

CHAPTER III

THE INDUSTRIAL PROPOSALS—*Continued*

THE preceding examination has made it manifest that, in spite of the appearance of limitation in some socialist utterances, there exists a practical agreement between all socialists, which will be seen to be dictated by other principles held by them in common, requiring the socialisation of all industries the products of which enter the circle of exchanges.

The industries thus excluded are, however, so trivial that they may conveniently be disregarded in any definition. There remain, however, some direct consequences of the above proposals to be considered before such a definition can be made.

The first of these is the method by which Socialism proposes to acquire the ownership of land and capital. The prospectus of the Fabian Society states :—

“If these measures be carried out without compensation (though not without such relief to expropriated individuals as may seem fit to the community), rent and interest will be added to the reward of labour.”¹

The *Fabian Essays* supply even more definite information, viz.—“The progressive socialisation of land and capital must proceed by direct transference of them to the community through taxation of rent and interest and public organisation of labour with the capital thus obtained.”²

The above statements are the more valuable because the exponents of Socialism are generally more than

¹ See *ante*, p. 19.

² P. 140.

reluctant to give clear expression to their intention on this subject. Taken by themselves—the context in no way alters their meaning—they would, however, lead to the conclusion that Socialism relied upon taxation alone for the establishment of its industrial system. That, however, is impossible. For if the State appropriates by taxation more than its current expenditure requires, it cannot keep the ever-increasing fund idly locked up in some vault. “The public organisation of labour with the capital so obtained” must proceed *pari passu* with its acquisition, in order that the gradual transformation from private to public industry may be realised. There are only two ways in which this can be done, viz. by the creation of new establishments through the purchase of land, machinery, and material, or through the purchase of already existing private establishments.

At first, no doubt, the former process would be largely employed. As, however, increasing taxation results in a reduction of private profit, of rent, and of the value of land, and as the competition of untaxed State establishments reduces still further the value of fixed capital engaged in private enterprises, private industrial establishments could be purchased so cheaply that the second method would prevail. Such land as the State required would of course always be acquired by purchase at rates constantly falling with the increase of taxation. In this way the land and the capital would become the property of the community apparently without confiscation. In reality, however, no compensation would have been paid. For the owners themselves would furnish the compensation fund; and the amount received by them as compensation could not exceed the amount paid by them in special taxation. Some of them would receive more than their contributions, but only on condition that others received less than theirs.

Another method of transference is suggested by Mr. Laurence Gronlund in the following terms :—

“We shall here make a digression to state definitely our position in regard to compensation to the dispossessed

owners of property which we left somewhat unsettled in the last chapter.

"We suggested there that if the final change were accomplished by force, the State would possibly expropriate our men of wealth without compensation whatever. *Their existing rights are such which the law gives, and what the law gives the law can take away.* That would be done without any compunction of conscience, seeing that much of that wealth is obtained by questionable methods, and very much of it by the trickery of buying and selling, which never can create value. . . . But as a matter of policy the State may see fit to give the proprietors a fair compensation for that property which Society takes under its control, *i.e.* for its *real* and not its *speculative* value. But there are two important 'buts' to note. *They will not receive any interest on the sums allowed them.* When all interest has ceased to be legitimate throughout society, society will hardly charge itself with that burden.

"*They will not be paid in money, but in goods, in articles of enjoyment furnished in annuities to those whose claim is sufficiently large.*"¹

This statement shows that Gronlund is a catastrophic socialist, a survival of the past. Nevertheless, his proposal is worthy of examination, as being the only alternative to that of the Fabian Society, if the transfer is to be made gradually. For, though Gronlund considers it under the supposition of a sudden transformation of the existing into a full-blown socialistic system, it might be applied to a gradual transmutation.

The State might establish new or purchase existing industrial enterprises with bonds, and might gradually extend this process till all land and private industrial capital had passed into its possession. If the bonds were made interest-bearing and if the profit from State-conducted industries were sufficient to pay the interest, the compensation would so far be real. If, however, the profit were insufficient, a contingency which cannot be disregarded, taxation of land and capital would have to be resorted to, to the extent of the deficiency. In such case

¹ *A Co-operative Commonwealth*, pp. 135, 136.

the owners of land and capital would, to the same extent, provide their own compensation as in the plan advocated by the Fabian Society.

In either case, however, the payment of interest could not be continued beyond the close of the transition period without a denial of the fundamental principles of Socialism. The bonds would then be repaid in the manner described by Gronlund, in annual instalments of consumption-goods, till the whole of the debt was extinguished. The prospective cessation of interest payments would, however, result in a gradual depreciation of the bonds, which would reach its maximum at the actual termination of the former.

On the other hand, it is also possible to make the bonds non-interest-bearing from the first, and still subject to gradual extinction by delivery of consumption-goods. In this case the bonds would be at a great discount from the beginning.

Whichever of these two systems were adopted, it is certain that many if not all the bonds would change hands during the period of their currency. The question would therefore be raised, whether the State should pay in full for bonds which had been acquired by their actual possessors at much reduced values; nor can there be any doubt how it would be answered.

Gronlund's plan, therefore, while some improvement on that of the Fabian Society from the point of view of landowners and capitalists, is no very great improvement even if it were practicable. The probability, however, is greatly in favour of a mixed system being adopted at the dictates of political expediency. If the socialists are strong enough to induce the State to enter upon the conduct of competitive industries, they will also have sufficient influence to impose special taxation upon land and capital. They may, however, easily be induced to extend the system of State-industry beyond the limits of the capital which such taxation would place at their disposal, and this could only be done by the issue of interest-bearing bonds. It is, however, inconceivable that these bonds would be made exempt from the taxation

imposed on all other forms of wealth, and the bondholders would therefore furnish their own interest to an extent which, ultimately, would amount to the whole interest. Whichever plan, therefore, may be adopted, the compensation paid would fall far short of the value of the property appropriated, even short of that greatly reduced value caused by State-competition or by State-competition combined with special taxation. Socialism, therefore, has no choice; it must rely mainly on confiscation for the gradual transformation of private industry into collective industry.

Attention must now be directed to some of the consequential changes in the existing industrial and financial organisation which are implied in the socialisation of land and capital.

It involves the abolition of all indirect sources of private income and of the entire system of public and private credit as we know it. The taxation of incomes, gradually increasing, would ultimately absorb the interest of all state and municipal indebtedness, which then might be extinguished in the manner already described. Private credits, the interest from which would be taxable in the same manner, could not continue under a system in which the State would borrow and lend without interest, as will be described presently.

Private exchange, both wholesale and retail, would equally disappear, giving way to State-conducted warehouses. These indirect consequences involved in the realisation of the industrial proposals of Socialism are aptly described by Dr. Schaeffle in the following terms:—

“The principle of Socialism is thus opposed to the continuance not only of private property in directly managed means of production (that is, in private business and joint-stock and other associations of capital), but also of individual ownership in indirect sources of income; *i.e.* to the entire arrangement of private credit, loan, hire, and lease—not only to private productive capital, but also to private *loan*-capital. State credit and private credit, interest-bearing capital and loan-capital, are incompatible with the socialistic state. Socialism will entirely put an

end to national debts, private debts, tenancy, leases, and all stocks and shares negotiable at the bourse. . . . Socialism, from its premises, can no longer allow trading and markets, and it would be necessary even for coinage eventually to cease to exist and for labour-money (certificates of labour) to take its place. . . . If we suppose the production by private capitalists to be removed, and a unified, organised common-production in its place, buying and selling, competition and markets, prices and payment by money are at once superfluous. *Within* the socialised economic organisation they are even impossible.”¹

With a slight limitation, regarding public credit, which will be dealt with presently, this passage exhibits with much acumen some of the indirect consequences which necessarily must flow from the public assumption of ownership and management of land and capital.

The socialisation of land and capital further implies their being vested in and managed by some constituted authority or authorities. Socialism proposes to vest such authority, as far as possible, in local governmental bodies, *i.e.* municipalities, county councils, etc., and to confide to the direction of the central government as few of the socialised industries as possible. It must, however, be recognised that the limits of local control are drawn in a narrow circle by the nature of industries. Purely local industries, *i.e.* industries the products of which are destined for local consumption alone, may be so managed with safety, as supply of water, gas, electricity, hydraulic and pneumatic power, as also local means of transport, as cabs, omnibuses, and tramways. Villages and very small towns might also undertake the local production and distribution of bread, meat, milk, and some other quickly perishable articles, though even in these instances complications from the overlapping of authorities could scarcely be avoided. Large towns and cities, which draw their supplies, even of these quickly perishable articles, from wide areas, could not possibly undertake even these limited functions. On the other hand, all those industries which produce easily transportable goods, as well as those means of transport

¹ *The Quintessence of Socialism*, pp. 64, 69, 70.

which extend beyond local limits, must, by their very nature, be managed by one central authority, as agriculture, mining, manufactures, and the wholesale distribution of their products, as well as railways, rivers, canals, and shipping. The reason is obvious. The production of such industries must be kept in harmony with the requirements of the community. In the absence of the competitive organisation this object can only be attained through an administration embracing and controlling the whole field of their production. These considerations make it clear that, with few and comparatively unimportant exceptions, the management of socialised industries must be vested in the central government.

The authority which manages any industry must also control the labour employed in it. The conduct of all industries by the State further imposes upon the State the duty to either find full employment for all its members at all times, or to provide full incomes, without any return in labour, during such times, if any, when employment cannot be found for all. Therefore the managing authority must possess power to appoint for each citizen the kind of labour to which he is to devote himself, as well as the locality where his labour will be of the greatest service. Only by rigorously shifting labourers from an occupation and a place in which they have become superfluous, to occupations and places where their labour is required, can the requirements of the community be harmoniously supplied, and the simultaneous over-production of some goods and under-production of other goods be prevented.

Stress must once more be laid on the fact that Socialism does not contemplate the abolition of all private property, but only of private property in land and capital. That part of the annual product of the national labour and industry which is not required for the replacement, improvement, and extension of national capital, would be distributed among individuals in the shape of consumption-goods, and would become private property. Private ownership in consumption-goods would, therefore, continue in the socialised State. Nor is there any compulsion on individuals to abstain from saving. They could do so

either by collecting durable consumption-goods in their own homes, or by withdrawing from the common fund a smaller amount of goods than they are entitled to, so as to accumulate a reserve on which they could draw at future times. Similarly, the State might advance consumption-goods to citizens on the security of their future labour contributions. The State, and this is the slight limitation on Dr. Schaeffle's pronouncement already alluded to,¹ could thus, consistently with the principles of Socialism, become the debtor and creditor of individuals, provided no interest were paid or charged, though such a course, as will be shown in Part II., would give all the advantages of interest to the borrowers. Private loans, except in so far as they were prompted by charity, would absolutely cease, because it would be safer to allow savings to accumulate with the Government, than, in the absence of interest, to entrust them to some individual whose credit with the Government was exhausted.

Rent of building sites would be paid, but would be payable to the Government. For it would be manifestly unjust to allot to some persons the best and most convenient building sites, while others must be satisfied with inferior ones, without the exaction of an equivalent for the enjoyment of the superior advantage. The equality at which Socialism aims, therefore, requires the continuance of such rent-payments—a fact admitted by some.¹ On the other hand, rent for agricultural land, mines, factory sites, and other natural opportunities of industry, would apparently disappear, the State being, with regard to them, tenant as well as landlord.

The foregoing examination enables us to formulate a definition, perhaps not absolutely comprehensive, yet sufficient for all practical purposes, of what is implied in the industrial proposals of Socialism, viz. :—

Socialism aims at the gradual abolition of private property in and private control of the instruments and

¹ "A Socialist State or municipality will charge the full economic rent for the use of its land and dwellings, and apply that rent for the purposes of the community."—S. B. Webb, *Problems of Modern Industry*, p. 278. The necessity or even consistency of charging rent of "dwellings," *i.e.* interest, is not apparent.

materials of production, land,¹ transportation, trade, loan-capital, and public debts; such abolition to take place without compensation, or through partial compensation only, of present proprietors as a whole. For these private rights it would substitute the collective ownership and management by the community, acting through local or central governmental bodies, of the instruments and materials of production, land, transportation, trade, and loans, continuing private property in and private control of all consumption-goods awarded to individuals as their share of the industrial product.

¹ The term "land" as used here and subsequently includes agricultural land, building sites, mines, waterfalls, and all other natural opportunities.