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Author(s): H. John Falk

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## ON CHANGES IN TRADE-ORGANISATION

THE term Trade-Combinations has become, if it was not originally, an ambiguous term, having been used by many writers and speakers as synonymous with Trades Unions and Combinations of Labour, and by others for Amalgamations of Capital. Its verbal composition would seem to make it a good generic term for both. Trades Union has become so widely used for Combinations of Labour that it might conveniently retain that specific sense. For Amalgamations of Capital the word Trust came from the far West, and the odour wherewith it came makes one almost wish it had never started. For the word Trust at law and in private life has been used by us for the most noble and disinterested of human offices, and in the Corporations and other Public Trusts of this country we see the fruits which a high sense of public honour and disinterested service, persistently maintained for centuries, have produced, fruits which, perhaps, they only and no organisation or remuneration can ever avail to produce. It is melancholy to reflect that the grand old word should have been used for conduct seldom disinterested, and more seldom truly fiduciary. For those who have promoted and controlled these commercial trusts have often devoted themselves to their own pockets, and not to the permanent interests of their beneficiaries. Their business has often been a mere counter for them on the Stock Exchange, and without any of that feeling for it which attaches to old estates in old families, they have often deserted it and their *cestuis que trustent* as soon as profits and premiums began to flag. Thus the term Trust has become a term of reproach. But for a more logical reason it is also inappropriate for Amalgamations of Capital. The capital is held by partners or shareholders for themselves, and in no sense is it in trust for others or for the public; the only trust is within the circle of the particular business, as between those who manage and those who risk capital. The word which I would suggest

for the vacancy, is the word Syndicate. It has, I believe, always been applied to capital, and has the advantage of being to some extent international. Odium it also has incurred,—and innuendo, as Bentham well said, is a flaw in a scientific term, but it will perhaps survive reproach, as Trades Union has survived it.

The effect of Trade-Combinations in general upon prices is twofold, direct so far as the primary object of such combinations is to obtain higher prices, indirect inasmuch as they affect the cost of production. The range of effect stretches from the most monopolous and unreasonable capitalist or labourer at the one end to the least independent or most reasonable at the other. A distinction must be observed between the effect of Trades Unions and of Syndicates. The direct object of Trades Unions so far has always been to raise wages, or shorten hours, or improve conditions; the general effect is increase of cost, though not always of price. No Trades Union has, I believe, ever professed to concern itself in any respect with reduction of cost, though in some cases this has been the unintended result of the discipline and corporate feeling fostered in well-managed Trades Unions. Wider education and experience, and the competition of the highly disciplined labour of some foreign countries, will perhaps soon move the more enlightened labour leaders to preach improvement of production to Trades Unions, though the doctrine of *ca'cenny* scarcely portends it. Indeed, they may some time even become the peaceful instruments for lowering wages, where a trade is to be saved to the country, as in the military age an army would lessen its rations. But hitherto every other effect of Trades Unions is small as compared with that of advance in wage upon cost of production.

The direct object of Syndicates is to make a profit. Profit is a difference and may arise from a movement either of the cost-limit or of the price-limit. Cost of production is not necessarily enhanced by the attainment of this object; the desire for profit, which tends to advance of price, also tends to reduction of cost. Nor is price necessarily raised in the attainment of a Syndicate's object; the desire for larger trade is in effect a tendency to reduce price. The ratio between the tendency to reduce cost and to raise price forms one of the most interesting questions which a disciple of Francis Hutcheson or W. S. Jevons could investigate. It is, I believe, eminently capable of mathematical treatment. In some trades the actual factors in both terms of the ratio are comparatively simple. The conditions which bar an advance of price are ascertainable, *e.g.*, prices at

other sources of production, railway-rates, and freights, and charges. The conditions, which enlarge or lessen effort to reduce cost of production are also in many cases simple, raw materials showing possibly a fairly constant price for years and wages a steady rate of advance. So that, apart from the less easily measurable factors, ignorance and imagination, which mislead so many commercial men into courses other than those indicated by rational factors, the ratio is capable of some formulation. And, since the irrational factors tend to disappear in the average progress of a trade or a nation, possibly some general indication of the future course of manufacture and trade might thus be obtained.

There are some important respects in which the tendency to Reduction of Cost is considerably enhanced by the very fact of Syndication. In the first place, a large machine cannot function at all unless it is well organised; thus in a Syndicate an organisation much superior to that of the average small private business is imperative. This organisation is usually not only in itself less expensive than the sum of the organisations prevalent in separate firms of an equal aggregate of potentiality, but it is more effective and tends to economy in production. Next, the larger quantity of raw materials used by a Syndicate induces sellers to compete keenly for the supply of them. The contracts with Railways, Corporations and other large bodies are of such vital importance to many Collieries, Iron Works and other Industries that materials are offered, without being sought, at the lowest living price. Thus the amount of effort required in a Syndicate for the purchase of raw materials at lowest prices is, if well organised, immensely less than the sum of the efforts of an equivalent aggregate of separate firms. Indeed, a study of such figures over a series of years has convinced me that the average of prices paid by small firms is in fact considerably higher, as one would expect. The magnitude of a Syndicate's contract renders the acuteness and energy which the keenest individual buyer may devote to a bargain of comparatively little account. The large contract is vital to the seller, and makes him seek the large buyer, quite apart from the fact that a large contract itself reduces cost of production and delivery of the articles sold and thus commands a lower price. Again, there is economy in the use and quality of material in the working of a large organisation with central stores, with extensive and minute records and carefully compiled averages and comparisons. In a small firm there is no standard of comparison except such as is gathered by hearsay from competitors, and there is no rivalry as between managers in a Syndicate. The value of

the statistical experience in a very large business is in nothing more apparent than in the stores department. And the pride of an expert is at stake in such a department. No man can be an expert in everything, and while a small manufacturer is compelled to try to be so, a Syndicate can afford to employ, and finds economy in employing, various experts in raw materials. Lastly, a standard of wastage can be formed where the misuse of material in a large number of sections is closely recorded.

I will now touch upon the economy of labour in a large organisation. Charles Babbage and other economists may have carried the comparison of human with mechanical organisation too far, but with careful observation and limitation the comparison is always useful. And I think no man, who looks carefully around and within a large manufacturing organisation, can fail to see that it necessarily shares in the economy of a large machine. How far that economy goes is a further matter, a matter of human effort, but, *in se*, the large human machine exhibits an initial and certain economy as compared with the smaller. In other words, when production attains a certain magnitude, respective to the particular industry and its elements, then a certain amount of labour is, *ipso facto*, saved. The unit of production, in which the maximum economy arises, must obviously vary with the elements of various industries. In some it is small, in others large. But the very existence of such a unit seems to be undreamt of in many industries, especially by small and uneducated manufacturers, who add small fractions to their plant just when their capital permits. This, if one looks at various trades, is at the root of the failure of many apparently growing firms. The determination of this unit is not an easy matter. Perhaps it can only be done in a large area of production; in any case, the opportunities for doing it in such an area are much better. Equally, the operation of the unit can be better conducted when it is one of a series and is observed in continuous comparison. Finally, in the aggregate operation of a series of such units there is a further economy, as for instance in the lower average of labour of inspection and control.

Having dealt with the Cost of Production, I proceed to glance at Distribution. For it is one of the chief features of larger organisations, that they tend to place themselves in more direct contact with their markets. Their advantages in distribution are similar to those in production, but probably even greater. They vary considerably with the character of the article and the area of the trade. In a bulk trade spread over the whole globe, they are

greater than in a small fine article sold in a few markets. The cost of transport is materially lessened and the facility increased when the merchant can deliver large quantities in portions suited to ships and other means of transport. Large contracts for freight are as favourable as large contracts for materials. On railways, it is true, the doctrine of no preference has been carried to so illogical an extreme that the advantage of large quantities is less than in other channels of transport. Yet even upon the railways a Syndicate owning its own wagons delivering goods in whole train-loads secures an economy in handling and despatch. Indeed, the time saved to ships and all means of transport by forwarding and handling large quantities has been one of the most marked economies of the last ten years.

Larger trade and contact with more markets also tend to the opening of new channels of communication and improvement of the old. A Syndicate may direct a regular steamer or even a whole line of steamers to a country, being able to give them sufficient tonnage to cover initial charges. The rational control of transport, especially at sea, is as yet in its infancy, and the alliance of traders and carriers for mutual service holds much in store for the public. The trade manœuvres of the merchant-fleet of a large steam company are, through more complete information alone, more likely to be rational and well-directed than those of any individual shipowner.

The advantage of a larger organisation in advertisement and commercial travelling needs no emphasis. No small firm can afford to travel even the whole of one country. Its markets are thus very limited, for it can only efficiently attack a very small area at one time. A Syndicate can travel over the whole world and be, by telegraph, in simultaneous personal contact through its travellers with all markets every day of the year.

There is a further effect which follows from a Syndicate taking distribution as well as production into its own hands, and it is one the importance of which has as yet been but little realised. When a manufacturer receives reports as to the views of consumers in far markets from a merchant, he accepts them with much reserve. The merchant may have many reasons behind his report. But the chief fact is that merchants rarely give much information to manufacturers; their knowledge of markets is their goodwill. All this is changed when a maker sees his market with his own eyes, and yet more when a Syndicate sees all the markets of the world. To see one market is to throw light upon your production; to see all is to give it

the maximum of illumination. And in this illumination the chief light is thrown from the markets using similar products from other sources. The merchant obtains and refers samples with other purposes than those of a maker. But when the great Syndicate has arranged in its sample-room the products of all climes collected by its own confidential agents without bias or sinister aim, and has examined the history of those products, their sources, their cost, their access to markets, then is the light of the world cast upon the factory and forwarding office, and they must be dull men indeed, or worthless, who do not in that light create some improvements of cost, of quality, and of distribution.

In fine, and to sum up generally, the Syndicate in the world of business is a new and larger organism with larger eyes, more complex brain, with wider knowledge, with greater powers. It is to the old small individual firm what the man who has travelled through many books and many countries is to the man who has stayed in his native village. But it is more even than that; for it is a corporate body, if I may use that meaningful old pleonasm, and not an individual. It is at least like a house in a Public School, it may even in time acquire the corporate feeling of a Public School itself, nay, even the ideal spirit of a University.

I have preferred to suggest first the forces in larger organisations which tend to economies in production and distribution, because upon those forces depend their welfare and permanence, and the chance of their avoiding the evil tendency to make profit by raising prices.

That tendency in its extreme forms is scarcely worth consideration, for all sensible business men know that great advances of price (unless war or extraordinary circumstances permit them) are suicidal to an industry.

But the inclination to raise prices moderately is more insidious; even moderate men are subject to it.<sup>1</sup> The larger part of the commercial world has so far not consciously considered price in relation to cost, for the simple reason that merchants have stood between maker and consumer, and have striven to buy at cost or less and to sell without regard for it. Hence the price of goods both from maker and to consumer has hitherto been ruled as much by the ingenuity and caprice of the middleman as by the cost of production. The maker himself, though even his knowledge of cost is, especially in small firms, usually very vague, does naturally regard profit and price more in relation to cost than

<sup>1</sup> Speaking generally the Zero of Price is Cost of Production.

ever a merchant can. It is in this respect that the amalgamation of production and distribution heralds a new era. Larger knowledge of cost in the productive department, larger knowledge of prices in the distributive department, larger knowledge even of foreign cost of production, all these, synthesised in the governing brains, bring finer accuracy in the estimation of profit, and create more steady and moderate prices. The very magnitude of a Syndicate is in itself a guarantee of moderation; for the average of a number of governing minds over a period will be more powerful in consideration and more moderate in action than the average individual.

The last advantage of larger organisations to which I will draw special attention is the opportunity they afford of creating and treating large and trustworthy bodies of statistics. In them, if anywhere in commercial circles, will the application of science to records be made. Centuries may pass before the Economic Calculus, which Condorcet, Cournot, and Gossen foreshadowed, in which Jevons and Marshall have made such conspicuous progress, becomes available in daily practice as Newton's work is in Navigation and Maxwell's in Electricity. But the time will come. When Bernoulli and De Moivre wrote their Essays on Probability, practical men little dreamt of the vast system of insurance now mathematically worked by actuaries. No one can doubt, who listens to the converse of commercial men, that their opinions are empirically formed upon quantitative and mathematical lines. The estimates of utilities may be vague, the treatment of increments may lack the precision of the Calculus—for few boys pass the Binomial Theorem—but they are crude mathematical operations nevertheless. And the time will come when some highly-trained minds in larger organisations will attempt to apply the methods of Jevons, Marshall, and others to the facts and figures at their command. No one can read the late Professor Jevons' lucid reasoning, as, for instance, the investigation into the Exchange of Commodities, whereby he arrives at the equations of Exchange (*Theory*, p. 112) without wishing to see such reasoning applied to actual commercial circumstances. And the results might be as considerable as they would be interesting, if a group of workers would consider the investigation by Professor Marshall into the theory of equilibrium of demand and supply in relation to some extensive business. The patient elaboration of a large number of curves, like his, the application of such equations as the Maximum Monopoly Revenue Equation (*Principles of Economics*, Note xxi.),



and the Total Benefit Equation (Note xxiii.) over any considerable area of actual experience would have many valuable consequences, at the least in suggesting further practical investigations. Such operations, by their magnitude and laboriousness, are only possible to a powerful staff.

There is one special force of disturbance of prices which scarcely seems to have been fully distinguished or considered by economists or statesmen, so far as my reading goes, that is the influence of the Stock Exchange. It is daily growing because the joint-stocking of businesses has proceeded apace, and it is a disturbance the influence of which is peculiarly great upon the orbit of large organisations. For the larger the organisation the more readily can speculators within and near the orbit use the Stock Exchange for their own purposes. Hence largely arises the odium which has fallen upon Syndicates. The legitimate business of the company has not always been the object of their promoters and rulers. They have scented larger quarry in premiums and Stock Exchange operations, and any fidelity to their old business or proper devotion to its conduct have been drowned in the flood of avarice. Prices have been raised in shameless disregard of all consequences to swell the premiums, and real business has only been recovered when the traitors have been satiated and have vanished.

The above review has shown the chief advantages and evils. Many others can be urged. It is said that a larger machine is difficult to work. But the most populous and complex countries and cities are the best governed. It will be said that men are not to be had who will manage large companies as individuals manage small firms. But Banks and Railways are a conclusive proof that, on the average, it is not so. Failures will happen, and they will be noticed the more as being large. Incapable, uneducated men, vulgar, short-sighted men, even speculators and criminals will disturb the orbit of these larger organisms. But on the average, if a great and difficult work has to be done in any great country like England, capable and honourable and earnest men will be found to do it quietly and steadily. Even if this should not be so now or here, the advantages of larger organisation are only held in suspense for a few generations or centuries till better men arise.

For if it be true, and I believe the evidence is strongly in favour of it, that these larger organisations exhibit many advantages, and have real life in them, the evils must be faced and vanquished.

Take, for instance, the public fear that Syndicates will create unreasonable monopolies and drive up prices. Even when they can do so, it is but very temporarily. The average of Price over some period is dependent upon factors which control syndicates as much as individuals. The Law of Price is probably as inviolable as the Law of the Planetary Revolutions,—not more inviolable nor less. ‘The current of human business is ever ready to break into a ripple. Yet according to a known principle it insensibly tends to fall into pace with the fluctuations of nature, which it may obey but cannot rule.’ (W. S. Jevons, *Currency and Finance*. 48.)

In the evolution of these Syndicates there appear to be four distinct stages: firstly, complete tentative Monopoly perhaps with immoderate prices; secondly, Competition but with some tacit combination of all Competitors; thirdly, thorough Competition; fourthly, a death struggle and the survival of the fittest by ultimate economy.

If I were at liberty to publish the diagrams and formulæ of some trade histories, extending over nearly twenty-five millions of capital and half a century, I could show approximately that the average price of those four stages bears a definite ratio to cost of production, and that there is, with a few minor disturbances, an inviolable law of price.

By cost of production I do not mean only what a maker thinks of as the direct cost of production at his factory. I mean cost of production with the current value of money and other elements fully considered. I mention this, because the Index Numbers Method and some of its failures afflict many minds. Economists know the flaws of that method. Diagrams and formulæ upon price variations involve complex calculations, functions of many variables, and not such isolated fluxional lines as were recently presented to us in the *Daily Graphic*. Such lines form only partial elements in the curves of the law. ‘Large tables of figures are but a mass of confused information for those casually looking into them. They will probably be the source of error to those who pick out a few figures only; a systematic but probably tedious course of calculation and reduction is necessary to their safe and complete use.’ (W. S. Jevons, *Currency and Finance*. 120.)

It will be said, rightly, that human life is affected, not only by large averages, but by the fluctuations which compose them, and that the evils attendant upon the above-mentioned stages in the evolution of the larger organism are very grave. I do not

deny it, but 'Men *must* rise on stepping stones of their dead selves to higher things.' There is no other mode of progress. Yet, happily, as Comte has shown, process through earlier stages of evolution tends to become more rapid as man grows, till eventually only the rudiments of those stages remain. So is it and will it be yet more in the industrial life.

Education of every sort is averaging out the influence of the less worthy men from business. The most marked and general force in that direction is the expansion of public experience. The immense increase of Public Companies and the interest, however slight, taken by people in their government and history have taught much. If they have taught nothing else, they have made people scan the motives and characters of the men who form and rule them. They have learnt, terribly often, in the last twenty years, that in a business which is a Trust, all the qualities which go to make a man are important, and not merely the narrow aptitude which often makes a successful individual. A healthy mistrust of the mere plutocrat has been learnt. He knows how to fill his own pocket. His motive powers may never have been trained beyond that point.

But may we not look forward to more than the crude experience of individuals and its truculent lessons? May we not look to definite theoretical education, to historians, philosophers and economists? It is they who hold the industry of the future in their hands, even as Kepler and Newton held the navigation of to-day. Many commercial men probably still think their opinion on any industrial question far better than that of any economist, and do not even trouble to discover that in the past he has often been rather more correct. They are indifferent, if not contemptuous as to any training in economics for sons who will inherit vast pecuniary power, or will endeavour to secure it. The methods of the economist growing more positive and exact, less metaphysical and controversial, will gradually command the attention of the more intelligent, practical men. The vast stores of statistics will be visited with a new lantern, will be stirred into many and various forms and investigated in the light of actual history. The legionary powers of the Calculus will be applied to them, as they have been applied to physics, and slowly new principles and laws will be discussed.

And the industrial region where this is most easily possible and most likely to occur is that of the larger organisations. The more educated men concerned in them will begin to realise what a field they offer both from the merely commercial and the

largely human point of view. That sentence in W. S. Jevons' Presidential address of 1870 to the Economics Section of the British Association then assembled in the great commercial centre, Liverpool, his birthplace, will recur to their minds. 'The great and everlasting benefits which physical science has conferred upon the human race are on every side acknowledged; yet they are only the small half of what is wanted. . . . The social sciences are the necessary complements to the physical sciences, for by their aid alone can the main body of the population be rendered honest, temperate, provident and intelligent.' (W. S. Jevons. *Methods of Social Reform*. 196.) They will begin actively to believe in the yet earlier words of John Stuart Mill that 'human and social facts from their more complicated nature are not less, but more modifiable than mechanical and chemical facts; human agency, therefore, has still greater power over them.' (J. S. Mill. *Logic*, II. 536.)

H. JOHN FALK