

## VII

# *The Social Control of Business*

IN the free market economy the activities of business men are controlled by the pressure of competition.) It is competition that forces them to follow demand, competition that enforces efficiency, and competition that keeps profits low. In this, as in other respects, (the market economy cannot do its job if it is checked by inflation, for inflation creates a sellers' market, removes the control of demand, encourages waste, and causes profits to rise faster than wages. In this, as in all else, the first principle of planning is to have neither too little nor too much money in circulation.)

(If the level of monetary circulation is just right profits will be 'normal', that is they will be no more than is needed to induce business men to offer full employment.) The word 'normal' carries no moral significance. Socialists think that the level of profits that is necessary to ensure full employment is too high, and gives to business men too large a share of the national income for what they do. They are then tempted to reduce profits by raising wages. But, as we have already seen in Chapter II, (raising the general level of money wages merely raises the general level of prices. And if prices are controlled and wages raised relatively to them we both cause unemployment and distort the structure of production. The smooth way to increase wages relatively to profits is to put low taxes on wage earners and high taxes on large and on unearned incomes. The income tax is a wonderful invention because it does the same job that the trade unions wish to do without the evil results, for the simple reason that it does not enter into costs, and so has only small effects on entrepreneurial decisions as to employment. And also, more fundamentally, the way to reduce profits, in the long run, is to ensure equality of opportunity. If everyone in the community had the same sort of opportunities

of becoming an entrepreneur, business men would not earn more than anyone else. The way to control profits is to subject business men to as much competition as possible.)

These wider issues we have already discussed. (What concerns us in this chapter is only what happens within the framework of normal profits; for even on this narrower ground the claims of competition do not pass unchallenged. Its enemies assert first that it is not fully effective in spurring business men to efficiency, secondly that their response to it is frequently on the contrary to behave wastefully, thirdly that competition is ruinous, and fourthly that it is in any case self-destructive.

#### PRODUCTIVITY

Efficiency depends in the first place upon research, and upon its application. Competition stimulates research, but since only the largest firms can afford fundamental research, the result, in some industries, is to increase the advantages of large firms and to diminish the prospects of competition; and in other industries predominantly small scale, the result is that little research occurs. One remedy for both of these is cooperative research, which has been officially sponsored and assisted in this country for the past thirty years. Everyone agrees that cooperative research should be on a larger scale, and many think that every firm should be made to contribute, since all may benefit, and that as much emphasis as possible should be placed on cooperative at the expense of private research, so that new knowledge may be made available to all.)

The imperfection of competition also reveals itself in the coexistence of firms differing widely in efficiency. Doubtless there is a tendency, in the long run, for the more efficient to drive the less efficient out of business, but it is even better, and may be quicker, to increase the efficiency of the latter by instruction. In agriculture, normally a most competitive industry, no one believes that competition alone is adequate to ensure efficiency; there is, on the contrary, in every country an elaborate system of advisory services placed at the farmer's disposal, and subsidised from public funds. Industry needs such services no less.

We have selected here only two of the services which a Development Council ' might usefully supervise, and for which

funds may justifiably be levied compulsorily upon industries. It is not, naturally, easy to get such councils accepted; the bigger and more efficient firms see no gain to themselves, but only the expense of levies and the prospect of more effective competition; the smaller firms often do not feel the need for the services they are to be offered; and existing associations resent the intrusion of new bodies. It may seem useless to force upon industries services which they have determined to resist; but, once the deed is done, and the services become available, resistance frequently ends, and the new institution is accepted, and if it proves its worth, is eventually proudly cherished.

We have become aware recently how much productivity could be increased with existing plant and labour, simply by improving the organisation of work in the factory. There is partly a matter of improving management, through the training schemes and the advisory services of development councils. But it is also partly a matter of securing the agreement of workers to discontinue restrictive practices, tacit or expressed.

(Production would increase if workers would work harder. This is quite a different issue. There is no case for trying to force people to work harder, or to work longer hours.) Doubtless if they did they would have a higher standard of living, but they would also have more wear and tear and less leisure, and the purpose of life is not to wear oneself out in toil for material standards. Doubtless, too, if full employment were removed, and the insecurity and fear of dismissal hung once more over the workers' heads, they could be driven in many directions. But it is not consistent with democracy to force people to have a higher material standard by holding a whip of fear over their heads.) If full employment causes productivity to fall, then this is part of the case for full employment, and not of the case against it; for it emphasises that it is only in full employment that the workers get a real choice between extra income and extra leisure. (All the speeches urging the workers to work harder are so much wasted breath.) The fact is that the workers on the whole do not like the sort of jobs they have to do, and when they get the chance to take things easy, which is presented by higher hourly earnings and by full employment, they take it. Those of us who have 'cushy' jobs—politicians, professors, clergymen, newspaper editors and the like—may think that this

is wrong; but it is only natural, and no amount of preaching is going to change it.

(The real issue is not to get people to work more or harder, but to get their agreement to working more effectively.) Through fear of unemployment the workers have imposed many restrictions—on the number of machines each worker shall tend, on the introduction of new machines, on the use of incentive wage systems, on the maximum daily output per worker (usually only by tacit agreement) and so on. These will disappear when the workers are fully convinced that full employment has come to stay, but not till then.) Those who grumble because our productivity is low should determine all the more to maintain full employment, which alone in due course will make possible the most effective use of our resources.

(Progress in this sphere depends also on the internal atmosphere of the business unit. The worker will give his best only if he identifies himself with his working unit, and has towards it sentiments of pride and of loyalty. This is largely a matter of the personal relations between management and managed, but it depends also to some extent on securing to workers some participation in management.) The importance of this is both exaggerated and underestimated. In a large firm the vast majority can play little part in management; the workers may elect delegates, but the workers are by definition so numerous and the delegates so few that the election interests only the active minority. (What is missing in the large firm is personal contact between management and managed, and for this participation in management through delegates is but a poor substitute.) On the other hand, it can be better than nothing, especially if a large measure of decentralisation is possible, so that the units of decision are numerous; then there can be numerous opportunities for worker participation, and correspondingly more delegates. Experience shows that, once the atmosphere is right, all questions of internal discipline, punctuality, absenteeism and so on can safely be left to the workers themselves to regulate, through their committees, and that there is no part of the managerial problem which does not become easier if the workers are taken into full consultation. There have also been striking results in the U.S.A. from giving the workers a fixed share of sales, basing this on the fact that the

share of wages in production changes very little, either in short periods, or over many years; when the workers know that they get a fixed percentage of what they produce)(the appropriate figure varies from industry to industry, according to the importance of raw materials and of amortisation of plant),(however much or however little they may produce, their attitude to their work becomes very different from what it is when they are working for fixed wages. In this and other ways we may seek to create a sense of community and responsibility in the industrial unit, so that men may take a full pride in the work that they do. )

(In all this we are still at the stage of experiment, and the best contribution that a government can make is to experiment in its own nationalised undertakings and so try to give a lead to private industry. This is not a field where legislation is very helpful, since success depends primarily on good personal relations.) Moreover if worker participation in management really increases productivity, the firms that practise it will, in competition, make headway at the expense of those that do not; and, in full employment, the reluctant firms will be ground between this competition and the strong bargaining pressure of workers seeking in collective agreements to secure fuller participation. An enormous increase in productivity is possible as soon as the workers become interested in this subject and start bringing pressure to bear on the less efficient firms to improve their methods.

(In this sphere the major responsibility rests with the trade unions. The lead they have given to the working classes in the past has been restrictive and destructive.) They have sought to protect vested interests because the insecurity of the economic system gave such protection the first priority.(If we can demonstrate that full employment has really come to stay, and also that extra production will not be used just to make the rich richer, the engines can be reversed. The rank and file can learn to take a pride in output, and energies now distorted and frustrated can be released and directed to the great task of abolishing poverty by producing more.) Trade unionists can become authorities not only on wages and conditions, but also on managerial techniques and on productivity, and can bring their great pressure to bear on inefficient firms that are wasting

men's labour.) Collective agreements may come to include important clauses binding the employer to use up-to-date methods. Joint production councils, which are in danger of being no more than a drag on industry as long as working class leaders are not really interested in questions of production and have little to contribute on them, can spring to life, and really do the job for which they are designed. We are still a long way from this, but it must clearly be our objective.

#### WASTEFUL COMPETITION

(In all that we have discussed so far, competition is working in the right direction; that is to say, however slowly, it is working on the side of efficiency. It may, however, work the other way when markets are imperfect. For then the seller, instead of trying to sell as cheaply as possible, may rely instead on differentiating his product from that of his rivals. This differentiation may be costly. The consumer is inconvenienced if the absence of standardisation makes it difficult to secure spare parts and other accessories easily; marketing costs are high; firms are too numerous and too small; and factory costs are too high. Competition works well if it encourages more people to produce a standard article, but it begins to be costly when, through market imperfection, it results in differentiation of product.)

(There are forces at work in the market that restrain this process. If any manufacturer thinks that standardisation will greatly reduce cost, he is at liberty to take the plunge—it is this that made millionaires of men like Henry Ford.) And if it is an article in daily common use, the growth of large scale retailing—the Woolworths, the multiple shops and so on—provides an outlet for orders by the million. With most of the things in common use the market forces are strong enough to exploit all the economies of mass production. Where the case is more doubtful is with articles that are as yet within the reach only of the middle and upper classes, where there is good technical reason to think that costs would fall greatly if production were standardised. The motor car is an outstanding English example, but there are also a few others, such as refrigerators or television sets.

There is also a case against standardisation, namely that it puts a straight jacket upon an industry, and checks the speed at which new improvements can be introduced.) This applies equally to 'utility' specifications, and to proposals that Government departments should place large bulk orders for resale to retailers; though in truth no more harm is done by government standardisation than is done by the standardisation imposed by securing a mammoth Woolworth order, provided that the government's specification is as responsive to changing conditions as is Woolworth's. The moral is that (compulsory standardisation should be applied sparingly, and flexibly, in such a way that new ideas and new designs can still be introduced and find scope for experimental use and improvement. Standardisation should not be applied where technical progress is fairly rapid, and should not be applied where it may have adverse effects on export trade.) The best agency for deciding when to effect compulsory standardisation is a Development Council representing all sections of the industry and the public.

(It is the absence of standardisation that causes excessive expenditure on advertising and sales promotion, and if the root cause is controlled there is no need for special action to deal with effects. Where compulsory standardisation is desirable and is applied, further control of sales promotion activities will not be necessary. Where standardisation is not desirable it is *ipso facto* desirable that the existence of a wide range of varieties should be made known, and therefore expenditure on sales promotion is in the public interest.) If special restrictions of sales promotion are considered desirable, they should be left to voluntary arrangement at the instance of Development Councils.

(Absence of standardisation is also the secret of waste in wholesale and retail distribution.) The large organisations in distribution, such as the multiple shops and the co-ops, flourish by concentrating on a limited range of articles and doing a big trade in them; while the inefficiency of some of the small retailers is due to their trying to cover too wide a range. Progress in distribution will occur both through the further extension of large scale retailing at the expense of small scale and through the improvement of the latter. Experience in the U.S.A. shows that the key to the success of small scale retailing

is cooperation; taking the form of cooperation between a number of independent retailers and a wholesaler to ensure the fullest benefits of standardisation and bulk-buying; this system has worked wonders in the U.S.A. for the small retailer, and could do the same here. But retailers will not adopt it so long as there is available to them the alternative but illusory protection of resale price maintenance, which, in so far as it fixes a minimum price below which goods must not be sold, has been one of the principal sources of waste in retailing. This system should be prohibited by law. The small retailers would then have to set to work to improve their efficiency by legitimate means, especially by cooperation in buying and merchandising, and one of the restraints which now prevent the expansion of efficient forms of retailing would be removed. (The special interest of socialists is of course in the further expansion of the consumers' cooperative movement. This movement is disappointing in the sense that the trade it does is not commensurate with its membership of over 10 millions, for the simple reason that the members do not find their own shops competitive except in a small part of the retail trade. This should be a standing challenge to the movement, but it is not, because the leaders of the movement seem more anxious to increase the number of names in membership books than to widen the range of goods which existing members find competitive. To the socialist the reform of distribution must mean first the reform of the consumers' cooperative movement. This is a difficult task, and to discuss it fully would take us beyond our terms of reference, which is the sphere of government planning. We can say only that if the movement cannot be reformed in such a way that it becomes competitive and secures the larger part of retail trade, the Government must look to the development and extension of other forms of mass retailing in the spheres where the cooperative movement is failing.

#### RUINOUS COMPETITION

The general level of profits, we have already seen, depends not on competition but on the circulation of money. Profits are low if there is less than full employment, high if there is inflation, and normal at full employment. Competition cannot



be ruinous either to profits or to wages so long as the monetary circulation is right.)

(This, however, refers only to general levels. Competition can be ruinous to particular groups in the sense that it causes their earnings to fall far below the general level; in doing this it must raise the earnings of other groups, but the fact that others are better off is not of much consolation to the particular group ruined by competition.)

(This phenomenon of ruinous competition, driving some earnings below the general level, is the result of immobility. If resources were not immobile, their owners would not remain in the group that is subjected to this strain; they would rapidly disperse elsewhere, and as the supply to this group diminished, earnings would return to normal. It is only when resources are very immobile and subjected to a large adverse change that the phenomenon of ruinous competition appears. Between 1920 and 1939 many of the old staple industries of Britain suffered this fate, especially coal, cotton, steel, shipbuilding, and agriculture.

(If the immobile resources are left to their fate they will eventually disperse elsewhere) the more rapidly if the circulation of money is adequate to provide full employment for all (the long drawn out process in Britain between the wars was due less to immobility and more to the absence of a full employment policy). (But if they are very immobile, special measures are required. In the first place, we can no longer tolerate the spectacle of citizens subjected to years of agonising ruin simply because demand for their services has altered, without doing something to bring their agony to an end. In the second place, it is wasteful for resources to remain where they are not very valuable, and we should facilitate their transfer. And in the third place a long drawn out agony is literally ruinous to an industry.) It may be that only 10 per cent of resources is in excess, but the whole industry makes losses, funds are not set aside for renewing and improving the 90 per cent of plant that is needed, and the industry falls behind technically; at the same time young men avoid the industry; its age structure is distorted; and it acquires an evil reputation which works against new recruitment when the state of surplus gives way to that of shortage. All our old industries, now short of labour and

burdened with obsolete equipment, are suffering from having been too long left to the agonies of ruinous competition.

The industry's own remedy in this situation is to end competition. If supplies are restricted by quota, prices can be fixed high enough to give reasonable profits and wages; they can even be fixed high enough to give abnormal profits, though in practice there is no danger of this. The objection to this solution of the problem is that it does not deal with the fundamental cause of trouble, which is the excess of immobile resources. What is needed is a scheme to facilitate mobility, and though it is justifiable in the meantime to prevent earnings from falling to ruinous levels, the emphasis should be on mobility, and protection should be the subsidiary and temporary part of the scheme.)

#### MONOPOLY

(At the other extreme we get the case where a particular group is able to receive abnormal earnings, which, if there is neither inflation nor deflation, must be at the expense of the rest of society. This again is due to barriers to mobility.) The abnormality may be temporary. If there is a sudden increase in demand or fall in supply the group may receive abnormal earnings until such time as extra resources are drawn in and prices and earnings fall to normal level. If the commodity is essential we may then have price control and rationing, and, if we are sensible, also special inducements to facilitate mobility and restore supply to a normal level. In a competitive market supply will always expand, until demand is satisfied at a price equal to normal cost of production. (We call monopoly the case where additional resources are prevented from flowing into the group and bringing earnings to a normal level.)

The normal way to deal with monopoly is to remove the barriers to the flow of resources on which it depends. Where monopoly is due to denial of finance to competitors, the remedy is a finance corporation. Where it is due to securing price discrimination against rival suppliers, the remedy is to outlaw discrimination. If it is due to abuse of patents, to trade boycotts, to exclusive agreements, or other loopholes in the law, the remedy is to reform the law. This has been one of the purposes of American anti-trust legislation, and this part of the anti-trust

law has been highly successful. In this country we are proceeding more slowly; we are not passing general legislation outlawing monopoly practices, but shall investigate each industry, and make orders applicable only to one industry at a time. This slowness is due in part to believing that monopoly can be conquered simply by publicity; and that therefore when a practice is outlawed in any one industry business men will abandon it in all others without waiting for a commission to get round to them industry by industry. Such faith seems somewhat naive; sooner or later we too, in the U.K., will pass general laws outlawing monopoly practices.

(But not all monopoly can be dealt with by changes in the law. For example, where monopoly is based on owning all the supplies of a mineral the law can do nothing to make competition. So also where the monopoly is based on the economies of large scale production. There are even cases where monopoly should be encouraged. This is so wherever it is thought that unified control is necessary in order to minimise costs; and also in a few cases where the market is small and the risks so great that no one will provide a supply unless given at least temporary protection.

Where competition cannot be enforced, or where monopoly is actually desirable, what we need is not attempts to promote competition, but the control of monopoly. This is done by legislation fixing prices or profits, laying down the conditions of supply, and establishing a controlling tribunal. It is not essential that monopolies be nationalised, and whether they be nationalised or not, the same machinery of control is needed in order to protect the public. Of such machinery there are many examples in all democratic countries, where there is long experience of public utility control. Democrats make much song and dance about monopoly, but to deal with monopoly is one of the easiest problems of planning

#### CONCLUSION

We may summarise as follows:

(1) Efficiency demands research, advisory services, and some measure of standardisation. In Britain the best way to work for each of these is through Development Councils.

(2) Efficiency depends on enlisting the pride and cooperation of all the workers in a business unit. Government can give a lead by experimenting in nationalised concerns with worker participation in management and with new forms of wage contract.

(3) Ruinous competition should be prevented where resources are very immobile, and deliberate dispersal should be pursued.

(4) Monopolistic practices that prevent the free flow of resources should be outlawed.

(5) Monopolies based on the economies of large scale production, or temporary monopolies granted for special reasons, should be controlled as to price, profits and conditions of sale.