# the IPA review

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# CAPITALISM: THEN AND NOW!

*"Capitalism has developed into something that neither Karl Marx nor Adam Smith ever dreamed of."—Fortune, February,* 1951.

MUCH present-day thinking on industrial problems is distorted by the emotions aroused by a social order that is now no more than a museum piece. Capitalism or Free Enterprise 1950—or whatever one prefers to call it—no more resembles Capitalism 1900 than the original T-model Ford resembles the latest Custom-line. And yet union leaders, churchmen, politicians and even some economists persist in discussing the economic system of today as if it bears a close affinity to the 19th Century system, and as if the last half century had produced no changes of fundamental importance. The 1950 economy is assailed as if it possessed the same inequalities, the same harsh injustices, the same moral and structural defects, and the same restricted philosophies of business and government as the economy of fifty or more years ago.*

People rarely see what is happening before their eyes and the revolutionary changes that have occurred in the economic system in this century have escaped the attention not merely

*A recent and prominent example of this was an article "Christianity v. Capitalism," by Mr. D. Lovegrove, Federal President of the Australian Labor Party, that appeared in the Melbourne "Herald" of the 11th July.

of very large numbers of ordinary people, but even of some businessmen and labour organisers.

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What were the salient features of 19th Century Capitalism?

The mass of the people dwelt in conditions of appalling poverty. For most people it was a struggle to keep alive. There was little time, energy or financial surplus available for recreation and enjoyment. Hours of work were long. Wages were low. In England, women and children were employed in coal mines; children worked in textile mills for 12 to 15 hours a day. Labour was little more than a beast of burden. It had no status. There were no highly organised trade unions and the individual worker had little or no protection against his employer. Social services were insignificant in extent. The individual worker was at the mercy not merely of his employer, but also of the trade cycle, and he could at any time be dumped on the scrap-heap of unemployment without any outrage to the social conscience of the times. The modern concepts of economic security and full employment were unknown and governments recognised little or no responsibility to provide for either.

THERE were many enlightened employers, but there was also widespread greed and irresponsibility. The pursuit of personal profit was the exclusive pre-occupation of the businessman and this was justified by the accepted economic and political theories of the day. This did not, of course, mean that the majority of employers were devoid of humane feeling. It meant rather that they were victims of a political and social ideology sanctioned by the generally accepted thought and standards of the times.

Wealth and security on the one hand contrasted with great hardship and insecurity on the other. *But the extreme inequality in possessions and incomes was not the chief cause of the penurious conditions of the wage-earners. The predominant cause was that insufficient wealth was produced to provide the toiling millions with a decent standard of life.* The real cause was low productivity. And where productivity is low, wages must be low and hours of work long. Production was low because industrial technology was in its infancy and because capital equipment was both inefficient and insufficient. On many tasks the worker's back had to carry the burden now carried by the machine; and where machines were used they were pitifully inadequate by modern standards. The conditions of the farmer who worked for himself and tilled the virgin soil were often little better than those of the factory employee. The application of science and technology to industry was in its infancy. The scientific planning of production processes was virtually unknown.

Of course this was not the whole story. In spite of all, progress was being made. Surely, if gradually, social conditions were improving. The foundations of 20th Century industrialism were being established. Modern industrialism was in its birth pangs. In the circumstances of the 19th Century, the accumulation of capital was a necessary prerequisite to better conditions of life for the masses, and to some extent this was aided by the very inequalities that existed. The wealth and savings of the fortunate few were ploughed back into industry with beneficial results for all.

The shocked outcry of humanitarians and, in this country, the activities of such bodies as the Anti-Sweating

League, the introduction of social legislation especially that concerned with conditions of work and employment, and the steady advance of applied science, gradually brought about an improvement in the lot of the workers and the elimination of the more glaring abuses; but, even by the end of the 19th Century, in the highly industrialised countries, poverty, disease, and insecurity were never far from the doors of the great mass of the people.

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HOW does the economic system of today compare with the industrial and social order just described?

The most obvious difference is the vast improvement in the material circumstances of the working population. Real wages are very much higher. Hours of work are very much shorter. Working conditions have improved out of recognition. In most industries the back-breaking tasks have been transferred from man to the machine. In cleanliness, ventilation, lighting, amenities, recreational facilities, safety precautions, the modern factory bears no resemblance to its 19th Century counterpart. Annual leave, and, in some countries, sick leave are universal. Social services concerned with health, housing, and education and cash benefits to assist the unemployed, the aged and the family man, have become a major pre-occupation of all democratic governments.

But, as most things are relative, just as important to the contentment and peace of mind of the wage-earner as the improvement in his *absolute* standards of life, may be the improvement in his *relative* standards. The gross inequalities of income and wealth of the late 19th Century have been erased. Karl Marx, of course, predicted that this was impossible in a capitalistic society. He predicted that the rich would get richer and the poor get poorer. In fact, the reverse has occurred. The rich have become very much poorer and the poor very much richer. It is interesting to speculate whether, if Karl Marx were alive today, he would still see the pathway to a better life for the common man in the "class struggle" and the overthrow of private capitalism.

The grand old man of Australian statistics, Sir Timothy Coghlan, estimated that, at the turn of the century, the top 5% of income earners in Australia received 40% of all incomes. Official statistics show that today the share of the top 5% has fallen to 20%. And this is before tax, amounting to 15/- and over in the £ on the highest incomes, is deducted. After tax, the relative share of the top 5% would be reduced to about 17%.

But the re-distribution of income is not perhaps so significant as is the vastly wider spread of capital possessions. 19th Century industry was owned by comparatively few; the ordinary man was divorced from ownership; he had little stake in industry and consequently he shared only to an insignificant extent in its profits. *19th Century capitalism was distinguished by the fact that there were few capitalists. The capitalism of today is a people's capitalism.* Of 3½ million people engaged in Australian industry, ½ million, or one in every seven, own shares in public companies and thus participate in their profits. A substantial proportion of these are ordinary wage and salary earners. But that is by no means the full story. Hundreds of thousands of people owning no shares nevertheless participate in industrial profits through the savings they have invested in insurance policies and in provident and superannuation funds. It would be safe to say that today only a small minority do not share in some way in the profits of industry. *The 19th Century picture of a comparative few wealthy capitalists seizing for themselves the great part of industrial profits bears no relationship whatever to the facts of the middle 20th Century.*

ALTHOUGH this transformation could not have occurred without a striking advance in the standards of living of the mass of the people, which made it possible for them to put something aside out of their current earnings, it could also not have occurred without a fundamental change in the character of industrial organisation itself. Until quite late in the 19th Century "big business" was often dominated by the great individualists such as J. P. Morgan and John D. Rockefeller and by family groups who built up and personally controlled industrial empires of vast extent. But the progressive extension of the principle of public company organisation has helped to alter all this. Ownership, instead of being concentrated in a few wealthy individuals and families, is now dispersed widely through hundreds of thousands of shareholders.

For example, Standard Oil of New Jersey, but one of the many corporations broken off from Rockefeller's original Oil Trust, now has 254,000 shareholders, none of whom owns more than 3% of the total shares. Holdings of the 14 directors amount to only 0.1% of the total share capital. The original Bell Telephone Company is now owned by 1,100,000 different shareholders, of whom 200,000 are employees of the Company. The biggest holding amounts to less than 1% of total holdings. Ownership of Andrew Carnegie's mighty steel empire is now diffused among 272,000 shareholders.

In Australia, the original syndicate which formed the B.H.P. has been transformed to a vast enterprise owned by nearly 35,000 shareholders. Australia's largest trading bank, the Bank of New South Wales, has 13,000 shareholders. 73% of holdings are small investments of 25 shares (£20 denomination) or less. The Bank's Deed of Settlement (articles of association) specifically provides that no one person shall own more than 4% of the shares. Dozens of Australian companies have over 10,000 shareholders. Typical of medium-size concerns is the Sydney department store, David Jones Ltd., with 3,500 shareholders. Sir Charles Lloyd Jones, present Chairman and grandson of the first proprietor, owns less than 5% of the ordinary capital.

In 1889, industrial companies listed on the Melbourne Stock Exchange numbered 43 and their combined capital totalled £3m. Today, the industrial listing contains over 500 companies with share capital nearing £500m. Anyone with savings can, if he wishes, buy a share in the ownership of these companies.

WITH dispersal of ownership has gone a dispersal of control. Real power and authority in the majority of big industries today rarely rests with some giant personality. Nor does power, in the strictly practical sense, entirely rest with the Board of Directors. It rests with the management, the representatives of which often have little or no financial stake in the profits of the companies by which they are employed. Rarely are they wealthy individuals. The main source of their livelihood is their salary. Moreover, unlike the "industrial monarchs" of old, they are not concerned almost exclusively with the interests of a few shareholders. Industrial management now gives prior concern to the interests of the employees of the enterprise, partly because it realises that the contentment and goodwill of the working force are the most important capital assets the business can have.

In addition, the management of the large business should, and generally does, pay the closest regard to the impact of its policies on the public and on the general national interest. *The old "public be damned" philosophy has no place in the psychology of modern industrial management.* This change has come about not merely because it is good business to cultivate public goodwill, not merely because of the realisation that what is in the end good for the nation must be good for business, but also because of the growth of a "social conscience" among businessmen themselves. The business leader today must be, and in many cases is, much more than a businessman. He must have a working knowledge of economics and of the industrial and social environment within which his industry is required to operate. He must have a close knowledge of public opinion and of prevailing political tendencies. At his best he should be a leader of public thought on economic and industrial issues. Frequently he gives liberally of his time to national affairs and sometimes is called aside from his main occupation in life to undertake work of high national importance. The "J. P. Morgans" have been superseded by the "Paul Hoffmans".

ALL this means that industrial leadership has become democratised. The big businessman of the 19th Century could operate behind closed doors in an atmosphere of the strictest secrecy. Today, big business must operate in the open light of day and in the revealing glare of modern publicity. The rugged individualists of the last century hardly gave a hoot for public opinion. Modern management must have its finger constantly on the pulse of public opinion. In his relationship with labour the businessman of the 19th Century was near supreme. If he decided to dispense with the services of a few hundred men at short notice that was his affair. Today, he would feel compelled to provide the public with the fullest explanation of his action, and even then it would have industrial and economic implications stretching far beyond the confines of the business directly concerned. When the businessman of the 19th Century trampled ruthlessly on his competitors, sometimes with methods of dubious morality, that was more often than not attributed to superior business ability. Today, public opinion would be outraged. A half century ago business could do virtually what it liked, free of government interference or control. Sometimes it even controlled the government. Today it is subject to legal restrictions and provisions which affect almost every aspect of its operations.

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BUT the most far-reaching change of all, and one that has altered the entire character of the industrial system, is the transformation in the industrial and political power of the worker. No longer is the worker powerless as against his employer. The essential conditions of his employment and the level of his wages are, in large part, outside the control of his employer altogether. They are established, as in Australia, by legally constituted tribunals or, as in Britain and the United States, by collective bargaining conducted between representatives of management and highly-organised trade unions. And, in either case, the general standards accepted by society of what is right and fair set the broad limits within which determinations and decisions must be reached.

In his trade unions, the worker possesses institutions which, in industrial power and authority, at least equal "big business" itself, and which, in political power and authority, certainly surpass "big business". In Australia, *at the beginning of the century, about* 100,000 *workers, only* 8% *of all wage and salary earners, were members of trade unions. Today there are* 1,637,000 *members of trade unions,* 60% *of the total employed population.* The immense collective power which this represents is employed zealously in safeguarding the interests of the workers, and unremittingly in bringing sectional pressure to bear on the determination of practically every issue of national importance.

*Under 19th Century Capitalism the worker had little or no industrial or political power. Under the capitalism of today he has both in abundant measure.*

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FINALLY, there is the revolution in the role of government.

Fifty or sixty years ago government had very little to do with industry. In accordance with the accepted economic theories of the day it was thought that the best results would be achieved if government left business alone, kept its hands off industry, and let the free price market do its work virtually unhindered. The prevailing economic philosophy, "laisser-faire", was accepted by some of the most humane thinkers of the times. 19th Century Capitalism was a planless capitalism.

This general picture obtained in America and even, in the main, in Britain and Australia, up to the great 1929 Depression. It is a picture in striking contrast to that of today.

"Middle 20th Century Capitalism" is a planned capitalism. It is one in which government, from being little more than an umpire, has become a major participant. And the most striking evidence of this is to be found not in the growth in the numbers of nationalised industries—in Australia, particularly, this has not been very pronounced—but in the responsibilities assumed by all democratic governments for full employment and social security. Under "19th Century Capitalism" the ordinary man-in-the-street had little or no economic security. There was no conception of a basic standard of life which society should be called upon to guarantee to all citizens in concession to any accepted standard of decency and morality. There was no such thing as a minimum wage. Government provision for the aged and the sick was of no more than token proportions. And a man displaced from his occupation was dependent for his existence almost entirely on what meagre savings he might have been able to accumulate and on private charity. The concept of "full employment" was unknown. On the contrary some unemployment was accepted as the natural and necessary order of things. Governments did not regard it as their responsibilty to provide for either full employment or social security.

WHAT a change to the conditions of today!

Now there are few lengths to which governments (no matter of what complexion) will not go to preserve high employment. The whole range of economic, monetary and fiscal instruments under the control of governments are now employed to that end, and to that end almost exclusively. Political parties compete with one another in the range of social benefits and services they dangle before the electorates, regardless often of the economic and financial implications of the policies they propose. The considerable armoury of modern economic knowledge is brought to bear by governments to ensure security of livelihood for the common man.

*This, indeed, has, in a sense, become the whole objective of present-day capitalism—the objective of raising the standards of living of the great majority.* The capitalism of the last century was devoted in the main to the pursuit of private profit, of amassing riches for the privileged few. Any improvement in the standards of life of the masses was regarded almost as a fortunate, although logical, by-product of the main pre-occupation of the pursuit of profit. Under the capitalism of today the positions have been reversed. The standards of living of the majority have become the first concern. The pursuit of profit is secondary and is justified only in so far as it contributes to high standards of living for all. Under 19th Century capitalism, profit was an end in itself. In the economic system of today, it is a means to an end.

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ONLY in the fact that the great part of economic activity is still carried out by individuals acting in a private capacity does the capitalism of today bear any resemblance to the capitalism of the late 19th Century. *In its structure, in its essential nature, in its ruling philosophies, present-day capitalism adds up to an entirely different economic and social system from its predecessor.* Standards of everyday life have improved beyond recognition. Desperate poverty, once widespread, has been practically abolished. Glaring inequalities of income have disappeared. The state without welfare has been succeeded by the welfare state financed out of the productivity of modern capitalism. Wealth and the ownership of property have been re-distributed. Industrial power has been re-distributed. A capitalism in which labour had no practical status has given way to a capitalism in which the status of the individual worker is established and in which his collective authority is at least equal to that of any other section of society. A capitalism in which the sole test of the successful business was its profit-earning capacity has given way to one in which the test of the successful business lies also in its relations with its employees and the public, and the degree to which it is performing a national service. The omnipotent industrial autocrat has been replaced by the professional business manager subject to all the checks imposed by governments, powerful trade unions and a better informed public opinion.

*A capitalism in which the instruments of production were owned by the few and operated for the direct benefit of the few has vanished. It has been succeeded by a capitalism in which the instruments of production are owned by the millions and operated for the benefit of the millions.*

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