBLIGATION, 81**
Obligations of Managements, 141
Office-Factory workers, distinctions between, 139
Older men, security in industry, 98
Opportunism, 74
Opportunity of advancement, 12
Orangeburg Manufacturing Co., 120
Organisation, 3, 19, 22, 66
 — integrated, 12
Orthodox trade unionists, 167
Output-per-man-hour, 39
 — — — — Nunn-Bush compared to competitors, 128
Over production, 20
Owen, Robert, 14, 22, 71, 192
Ownership of means of production, 13, 15, 17, 19, 85
 — of property in middle ages, 197
- PAIN and work, 191**
Paper Trades, U.S.A., 46
Partnership and independence, 93
 — industrial, 5, 89
 — relation, 21, 138
 — — and the supplier, 180
 — remuneration, 90
Partners, responsibilities, rights and privileges, 5
- Pasteur, Louis, 81**
Paternalism, 59, 62
Pauperism, 203
Peasant proprietorship, 67
Pension plans, 64
 — profit-sharing plans, 147
Pensions, 104
 — and 'safety first', 105
Percentage of Values Added —
 — manipulation of, 186
 — — — variations in, 184 ff
Permanent Labour Group, 96 ff
 — — — size of, 100
Personal reserves, 119
Pickets, 13
Piece-rates, 36
Point rating, 160 ff
Political Arithmetick, 201
 — Economy, 10
 — Philanthropy, 16
Pope, Essay on Man, 202
Possessive ownership, 84
Price factor and labour income, 112
 — movements and values added, 183 ff
 — relative to value, 177
 — structures, 173
Prices, 8
 — and earnings, link between, 94
 — and the public, 55
Primary purpose of industry, 55
Prime cost, 178
Private enterprise, 55
Proctor & Gamble, 84, 131, 137, 181
Product wage-rate, 180
Production, Committees, 90, 93
 — Nunn-Bush, 128
Productive capacity, reserve, 132
Productivity, 36, 41
 — and co-operation, 169
 — and economic environment, 169
 — British and American, comparison of, 53 ff
 — influence on earnings and wage-rates, 40, 53
Proportion of wages to net production in various industries, 45 ff
Profit, 74 ff
 — as a source of financing risk and expansion, 75
 — as a test of efficiency, 75
 — margin, as a test of value, 70
 — motive 76 ff, 80
 — system, the, 19
Profit-sharing, 59 ff
 — analysis of principles of, 59
 — and co-partnership, 52 ff
 — and short time, 63
 — and trade disputes, 63
 — and union membership, 59

- Profit-sharing, as a matter of charity,** 61
 — as a matter of expediency, 62
 — as a matter of justice, 60
 — as an incentive, 62
 — comparison with sharing production values, 117
 — compulsory, 67
 — conflict with the wage system, 64
 — extent of, 59
 — in co-operative production systems, 23
 — Geo. A. Hormel, system, 134
 — Pension plans, 64
 — problem of sharing losses, 61
 — the State and, 67
Profiteering, 75
Profits, control of, 156
 — ownership of, 76
 — use of, 104
Promotion, qualifications for, 101
Property, 3, 6, 12, 19, 22, 66, 79
 — based society, 52
 — ownership, 68
Psychology and nineteenth economists, 77
 — and the Finished Product, 77
Public, the 90
 — and Labour, 54
 — as the real employer of labour, 55 ff
 — service of industry, 140
 — Publishing and printing, U.S.A., 46 ff
Purchase tax, 165
Puritanism and economic conduct, 199

QUALIFIED Labour Force, 96 ff
Quality incentive, 114

RATE for the job, the, 18
Rating jobs, subjective and objective aspects, 165
Ratio, profit to production value, 157
 — wages to net production, 110
Rational discussion and collective bargaining, 111
Redistribution of labour, 96
Reformation, the, 10
Reforms, 16 ff
Regular income for Labour, 115
Re-integration of the worker, 13, 16, 20, 25
Relative value of workers to production, 113
Remedies, 16
Remuneration and flexibility, 94
 — and status, 29
 — as a cost, 4, 12
 — profits, 4, 12
Remuneration, salaries, 4, 29
 — wages
Renaissance, the, 10
Rent, problem of rent overlooked, 22
Reserve pool of labour, 203
 — productive capacity and buying policy, 181
Restrictive practices, 13, 91
Reuther, Walter, 20
Revolt of Labour, 52
Revolution, fear of, 16
Rewards for capital in Federal Share Production, 144 ff
 — for capital investment, 143 ff
Rigidity and slumps, 172 ff
Risk and Reward, 72, 74
Risks, Labours share in, 145 ff
 — of employee shareholding, 65 ff
Risks of capital, assessment of, 143
 — — insurance against, 141, 143
 — — elimination of, 143
 — — U.S.A., evidence of, 72
Rucker, A. W., 119

SALARIED Share Production remuneration, 107 ff
Sankey Report, 81
Saving materials, incentive to, 110, 114
Schubert, 81
Scientific selection, 195
Scott McHale, Ontario, 119
Secrecy and suspicion, 127
Security, 96
 — and joint consultation, 127
 — and spoon feeding, 103
 — limitations of, 104
 — of employment, 7, 9, 12, 100
 — of status, 88
 — older men's right to, 98
 — State subsidized, 104
Self development, 96
 — discipline, 91
 — government in industry, 23
 — interest, 10, 19
Share in control, 12
 — in the proceeds, 12
Share-The-Production plan, 109 ff
 — — administrative cost of, 118
 — — and economic depression, 118
 — — comparison with sharing profits, 117
 — — economic comparisons, 128
 — — plans, companies running, 119 ff
 — — remuneration, example of, 115
 — — variations of, 120 ff
Shareholder and public service, 78
Shares in the Finished Product, 3
Sharing, 88 ff
Sheffield Iron and Engineering Works, 23

- Shoe Manufacture, U.S.A., 46
 Shop Stewards, 167
 — — and Communism, 83
 — — Movement, 17, 25
 Skilled worker, protection of, 18
 Sliding scale, 20, 52, 113
 Slump of 1930, 96
 — Management and the, 171 ff
 — monetary control of, 187 ff
 — psychological aspects of, 171 ff
 Slums, 16
 Smith, Adam, 205
 Social discord, 10
 — exclusion, 16
 — Security Act, 1935 (U.S.A.), 156
 — Services, 16
 Socialism, 85
 Source of remuneration and status, 100
 South Metropolitan Gas Company, 59
 — Shirland Collieries, 23
 Soviet Russia, 81, 164
 — workers' Management Committees, 83
 Spare time, workers' use of, 135
 Speenhamland system, 14, 97, 104, 156
 Spoon feeding and security, 103
 Stability, (economic), 6, 9, 10
 — and rigidity, 172
 Stabilized employment, 131
 — — and earnings, 135
 Standard of living, 18 ff
 — rate, the, 18
 State capitalism, 24, 170
 — protection of the worker, breakdown of, 14
 — role of the, 153
 — security, 135
 Status and remuneration, 50
 — continuity of, 88
 — independent, 12
 — of labour, 50
 — of the worker, 11
 — reflection in remuneration, 29
 — security of, 88
 Strikes, 13, 14, 19, 22, 24
 — and profit-sharing, 64
 — the public's responsibility in, 57
 St. Thomas Aquinas, 197
 Subsidies, 165
 — and Taxation, 188
 Supplier, relation to manufacturer, 180
 Surplus, ownership of, 146
 Suspicion, 21
 — and secrecy, 127
 Syndicalism, 17, 24, 52, 167

 TAILBY-NASON Company, 120
 Tawney, R. H., 81, 203
 Taylor, J. T. & J., 65
 — Theodore, C., 60 ff

 Taxation and subsidies, 188
 — of profits, 156 ff
 Technical authority and control, 113
 — efficiency, union responsibility for, 113
 Textiles, U.S.A., 46
 Terminology, 87
 Totalitarianism, and State managed economies, 153
 Trade union 'interference', 34
 — — movement, 18, 81
 — — movement, decentralisation of, 25
 — — over cautious leadership of, 24
 — — structure, decentralisation of, 92, 168 ff
 Trade unionism, acceptance of capitalism, 17
 — — American and British patterns of, 166
 — — influence from outside the industrial structure, 19
 — — moulded in the matrix of capitalism, 19
 — — orthodox, 17, 18, 24, 137
 — — political, 17
 — — revolutionary industrial movements in, 17, 22
 Trade unionists, orthodox, 145
 Trade Unions, attendance at meetings, 167
 — — claim to a voice in the management, 19
 — — legislation, 16, 17
 — — national basis of, 18
 — — negative and defensive functions of, 18, 90
 — — promotion of education, 18
 — — successes of, 19
 Trades Union Congress, 154
 Training, 195
 — Labour group, 96 ff
 Transition, economic, 154
 — from Guild to Domestic, 154
 Truck system, 211 ff
 Tucker, Josiah, Dean of Gloucester, 190, 202, 205
 Tudors, and the regulation of industry by the State, 13

 UNEMPLOYMENT, 96
 — compensation and guaranteed employment, 155
 — demoralising effects of, 96
 — insurance, 97, 155
 — industrial liability for, 156
 — insurance modification of present legislation, 156
 Union co-operation with management, 133, 138

- Union meetings in the Nunn-Bush Company, 126
 — shop, 125 footnote
 Unit cost (price) of work 38 ff
 — — correlation to wholesale prices index, 39
 — — Nunn-Bush and competitors, 128
 United Automobile Workers Union, U.S.A., 20
 Unskilled competition, 7
 U.S. Steel Corporation, 66
 U.S.S.R. profitability in 75 ff, 85
 Usury, 197, 201
- VALDEFER, Harry, 141**
 — plan, 142 ff
Valderism, 79
Value, Labour Theory of, 177 ff
 — Marginal Utility Theory of, 177 ff
 — meaning of, 177 ff
Values added to raw materials, 42
 — — — and price movements, 183 ff
 — — — — percentage variation of, 184 ff
 — of production, 89
Verticle integration of Labour, 52
Voting power, 149
- WABASSO Cotton Co., 120**
Wage and profit system, 192
 — — — conflict within, 137, 140
 — — non industrial, 158
 — earner, the, 7
 — level, minimum, 15
 — Rate System, 19
 — — commodity theory of labour, 30
 — — tests of its working, 29
 — Rates, 11
 — and cost of living, 29
 — and earnings, correlation of trends, 31 ff
 — and prices, cause and effect reversed 39
 — and real earnings, 32 ff
 — and wholesale price of manufactures, U.S.A., 36 ff, 40
 — as an arithmetical formula, 30
 — controlled by the price level, 53
 — failure to reflect the cost of work, 37
 — in terms of the Finished Product, 56
 — Management and the control of, 137
 — manipulation of, 30
 — movement of in the trade cycle, 174
 — piece and time, 30
- Wage system, abolition of, 24**
 — — flexible, 174
Wages and prices, relationship between, 8, 10
 — as a cost, 11 14, 30
 — as a share of wealth, 14
 — freezing the level of, 147
 — in terms of the Finished Product, 56, 208
 — percentage of gross values paid, Nunn-Bush Company, 108
 — ratio to net production, causes for variations of, 49
 — ratio to net production, its constancy, 50
 — social implications of, 50 ff
 — Subsistence Theory of, 4, 19, 29
 — supplemented out of rates 14
 — variable percentage of, 112
 — Wage Fund Theory of, 4
Watson, Robert, 106
Wealth, acquisition of, 7, 10
Weekly drawing rate, 114
Welfare, 62, 193
Whitley Councils, 127
Whole man, the, 189 ff
Wilberforce, Bishop, 212
Women and girls in industry, 98
 — — capitalism, in, 205
Woollen industry, capitalism in, 205
 — — example of early capitalism in, 11
 — — expansion of, 204
 — — wage-rates and earnings in, 31
Work, 3, 19, 22, 66
 — and pain, 191
 — Share Unions, 92 ff
 — sharing, 34, 118
Worker control, 84
 — dictatorship, 25
 — discipline, 15, 23
 — domestic, 15
 — his status in the industrial unit, 29
 — hours of work, 15
 — need to belong, 5, 9, 29
Workers' right to be independent, 5
 — — — belong, 5, 9, 29
 — — — co-operative production movement, 83
 — — — employment, 19
 — — — share in the values produced, 5
Working class, enfranchisement of, 17
 — — horizontal integration of, 18
 — — its share in the civilisation, 16
Works Committees, 93
 — — initiative of, 167
 — Councils, 160

