

RATIONALISATION OF INDUSTRY

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INDUSTRIAL Europe is sick of a surfeit of productive capacity in many of her principal industries, a malady which seems to be inherent in the system of free enterprise. The present prolonged attack, however, is the aftermath of the Great War. The fine adjustment of productive capacity to available markets, always far from perfect, was badly upset by this catastrophe. In those industries which served military purposes the stimulus of war demand caused a multiplication of plant and machinery far beyond the possibility of profitable use in peace time. Countries hitherto only partially industrialised were thrown back on their own resources as it became more and more difficult to import those manufactured goods which had previously been irresistibly thrust upon them. These countries built plant and machinery to supply their own market, or to use the raw materials which the warring nations temporarily ceased to demand. They now even aspire to a share in world trade. Maladjustment of the relatively fixed fund of specialised productive capacity to the ever changing conditions of world demand is nothing new, but the War caused a particularly severe maladjustment and post war conditions made recovery more than ordinarily difficult. The revision of political frontiers combined with belligerent economic nationalism caused endless difficulty—high tariffs, prohibitions of import and export, and restriction on migration. To many people a United States of Europe seems a necessary condition of economic recovery. Financial conditions were equally inauspicious: debauched monetary and credit systems, debts and reparations, an immense burden of taxation, a scarcity of free capital. Finally relations between capital and labour were strained to breaking point, labour demanding a higher standard of living in an impoverished world, their strikes making recovery still more difficult; and always the threat of social revolution. One must remember too how this disease spreads; unemployment in one industry means fewer buyers for the product of many others.

The doctors have met in frequent consultations and have prescribed various remedies, such as a judicious dose of inflation or a

drastic cut in wages. There seems to be general agreement however that the patient must change her way of life, give up the injudicious excitement of a life of competition and adopt a "rational" regime. This, however, begs the question; of course the patient must live a rational life, but in what does this consist? Is the "rationalisation" of which we now hear so much really reasonable? If it is, economists and politicians must revise their theories; because on the existence of free competition depends the greater part of the conventional justification of free enterprise, the guarantee of a reasonable allocation of productive resources between different industries, the promise of efficiency in production, the protection of the consumer from extortion. One had heard of the waste and folly of competition from the socialists, the unauthorised practitioners, as it were, in economic medicine. The very word "rationalisation" has been borrowed from the German socialists by industrialists and orthodox economists. But they have not been converted to socialism; they plead for the rationalisation of capitalism.

Conditions of acute depression and intense competition in Germany in 1924 and subsequent years led to the revival of cartels and associations. Concentration of business control was accelerated; within the cartel the more efficient undertakings bought up the less efficient in order to obtain their rights of participation, and transcending the cartel they combined with businesses in successive or related stages of industry. The more spectacular of the vertical combinations collapsed, but horizontal combination has continued apace. Gigantic trusts of a size previously unknown in Germany have been formed in the heavy iron and steel industry and in the chemical industry. The same tendency is at work in many other industries. "The motives underlying this reorganisation are summed up in the word 'rationalisation'. Comprised within the meaning of this expression are such ideas as the reduction of the number of types to be produced, through a process of standardisation or simplification; mass production in the most efficient works and scrapping of inefficient works; elimination of redundant organisation whether in production or distribution; economy in transport through delivery from nearest works; and economy in the use of working capital." Thus the Balfour Committee on Industry and Trade described rationalisation, the healthy regime practised by an increasing number of industrialists and advocated by many economists. The emphasis is entirely upon technical improvement in production through combination and association.

The World Economic Conference which met in Geneva, in May 1927, unanimously recognised the benefits of rationalisation and

scientific management. "The Conference considers that one of the principal means of increasing output, improving the conditions of labour and reducing costs of production is to be found in the rational organisation of production and distribution. The Conference considers that such rationalisation aims simultaneously:

1. At securing the maximum efficiency of labour with the minimum of effort;
2. At facilitating by a reduction in the variety of patterns (where such variety offers no obvious advantage) the design, manufacture, use and replacement of standardised parts;
3. At avoiding waste of raw materials and power;
4. At simplifying the distribution of goods;
5. At avoiding in distribution unnecessary transport, burdensome financial charges and the useless interposition of middlemen;

Its judicious and constant application is calculated to secure:

1. To the community greater stability and a higher standard in the conditions of life;
2. To the consumer lower prices and goods more carefully adapted to general requirements;
3. To the various classes of producers higher and steadier remuneration to be equitably distributed among them.

It must be applied with the care which is necessary, in order, while at the same time continuing the process of rationalisation, not to injure the legitimate interests of the workers; and suitable measures should be provided for cases where during the first stage of its realisation it may result in loss of employment or more arduous work.

Again the emphasis is on improvement in management and technique: rationalisation is synonymous with scientific management. In face of shrinking markets, falling prices, high wages and crushing taxation the manufacturer is put on his mettle and may exert himself to invent improved methods and avail himself of the improvements of others. Faced by ruin the whole resilience and energy of his nature may come into action to avert it. The improvement possible in the individual firm on the basis of existing knowledge was made clear by the famous Report on Waste in Industry by a committee of American engineers. Increased

efficiency in the individual factory must come mainly from the business man, but governments may assist by research, and Trade Unions may hinder or assist at will. A further range of improvements is impossible for the individual, and depends on co-operative action; for instance, standardisation and simplification by agreement reduce costs for all the producers. Where ignorance and mutual distrust prevent the business men from organising, governments may usefully promote such co-operative effort. Where governments have hindered association for fear of monopoly they hindered the progress of technical efficiency. The work of Mr. Hoover at the Department of Commerce has been invaluable and surprising. Association for "constructive purposes" promises great economies; it is all to the good. But notice the hint at Geneva that increased efficiency may complicate rather than solve the problem of overproduction. The increasing unemployment in the United States adds point to the warning.

The Liberal Party in England in their admirable Report on England's Industrial Future also endorse the policy of rationalisation. "It is not in the affairs of the individual business that criticisms of inefficiency have most weight but rather in the general problems of the industry as a whole, which are not the formal responsibility of anyone engaged in it and which are therefore apt to suffer from the neglect which is often extended to what is everyone's business. In no country is an obstinate prejudice to what is called 'rationalisation' stronger than in Britain". They explain the policy by examples. The most crying need for rationalisation is in the coal industry which is not at present working at capacity. If the worst collieries could be shut down and the remainder worked full time there would be a double saving: first a saving owing to the elimination of the poor collieries where costs are from six to eight shillings per ton higher than in the best; secondly a further saving by working the remaining collieries at about full capacity. The steel industry is also in deep depression owing to lack of demand. An agreement to distribute orders among the different works so that each would have the most continuous possible work on the smallest variety of sections would result in substantial saving. "The lack of scientific management of industries, as industries, goes right through our economic system. An immense amount of time and thought and ability is devoted to increasing the efficiency of the individual concern, very little to the rationalisation of industry".

"Marketing efficiency", we read later in the same Report, "is of commensurate importance with productive efficiency. Yet

while manufacturers generally are keenly on the lookout for improved machinery and will scrap obsolete plant without hesitation, marketing arrangements are far less sharply scrutinised. The problem of introducing better marketing methods is in many cases more difficult than that of productive efficiency because it involves in a greater degree the organisation of the industry as a whole as distinct from that of the individual firm. The question of marketing acquires a special importance in any industry where demand is tending to decline and the problem of 'surplus capacity' presents itself. Where such conditions obtain, as is notably the case to-day in coal and cotton, unrestricted competition among a large number of businesses marketing their products independently of one another forces prices down to unremunerative levels in an aimless, haphazard manner which impairs the financial strength of the industry and ultimately its efficiency without contributing effectively to the recapture of lost markets." Here again the emphasis is on technical efficiency of marketing but restriction of production obtrudes.

Relief from the malady of overproduction will always be sought in agreements to restrict production, raise prices and sustain profits. The British rubber control, the Brazilian "valorisation" of coffee, and the Greek "retention" of currants are examples of compulsory restriction. We wonder whether the increasing association of manufacturers is not more concerned with restriction of production than with incidental technical improvements. Restriction seems to be an essential part of rationalisation and there is an unsatisfactory feeling that the obviously reasonable and constructive part is providing a decent cloak to cover the more doubtful part. The one really irrational characteristic of economic society is its failure to turn out goods when it has plant lying idle and people badly in need of the product. This is the main count of the socialist criticism, rather than any criticism of technical inefficiency. This is the criticism which must be met by the advocates of rationalisation; restriction may be rational business and yet irrational from the standpoint of the community. Perhaps some restriction is desirable in the interest of stability, perhaps some restriction of internal competition is in the interest of particular nations, but we must not talk or beg the question. Further, if we are committed to an era of association we must revise our institutions to provide conscious control in place of the automatic control of competition. Rationalisation in Germany was encouraged by the Government, but one must also remember the "Decree against the abuse of economic power" which established the Cartel Court, (1923): "*Qui restrēindra la restriction?*"