

CAPITALISM AND COUNTERPOISE

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CAPITALISM stands to Communism as the system that is to the system that is dreaded or noisily desired. But why is it that Capitalism signifies the system that is? Why is it a synonym for established interests?

For answer, we must look to history. The Middle Ages closed with the discovery of the new world. Till then, society was feudal. Power was in the hands of the soldier and the ecclesiastic, whose control extended beyond fighting and religion, to economic life, then mainly agricultural. When the towns (in England, with the assistance of the king), had asserted their independence against their feudal over-lords, the possession of Capital took on a new importance. It became a power capable of moving society by its impersonal force. The accumulation of Capital was facilitated by the discovery of the new world and of an ocean route to the Orient. At first, Capitalist enterprise was subject to control by the State as well as by the local groups, the guilds and corporations whose life it threatened. But in the end it escaped from these controls without precipitating a domestic revolution, because it was able to gain its strength and profits abroad. In the profits of world trade the landed nobility could share without social stain: and from its worst consequences, the horrors of the slave trade, the native workers of England were exempt. Capitalism spent its youth in the exploitation of foreign parts.

This was its first age. We call it mercantilism or merchant Capitalism. The predominance of the merchant, who ventured abroad in quest of new materials and new markets, gave it a distinctive flavour. In this age the trading empire of Britain was born. The English language has no word for *bourgeois*, just because England jumped so quickly from feudalism to world-trade. She had landlords and landlordism, merchants and mercantilism, but no cult of *bourgeoisie*. Foreigners regarded her as a nation of shopkeepers, but they meant merely a nation which claimed to carry and keep shop for the rest of the world.

The second age of Capitalism was industrialism or industrial Capitalism. This age opened with the Industrial Revolution in the first half of the nineteenth century. Geographical discovery was overshadowed by technical discovery, foreign ventures by new machinery. The industrialist in command of machinery driven by power proclaimed a new kind of empire. That country which, first enjoyed it could afford to lose territory. Hence the indifference of Great Britain to the loss of America, and the neglect with which despite that loss, she treated the colonies which remained loyal.

This new empire had a profound reaction on working class life. The first age of Capitalism broke down the comparative equality of gild life, and brought the producer into dependence on the merchant for materials and markets. And yet, though thus dependent, the worker was still a domestic worker, working in his own time; the physical control over him was indirect and unobtrusive. But with the arrival of the factory and large-scale production, the worker became a wage-earner pure and simple. The difference between class and class was more clean-cut; and though the few still rose, the barrier for the majority was impassable. Such massing of workers in factories and plants increased the opportunities for exploiting them. To the black slavery of the West African negroes, deported by physical force to the plantations, succeeded the white slavery of women and children forced by economic pressure into the factories and mines.

The third age of Capitalism is that in which we live. We may call it financial Capitalism, for its distinguishing feature is the power of high finance. The individual employer has now himself a master, the financial syndicate, which is ever at work merging established concerns and planning extensions into foreign parts. Many one-man businesses still survive. High finance consents. They are allowed to grow until they are ripe for purchase. The stronger among them make good terms. The very strongest, (for example, Mr. Henry Ford), defy finance and grow into industrial giants who are sufficient financially unto themselves. The reaction of this third form of Capitalism is not important. It is merely the exchange of an individual master for a group master; and for the work of actual production, the group must delegate its power to an individual works manager. It may even strengthen the worker as a bargainer, because collective bargains are easier to exact from a nation-wide employing group. The biggest reactions are on others:

1. *On those who formerly founded or entered family businesses.* These must now enter the comparatively new class, (as a class,

of salaried management). On the balance, this reaction is not injurious either to the class itself or to industry.

2. *On investors.* This reaction is demoralizing. The orgy of speculation, which in New York to-day disputes with the "movie" the first place in popular excitement, is passive and devoid of constructive stimulus. We need not take the cynical view that the outside investors lose on the balance. For real wealth is increasing fast, and speculation extends to securities both good and bad. The injury is the waste of social effort involved in the scramble for a share in the leavings of high finance, unaccompanied by any positive contribution to the delivery of the product or service in which they speculate. This criticism does not apply to the organized speculative activities of product exchanges.

3. *On the consumer.* The consumer also is becoming more and more passive. He is drenched with standardized novelties. The real strength of the old craft life was the contact between producer and consumer (often indeed, a contact between a poor craftsman and a rich nobleman or ecclesiastical body); and the contact was fruitful of individual variety. But uniformity of consumption is one of the penalties of democracy, and the richest democracy in the world cannot live for ever on the art treasures of Europe. Moreover, the heavy hand of finance extends to letters and sport. The get-up of our newspapers, the broken paragraphs and front-page headlines, are perhaps dictated in part by consideration for the convenience of the reader who journeys to business holding his paper in one hand and the car strap in the other; but the main purpose is to force our attention on the trade advertisements which threaten to subordinate social and political news. For the advertisements make the paper pay. Similarly with our sports. The objection to professionalism is not that some people make a living by it, but rather that the supply of sport becomes a gigantic financial affair. There is a danger that we may abandon good sport because it does not draw the crowd, or that we may be prevented from retracing our steps because of the financial outlay to which the existing sports structure has committed us. Meanwhile, for professional and amateur alike, the vital element in good sport, which is not casualness (for that is bad sport), but ardent and enjoyable team effort, is sacrificed to the autocracy of the sports management with an eye on results.

Thus much on the evolution of Capitalism, first mercantile, then industrial, and now financial. I described Capitalism at the outset as the system that is; but this needs qualification. Though Capitalism is the continuous thread in the economic evolution of

the English-speaking world, naked Capitalism nowhere exists, not even across the border. It is tempered by controls or compensations; and when these involve the outlay of money, the greater part of it has come from the profits of Capitalism,—some part by taxation and another part by gift, for example, the research foundations set up from the fortunes of Rockefeller and Carnegie.

If we ask why Capitalism with its tendency to autocracy is nevertheless endured by communities enjoying public education and the political vote, the answer is, I think, threefold.

1. The growth of private Capitalist enterprise has attended hitherto and indeed made possible a progressive increase in the material standard of well-being. It has led to saving and the productive reinvestment of saving, and thus to the expansion of domestic industry and the provision of capital for undeveloped parts. Saving, lauded by mid-Victorian England as an individual virtue, served in fact a social purpose. It provided the fund by which a continuous growth of population could be maintained without threat to its standard of life. If the workers of nineteenth century England had been strong enough to secure more and spend more, their children to-day might be living in a poorer England.

2. Given political security and stringent property laws, private Capitalist enterprise performs much of its work automatically by reference to the list of market price. The enterprise which makes profits grows; that which makes losses dies. It was this automatic control which Adam Smith glorified under the title of the Invisible Hand, and which the classical political economy reduced to dogma in its Laws of Supply and Demand. Even that part of economic control which was not based purely on profit and loss, e.g. the Discount Policy of the Bank of England before the war, was the outcome of silent adjustment which defied formulation. After the war the Bank's difficulty was not merely to decide upon a credit policy, but rather to impose it in such a way that the credit system of the country could be guided without an open display of currency and credit management.

3. Private enterprise has been restrained by a variety of controls, some self-imposed, some imposed from without, and by a variety of compensations, of which some, like progressive taxation, involve the redistribution of wealth. Others, like the co-operative movement or the public ownership of public utilities, curtail the field of private enterprise.

In its dealings with Labour, the self-imposed controls of Capitalism range from a generally decent treatment to an upper range of generosity which is sometimes called economic chivalry. It is a

recognition by the employer of his social responsibility: in its advanced form it is an attempt to create in the industry a fund of mutual trust and enthusiasm out of which a surplus of prosperity can be created and shared with the workers. Robert Owen, the model employer of New Lanark, was the first great Knight of Industry, and he has had notable successors, among whom the Quakers as a body stand out in England to-day—for example, the Cadburys of Bourneville and the Rowntrees of York. But the policy of generosity is viewed with suspicion by Labour. First of all, it has sometimes been insincere—an attempt to keep the union out, rather than to put chivalry in. Secondly, even where genuine, it cuts into the class loyalty of the workers. This loyalty,—a control imposed on Capitalism from without—was built up in the days when Capitalism was working havoc. The unions did noble work then; what is their future, if the class struggle ceases as the result of the employers meeting them half-way? Generous employers recognize the dilemma in which the trade union is placed; and disheartening as many of their efforts towards the reaction of job enthusiasm has been, they admit that in Britain, at any rate, trade unionism cannot be silenced without the loss of industrial *morale*. The problem is to find a frame-work within which the two loyalties, the job loyalty and the class loyalty, can act together. It is hoped that this will be found in the joint industrial council which will be something more than a wage-bargaining body. But positive constructive effort for the improvement of the industry will not go far unless the trade union demand for a minimum is admitted as a basis. Great Britain stands midway between Europe and the U. S. A., between the low labour rates of the one and the mass machine production of the other. Only when the solution of present difficulties by greater wage reduction has been removed by the acceptance of a minimum, fixed at not below pre-war standards, does there seem to be any real chance of drawing the unions into positive co-operation. It means, for them, not merely a change of heart, but also a change of work-shop practice to which they are strongly attached. The danger, in fact, in Great Britain to-day is conservatism, degenerating into syndicalism (obstructiveness, "ca'canny," the irritation strike) much more than radicalism exploding into revolution.

But the experience of the National Institute for Industrial Psychology is hopeful. This body in all its work emphasises the interest of the worker and the relief of the strains to which he is exposed. It makes experiments in particular firms at the invitation of the employer, and as a first step, secures the co-operation

of the trade union. This obtained, the workers give their enthusiastic report. Close study by the experts of the Institute has shown how in big restaurants breakages may be reduced 50% by simple devices which eliminate noise and bumping, how in mines output may be increased 20-30% by superior manipulations of the miners' tools and lamps, and so on. And if we remember that the better firms alone have invited these experiments, we can see how great is the field for improved output, if co-operation can be secured.

In addition to controls, there are compensations. One such is public education. Of itself, education does not reconcile the worker to Capitalism. It is at least as likely to irritate him to revolt as to enlighten him into acquiescence. And therefore financial newspapers frequently point the finger of warning at professors of economics whose lot, it seems, is to be denounced by working-class audiences as *bourgeois* and by such newspapers as red or at least pink. But education, as a national programme, carries with it child welfare, and contact with the conditions under which young persons enter the labour market. In North Carolina, a region of abounding material prosperity, trade unionism is almost non-existent; the presence of white and coloured prevents its growth, and increases the peril of class friction. Nevertheless, Capitalism does not go unchecked; and the counterpoise is coming from the school authorities, trustees and teachers alike.

Finally, among compensations, there is the big field of alternatives to private Capitalist enterprise. It was once assumed that private enterprise was always, of necessity, superior to the effort of co-operating groups or of the State; and the reason given was that private enterprise operated under the stimulus of competition. But, owing to the integration of modern business, competition no longer does its purging in the old-fashioned way. Its action may be so violent that the State has to intervene to avert a smash, financial or social. We are therefore entitled to go deeper, and to ask what are the functions which private Capitalist enterprise is required to render. In a progressive society, these functions are twofold, adjustment and innovation; and both involve the assumption of risk. But the element of risk is not independent of social institutions. Grouping may be discovered in which this element is lessened. For just as the element of class friction is a factor of inefficiency, so also is risk to the degree to which it is dispensable. Let us apply this consideration to the co-operative movement.

Among retail shopkeepers, one of the few fields in which small-scale enterprise persists, the mortality is very high. Their

number is excessive, their clientèle is very fluctuating, and yet, in the aggregate, nothing is more regular than the workers' consumption of the necessaries of life. The British working class has found a method of attaching this custom to itself by the formation of co-operative stores. A co-operative store is not only a retailer, but also by federation a wholesaler, a manufacturer, a farmer, a banker and an insurer. It is a non-Capitalistic organization in the sense that, after a fixed payment of 5% to capital, the surplus is returned to its members in proportion to their patronage. The members of the co-operative stores achieve three things:—

1. They contribute something which costs them nothing—their patronage; and this makes an asset of the fact that they have regular wants to satisfy.

2. They control the business themselves, employing, of course, a salaried management; and therefore, as consumers, they play an active rôle.

3. They possess in their patronage dividend a democratic device which avoids the clash between profit for the shareholding few and service for the consuming many.

No one will dispute the high efficiency of the big departmental stores on this continent; and yet, if something of the same nature can be provided by the organized consumers for themselves, is there not here an immense social gain on balance? There is no greater stabilizing force in Britain to-day than the consumers' co-operative movement, which with its four and a half millions of working-class members, representing a consuming population of 12-15 millions, does a business of 165 million pounds a year, and employs in its shops and factories a labour staff of 185,000. As a co-operative consumer, the British working man knows only too well the difficulty of employing labour without incurring labour trouble.

So too with farmer's co-operation, the counterpart of consumer co-operation among industrial wage-earners. In the Canadian West there is a clamant desire for economic stability. To that end, the farmers demand some degree of control over their economic destinies. If they are to continue producing as small farmers, they must join together for the discharge of the commercial functions of buying and selling. Only thus can they hold their own against big industry. Only thus, in an age of rapid industrialization, can they maintain their *morale* as agriculturists. If co-operation fails to preserve the balance between town and country, there will be attempts to restore it by drastic and costly inroads into the legislative field.

The public ownership of public utilities is a problem in which the province of Ontario is vitally interested. At the end of 1923 the hydro-electric system of the province of Ontario represented a total capital investment of 178 million dollars, the various municipal distributing systems a further 62 millions, making 240 millions in all. (In addition, the Toronto Transportation Commission, one of the chief users of this power, has a capital investment of 50 millions). Hot controversy has gathered around the policy of public ownership. To Mr. Secretary Hoover it is an "economic patent medicine" from Europe, and to the National Association of Railway and Utilities Commissioners of America it is "nothing short of communism, anarchy and Bolshevism" (C. D. Thompson, *Public Ownership*, p. 424). Yet, for Tory Ontario and Torier Toronto, there is certainly no going back. The case for public ownership is often overstated. It is not true that a private company is incapable of rendering efficient service in any part of this field—witness the C. P. R., and the Bell Telephone Company of Canada. But it is true that there are arguments in favour of the public ownership of water power, and the use in total transportation, if certain difficulties can be overcome.

The arguments are these:

1. The water power of a province is a limited natural resource.
2. Its distribution and its use in local transportation are monopolistic services.
3. In view of the above, and of the constant pressure for extended service, there is great need for a single co-ordinating authority which will plan ahead.
4. If a chain of services is in public hands—e. g. the generation of power, its distribution, and its use on street car service—the links in the chain make good bits. A common pool of experience and personnel is found.
5. No doubt a private authority, if given a sufficiently wide franchise, *might* be as efficient. But democracies will not grant these powers if they can help it; and the restrictions they impose militate against the efficiency which is theoretically obtainable under private enterprise.

The difficulties, which are more formidable at the outset than later on, are—

1. Private enterprise has behind it a better business tradition. Public enterprise has to wear down the evil memory of the spoils system in politics. But the growth of scientific management and of exact costing and accounting is providing objective standards of efficiency which are more accurate than the old rough and ready

test of dividend-earning capacity, and which furthermore act as a barrier to political jobbery.

2. Private enterprise, as a matter of history, is usually first in the field. Public enterprise, therefore, has to start by buying it out. This involves the possibility of injustice to the original investors, and of still greater injustice to the public, if there is a wide discrepancy between arbitration value and "economic" or earning value.

Is it sound that a public authority, through the interposition of the province or municipality, should be enabled to borrow at lower rates than are possible to a company operating under a franchise? This depends on whether the authority is keeping to the field in which, as owner or consumer, it has special structural advantages. Against the risk that a public enterprise can in the last resort fall back upon the taxpayer, we must set the fact that, whereas the share capital of a privately-owned corporation is perpetual, the investment in a publicly-owned institution must be entirely repaid by way of Sinking Fund and Serial Debenture Redemptions over a period of years.

Finally, are the services satisfactory as to quality and price? The present rate for electric power for domestic purposes is just under 2 cents per k. w. hour, as compared with the old rate of 8 cents under private ownership. 7 cents per k. w. hour is a common rate in the U. S. A. The present street car fares are higher than in 1921, but the area served is double. Of 24 cities in the U. S. A. and Canada served by one street railway system, and having a population of 250,000 or more, 17 charge higher fares than Toronto. The quality of the cars is admittedly very high. To sum up, the public ownership of certain public utilities curtails the field of private Capitalist enterprise. But these are not necessarily the thin end of a wedge of general State Socialism. We should aim at a balance; and there is more likelihood that private enterprise will be given full scope in the fields proper to it, if it is counter-balanced by public enterprise in those fields where the latter is superior or equal. I reject the view that the making of profit is incompatible with the rendering of service; but I reject equally the view that private enterprise has a vested interest in the furnishing of communal wants.