

**PRIVATE INDUSTRY
AND
POLITICAL POWER**

S. E. FINER

**The Ramsay Muir Memorial Lecture
for 1958, enlarged and annotated by
the Lecturer. A challenging and par-
adoxical argument that it is the
market that interferes with politics,
not politics with the market.**

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PRIVATE INDUSTRY AND POLITICAL POWER

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Professor S. E. Finer has made the field of the relationships between industry and government peculiarly his own. In his *Anonymous Empire*, published earlier this year, he analysed in detail the processes by which the Lobbies influence legislation and governmental administration.

In this pamphlet, which is an enlargement of the Ramsay Muir Memorial Lecture for 1958, he deals with theory rather than practice, and sets out the novel argument that interference with the free play of the market does not spring from ignorance of economic theory, but from a very clear understanding of it. Economists, he suggests, write as though economics and politics co-exist in separate, distinct, spheres, whereas, in fact, they commingle continuously, each affecting the other all the time.

In setting out his case, he makes an extremely valuable contribution to our understanding of the real forces at work behind the appearances of economic and political life. His Lecture should be read by every economist and student of economics.

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THERE is no greater honour for an academic than to be invited to stand in the company of his more distinguished predecessors. In delivering this lecture I am deeply conscious that I do so stand in the company of the late Professor Ramsay Muir to whose memory it is dedicated. Of the pre-eminent lecturers whom I am privileged to follow, some, like Lord Samuel and Sir Ernest Barker knew Ramsay Muir face to face. That pleasure was never mine. But we both share the same college, Balliol; and, in my undergraduate days it was his recently published book *How Britain is Governed* that was my textbook. It was from that work that I first derived a curiosity about what he called 'Organized Interests outside of the Constitution.' These will enter largely into what I have to say; and I find it fitting, and indeed poignant that I am permitted to honour his memory by carrying onwards certain notions which I first encountered in his own work, twenty-five years ago.

For the task assigned me in this lecture is to explore the relationship between Private Industry and Political Power; and Ramsay Muir had already drawn attention to the influence which the Trade Unions, the Federation of British Industries and what he called 'the City,' were beginning to exercise upon the government in his day. Indeed he had prophetically written: 'We may yet see the day when the real debate upon some measure fathered by the Board of Trade will be carried on between the Presidents of the Board of Trade and the Federation; and Parliament will be called upon merely to endorse the decision thus reached.'¹

¹ Ramsay Muir: "How Britain is Governed." (1933) p. 309.

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At this stage I wish to make only one point about such private associations. It is this : — economic interest groups defy the normal canons of classification. The 'typical' political association is the political party. Likewise the 'typical' economic association is the firm or the trade union. But interest groups are economic associations which exercise political power ; also, they are politically active groups which exercise economic power. Thus they are two-handed: this is why they are strong. As the Russians say—'one hand washes the other.' Many implications follow : but the one to which I draw your attention now is that they are standing testimony to the fact that the fields of economics and of politics are not autonomous and separate. On the contrary, they are interdependent and inseparable. What we call 'Economics' or 'Politics' are intellectual abstractions. They do violence to reality. That reality is the process by which social decisions are made. This process includes both 'economics' and 'politics.' This is the point from which I propose to start.



One hundred and fifty years ago, James Mill lamented that 'the salutary doctrines of political economy' could be propagated 'only with great difficulty.'¹ Indeed Harriet Martineau even deplored the fact that so many M.P.s should prefer 'to shoot and play billiards to studying Ricardo.'² These laments have echoed down the years. Protectionism, restrictionism, rationing, controls—all that we mean by 'interference with the market'—are ascribed to ignorance. Hence the spate of tracts, renewed every generation, to propagate the 'salutary doctrines.' In William IV's day there were Harriet Martineau's *Political Economy Tales*. Today the titles are somewhat less sedate—*Ordeal by Plan-*

¹ Cf E. Halévy : "The Growth of Philosophic Radicalism. (1928) p. 264
² H. Martineau: "On the Duty of Studying Political Economy." (1932).

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*ning; The Road to Serfdom; The Social Crisis of Our Time.*¹

All these extol the virtues of the freely competitive market. All seek to show that if only a suitable framework of laws is provided, economic processes will regulate themselves: that, to quote Adam Smith, the individual seeking to maximize his satisfactions 'intends only his own gain' but is, 'in this as in many other cases led by an invisible hand to promote an end which was no part of his intention'²; this self-regulating market produces the most economical utilization of scarce resources; it maximizes the sum of public satisfaction.

To whom are these books addressed; and why? I can only assume that they are written for the great multitude, and that their intention is to wean it away from its habit of hampering the free operation of the market. Their intention is to correct the public misunderstanding of the 'salutary principles of political economy'; and the implication is that the failure to establish the freely competitive market is due to ignorance.³

I am going to contest this view. I am going to suggest that political tampering with the market does not arise from the public's misunderstanding the doctrines of economics, but on the contrary, from understanding them too well: that protectionism, restrictionism and controls are not irrational aberrations from economic calculation but, on the

¹ J. Jewkes: "Ordeal by Planning," (1949).

F. von Hayek: "The Road to Serfdom," (1944).

W. Roepke: "The Social Crisis of our Time," (1950).

² Adam Smith: "The Wealth of Nations" (Cannan's edition). Vol. I, p. 421.

³ So much is stated, explicitly, by F. von Hayek, in his essay on "Free Enterprise and Competitive Order," published in his "Individualism and Economic Order" (1949) pp. 107-108. 'What to the politicians are fixed limits of practicability imposed by public opinion must not be similar limits to us. Public opinion on these matters is the work of men like ourselves, the economists and political philosophers of the past few generations, who have created the political climate in which the politicians of our time must move.' (p. 108).

contrary, are the supremely rational and logical application of the first canon of economic theory. This canon, on which the entire philosophy of the market economy is founded, is the principle that each seeks to maximize his satisfactions.¹ I think I shall be able to show that, for these reasons and others, our hopes of establishing the self-regulating market must be very modest; and that in approaching it, we do not so much require economic elucubration as we do political invention.

The basic presupposition (and fallacy) of the classical economists and their present day successors, is that Government, if not actually a neutral in the citizens' economic struggles, is capable of being so. For them the Government is merely to create the conditions under which the market will become self-regulating. Given such a market, Government's function is, in Bentham's words, to 'Be quiet.'² 'We

¹ This assumption, or canon, is in fact, the "rationality principle", the principle that defines the "economic man".

'The economic man' says G. Myrdal, 'is defined as a man who assesses pleasure and pain effects (note that their existence is thereby implied) at their "true" value, and who always chooses that line of action which maximizes his net pleasure.' ("The Political Elements in the Development of Economic Theory", translated P. Streeten, 1953.)

'Little could be said about the behaviour of prices', says I. M. D. Little (criticizing what he calls 'Utilitarian Economics'), 'if demand was not determined by the behaviour of rational individuals and a rational man, i.e., an "economic man", was one who tried to maximize his satisfactions.' ("A Critique of Welfare Economics", 1950, p. 9.)

One of the best known texts is Tibor Scitovsky's "Welfare and Competition" (1952). 'We discussed the behaviour of the consumer and the individual seller,' he says, at p. 110, 'on the assumption that they aim at maximizing their satisfactions... we want to remind the reader of one feature of this assumption: it is incapable of proof or disproof and amounts to little more than a rationalization of whatever the individual's market behaviour happens to be.'

He continues by saying, however:— 'About the "firm" we shall make the much more tangible and definite assumption that it aims at maximizing its profit—'

² J. Bentham: "Manual of Political Economy." Ch. I. (Collected Works, Bowring, edn., Vol. 3, p. 35.)

believe in short that the duty of governments,' said the famous Royal Commission on Handloom Weavers in 1840, 'is simply to keep the peace, to protect all its subjects from the violence and fraud and malice of one another; and having done so, to leave them to pursue their interests in the way which they deem advisable.'¹ Liberal economists such as Roepke and Robbins would extend this list of *agenda* very widely: but they still do so on the assumption that thereafter the Government not only ought but *can* keep its hands off the competing economic interests and individuals. In this sense what Karl Polyani wrote in *The Great Transformation* is still correct: 'A self-regulating market demands nothing less than the institutional separation of society into an economic and political sphere.'² The market and the Government are, henceforth, to exist side by side. The Government is *not* to interfere with the market; the market is *not* to interfere with the Government.

Now I propose to ask:— 'Why is the market not to interfere with the Government?' This simple question is one to which few economists ever address themselves. Yet it is fundamental to understanding the slide into interventionism.

It is quite clear why liberal economists maintain that the Government ought not to interfere with the free play of the market: but it is not by any means clear why individuals, firms or associations in the market should refrain from trying to interfere with the Government! Indeed, *if* they are seriously intending to maximize their own advantage, they will inevitably try to do so.

In short, however much the Government itself wishes to refrain from interfering with the free play of the market, there are interests in the market which will make it their business to try to force the Government to do just that thing.

¹ Royal Commission on the Handloom Weavers. "Report" 1840, p. 98.

² K. Polyani: "The Great Transformation." (Beacon Press Edition, 1957) p. 71.

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'The institutional separation of society into an economic and political sphere' is an impossibility. Economic interests make themselves felt by taking political action. Political power is circumscribed even if it is not actually governed, by the economic leverage of sectional interests. The activities of the economic interest group, be it trade union, or industry, or trade association, offer historical, actual—and as I shall argue, proleptic—proof of this assertion.

So much indeed is recognized by most neo-classical economists. In his *Economic Basis of Class Conflict*, published in 1939, Professor Robbins for example, wrote thus:—

'The creation of state-aided restriction is the creation of privilege. It is the creation of closed groups, the creation of a syndicalist society... What is granted to one group is not easy to deny to others. And as the area of such privilege is extended, the structure of society is modified... *The struggle for wealth becomes a struggle for privilege*... a struggle not for technical efficiency and adaptation to the wants of the community, of consumers, but a struggle for status and the power of monopolistic exploitation—.'

As a description this cannot be bettered: but from a further passage, it is clear that Professor Robbins sees this tendency as an accident, an aberration on the part of Government and easily put to rights. 'Nevertheless,' he says, 'the victory of the pressure groups is not inevitable. In a community in which they receive little support from the State and in which intellectual leadership does its job, their conspiracies against the public would not be at all difficult to meet... The best way to deal with monopoly is to create conditions of competition by removing the obvious legislative limitations.'

1 L. Robbins: "The Economic Basis of Class Conflict." (1939) p. 43-44.
2 Op. cit. pp. 79-80.

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But the hard facts are precisely that these interests *do* receive support from the community and that governments have no intention of removing the legislative and administrative limitations which they have made on their behalf.¹ The recommendations are utopian. For the political activity, the influence exerted by these interest groups on Government is not something accidental or illogical. On the contrary, it is inevitable: and so, by the same token, is political tampering with the 'market.' And not only is it inevitable. It springs, logically, from the very root of economic theory.

This basic assumption of economic theory is the principle that each individual will seek to maximize his satisfactions. With certain other assumptions, it can be deduced from this that in a perfect market this principle will lead to the most rational utilization of all the factors of production. Thus it will maximize the satisfaction of the whole community. It is because it will do this, that economists like Robbins and Roepke and Hayek seek to persuade Government to restore the 'perfect market' by political action. What they overlook is that the principle that each will seek to maximize his own satisfaction will inevitably lead him to seek to *destroy* the perfect market. The two assumptions contradict one another. The maximization of an individual's satisfaction may in fact only be attained if he can get the Government to tamper with the perfect market. Conversely, if the Government should establish the perfectly free market

1 So much is recognized by F. von Hayek, whose diagnosis is, otherwise, similar to Robbins'. 'There is no hope of a return to a freer system until the leaders of the movement against state control [by which he means anti-socialist parties or groups] are prepared first to impose upon themselves that discipline of a competitive market which they ask the masses to accept. The hopelessness of the prospect for the near future indeed is due mainly to the fact that no organized political group anywhere is in favour of a truly free system.' ("Individualism and Economic Order." 1949. pp. 107-108.)

it may well prevent the individual maximizing his satisfactions.¹

The reason that this is not clearly understood is because the economist who writes a text book believes in sticking to his last. He is so concerned with the operation of the market that he makes the assumption that persons who are out to maximize their satisfaction do so through the market and in the market, and *only* by market processes. But maximization means just what it says—maximization; and that means by any recourse to hand.

Consider for example the competition between two gangs of bootleggers in America of the 'twenties. It was always

¹ Compare G. J. Stigler's treatment, in his "Theory of Price" (1952). This is a well known and widely used textbook. At pp. 48 et seq., he asks 'What do entrepreneurs seek?' and answers that 'In modern economics it is customary to attribute to him one overriding goal: the maximization of profits.' This, he says, is 'the strongest, the most universal and the most persistent of the forces governing entrepreneurial behaviour.' Now at p. 13 he lays down the prerequisites for "competition", and says that one of these is:—'that neither government nor private associations erect obstacles to the movement of resources into and out of industries or regulate the prices paid or received by economic units.'

Nowhere does Stigler observe that one of these conditions is highly unlikely in the presence of the other.

That the two are necessarily connected and must necessarily influence each other was seen, however, by Gunnar Myrdal. In his "The Political Element in the Development of Political Theory" (published in 1929 but unavailable in English until 1953), Myrdal writes:—

'We are not entitled to take the existing institutional set-up for granted. By institutional set-up is meant the legal order, and the customs, habits and conventions which are sanctioned, or at least tolerated, by that legal order. "A purely theoretical analysis of price formation can and indeed always has abstracted" from institutional changes. (my quotes).

'In actual life however it is the institutional set-up over which the political struggle is often fought. . . . All institutional factors which determine the structure of the market, indeed the whole economic system including its tax and social legislation can be changed, if those interested in the change have enough political power.' (pp. 196-197).

The whole chapter (Chapter 8, 'The role of Economics in Politics') is important, as it explores and expands the implications of these views.

open to Al Capone to maximize his satisfaction by successful competition—by providing better quality hooch, or quicker delivery; in short by giving better service. But a quicker and more final way was for him to kill his competitors! Why should we assume that an individual will seek to maximize his satisfaction *solely* by the processes of the market? It is more logical to suppose that he will try to manipulate his *whole environment*—to create conditions where, if you like, the market is rigged in his favour. And this, not the economists' abstraction, is precisely what he has done and is doing.

For evidence we have only to look around us. Every economic interest has one basic policy—to immobilize the remainder of the economy while itself remaining as free as before. The Institute of Directors is a strong advocate of a highly competitive market economy. It demands private enterprise, freedom to invest and freedom to distribute dividends. But equally sharply it urges wage restraint on the Trade Unions. In its so-called *Plan for Progress* the Labour Party proposes to control the distribution of dividends and investment-decisions, and if necessary to control building policies, and even to fix prices. Everything is to be controlled—except wages. These are to be left to the self-restraint of the Unions alone! One could multiply instances from every field of British economic life and at every period in her history; British agriculture has successfully persuaded the legislature to tax the rest of the community to provide subsidies in order to allow it to compete; at this very moment the textile industry is raising clamour to exclude cheap cottons from the Commonwealth.

¹ "Plan for Progress": (The Labour Party) July 1958.

Cf B. C. Roberts, "National Wages Policy in War and Peace" (1958):

'The unions, however, wanted absolutely full employment, cheap money, massive government expenditures, stable prices, and freedom to bargain for higher wages as and when they liked, without any limits.' (p. 64).

At this point economists may make two objections. In the first place they might say that the textbook 'models' which they have worked on with such ingenuity for a century and a half represent only the 'economic aspect' of affairs. This is perfectly true—they do. But it is one thing to make an abstraction for purposes of analysis, and another thing, when it comes to prescribing policies for the real world, to continue to apply this abstraction. The fact is that economic analysis is two-dimensional. It describes and analyses behaviour in the market and *only* in the market. In real life a third dimension must be added—the political dimension. Whole men maximize their satisfaction by operating in both fields, or either—whichever is the easier.

A second objection is of an historical nature. 'Was there not a time,' it may be asked, 'when the British legislature did in fact set about creating a free market? Did it not, in the first half of the nineteenth century abolish the preferential treatment of various economic interests?' Certainly it did so; but it is as well to remember two qualifications. In the first place the repeal of the Corn Laws was achieved by the effective *political* mobilization of those who had an interest in cheap bread against the political opposition of the landed interests. The legislature was not an impartial Minerva, rationally formulating the logical principles of the market economy; it was the cockpit of the contending interests. Secondly, the long parliamentary obstruction of efforts to shorten the working day, or to assist distressed sections of the population like the handloom weavers; its eagerness to create the free labour market in agriculture by the cruel cauterization of the Poor Law Amendment Act, cannot be regarded simply as the triumph of enlightenment over economic ignorance. These policies were only possible because the legislature was largely insulated from the effects of popular disfavour by its unrepresentative character. The coming of universal suffrage gave the labouring classes the third dimension, the political

dimension, to work in. As soon as that occurred, the free labour market was unenforceable. This development was clearly foreseen by W. H. Lecky, when he wrote his *Democracy and Liberty*, on the morrow of universal manhood suffrage in 1885. It was not for nothing that he praised the constitution of 1832-67 as the wisest and most beneficent the whole world had ever owned. With the coming of manhood suffrage he rightly foresaw bureaucratic interference with the rights of private property and the massive redistribution of wealth in favour of the working classes.¹

This effect of universal suffrage brings me to the second main point in this lecture. So far, I have shown that the maximization principle, the principle that lies at the root of economic theory, actually *requires* individuals and groups to call on the Government to distort the free working of the market to their own advantage. Why cannot the Government let the market alone? Because the market will not let the Government alone!

My second point is simply that the Government's power to resist such appeals falls off in proportion as the constitution becomes more popular. In conditions of universal suffrage and representative government it reaches its very nadir; and this is the condition we are in. The reason is obvious. Such a constitution requires, first of all, freedom of association: by virtue of this, economic interests are permitted to organize and mobilize themselves freely in order to defend their interests. Secondly, by reason of universal suffrage these associations can bring their voting power to bear on the elections and secure the return of their spokesmen to Parliament. Thus the inevitable outcome of representative democracy is the representation of group interests in the legislature. The market goes into politics: and thenceforth the Government is no longer a neutral power keeping the ring clear for contending interests. On the contrary: it is the prize for which the interests contend.

¹ W. H. Lecky: "Democracy and Liberty". (1896 ed.) Vol. I, p. 18.

As Lionel Robbins put it in the quotation I referred to above — ‘the struggle for wealth becomes a struggle for privilege.’

Government is not neutral. Let me quote these words: — ‘No man is allowed to be a judge in his own cause because his interest would certainly bias his judgment, and not improbably, corrupt his integrity. With equal, nay, with greater reason, a body of men are unfit to be both judges and parties at the same time: yet what are many of the most important acts of legislation but so many judicial determinations, not indeed concerning the rights of single persons, but concerning the rights of large bodies of citizens? And what are the different classes of legislators but advocates and parties to the causes which they determine? Is a law proposed concerning private debts? It is a question to which the creditors are parties on one side and the debtors on the other. Justice ought to hold the balance between them. Yet the parties are, and must be, themselves the judges: and the most numerous party or in other words, the most powerful faction must be expected to prevail. Shall domestic manufactures be encouraged, and in what degree, by restriction on foreign manufactures? are questions which would be differently decided by the landed and the manufacturing classes, and probably by neither with a sole regard to justice and the public good. The apportionment of taxes on the various descriptions of property is an act which seems to require the most exact impartiality; yet there is perhaps no legislative act in which greater opportunity and temptation are given to a predominant party to trample on the rules of justice. Every shilling with which they overburden the inferior number is a shilling saved to their own pockets.’ These words might have been written yesterday. In fact they come from Letter 10 of the *Federalist*, written by Hamilton, Madison and Jay—in seventeen hundred and eighty-seven! 1

1 “The Federalist”: (Everyman Edition) pp. 43-44.

It would be otiose for me to catalogue the interests represented in our legislature. In his *British Pressure Groups* Mr. Stewart has provided a table of group representation in the House of Commons for 1951-1955;² and I have done something similar for the year 1956 in my *Anonymous Empire*.³ The occupations of our M.P.s have been analysed, after each General Election, by the various authors of the Nuffield College election surveys. I would however particularly draw your attention to Professor Sam Beer’s remarkable essay, *The Representation of Interests in British Government*.¹ Here this eminent Harvard Professor has traced the historical impact and influence of interest groups: from the small knots of self-interested landowners promoting enclosure bills for their private advantage, or trades promoting canal bills, or the East India Company defending its monopoly way back in the eighteenth century, through to the influence of the Anti-Corn Law League, or the railway directors in the nineteenth century, up to the present day. At all times our Parliament has represented private interests: and it is so today.

‘Everybody here has private interests; some are directors of companies, some own property which may be affected by legislation which is passing and so forth . . . Then there are those people who come to represent public bodies, particular groups of a non-political character in the general sense, and there again we must recognize that as one of the conditions of our varied life . . . We are not supposed to be an assembly of gentlemen who have no interests of any kind and no associations of any kind. That is ridiculous. That might apply in Heaven but not, happily, here.’ These

2 J. D. Stewart. “British Pressure Groups” (1958) pp. 250-257.

3 S. E. Finer. “Anonymous Empire: A Study of the Lobby in Great Britain” (1958) pp. 136-145.

1 Sam Beer: “The Representation of Interests in the British Government.” (American Political Science Review, September 1957).

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words were uttered, in 1947, by Sir Winston Churchill.¹

Given representative democracy this condition is inevitable. To preserve the self-regulating market from political interference, ought we then to abandon universal suffrage? A dictator, it may be argued, would be neutral. He would not be compact of sectional clamour. He would not be dependent on sectional votes. He would be both remote and all powerful.

I think such an alternative would be most undesirable—even to achieve the self regulating market; and I am sure you will agree. But I do not propose to pursue the question of desirability. I propose to ask, merely: is such a plan consistent with the premises by which liberal economists justify the self-regulating market? And the answer is, positively and sharply: No. Such an economist cannot consistently argue in one breath for the self-regulating market and on the other for dictatorship.

For universal suffrage and representative legislatures on one side, and the self-regulating market on the other, both derive from identical premises. If one is thrown out of the window, so is the other. Indeed, universal suffrage and representative government are the political *analogue* of the self-regulating market. Both start from the same principle: that each individual is the best judge of his own interests, and, left to himself, will seek to maximize his welfare. Economically, each is left free to exchange: politically, each is left free to associate. In the market no man is assumed to have such command of resources as to be able, by selling or by buying, to alter the price level: instead he must conform to the market price; which eventuates from a host of small sellers facing a host of small buyers. Politically, the analogue is that all men have a vote, but no man more than one vote. The free play of the economic market is paralleled by the free play of thought and discussion in a general election. In the market, the effort of each individual

¹ Select Committee on Privileges. (Case of W. J. Brown) 1947. Q. 83.

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to maximize his own gain is checked by the efforts of each individual to do likewise, and the result is the most economical allocation of the community's scarce resources:—hence, the greatest good of the greatest number. Politically, the effort of each individual to maximize his happiness is checked by the efforts of all others to do likewise; and the result is,—to quote Bentham—that 'in cases of collision and contest, happiness of each party being equal, prefer the happiness of the greater to that of the lesser number.'¹ Thus is majority rule justified. The institutions giving effect to it are universal suffrage, equal voting rights and freedom of association. Now all these are necessary preconditions of the representative legislature. Yet these are the very conditions in which competing economic interests are most prone to mobilize themselves and invade the legislature. The market moves into politics—to the end that politics shall move into the market!

It is now possible to wind up this stage of the argument. It amounts to saying two things: that the purported separation of the market from political activities is inherently impossible, in conditions of representative democracy at any rate: and, conversely, that the commingling of market and political activities is inevitable. Not only does this exist—that is manifest when we look around us; it exists necessarily. The world of social decision-making is a three-dimensional, not a two-dimensional one. It is a world of politics and economics, not of politics or economics. And, since this is so, it is fruitless either to deplore the existence of sectional pressures or to seek to abolish them. They are part of the situation in which we find ourselves. We must make up our minds that we have to live with them; and so the only fruitful line to pursue is how to make the best of this situation.

We ought therefore to cast up a balance sheet of their

¹ Quoted, Halévy, op. cit. p. 500.

advantages and disadvantages; and this brings me to the third part of this lecture.

In this, I want to elaborate four main points. In the first place, the 'interference' of private industry with the Government is not by any means due exclusively to a quest for privileges: there are certain legitimate grounds for Government interference. Secondly, in so far as this is so, the existence of sectional groups is of positive value to the Government in carrying out its tasks. Thirdly, the economic power of these groups forms a check and balance to the power of Government. And, finally, because of this, it lies in the power of some such groups to frustrate not only the improper policies of Government, but its proper ones also! It is here that the shoe pinches, and it is here that one must seek remedies. Everything has the defects of its qualities. As Woodrow Wilson once remarked, 'If you give a man the power to do right you give him the power to do wrong.' Sectional interest groups are no exception.

First then, the legislature often has legitimate grounds for interference. Perhaps I may take the sphere of public transport as an example? Here, in the first place, many redundant capitals are involved. Each is a drain upon the national resources. And this redundancy tends to lift the costs of transport to industry, possibly to an undue or unnecessary degree. To this extent then, the whole national economy is involved. Secondly, transport is inextricably interlaced with extra-economic values which it is the especial province of the legislature, not the market, to determine. Defence is involved, and this must qualify a purely economic estimate of the values of railways and coastwise shipping. Public safety is involved: the congestion on the roads and the heavy toll of road accidents is the affair of the legislature. Again, a sense of equality and convenience alike demand that passenger transport services shall be regular and predictable; and so, since the general public is not organized as such, it falls to the legislature as the grand jury of the

nation to see that this legitimate requirement is met. The location of industry, the problems of town and country planning, turn on the extent and characteristics of public transport: so too do the conditions of labour, however well this has organized itself. All these and many other problems, none of them exclusively economic, are involved. It is certainly true that the organized private interests carry their private economic competition and struggle up into the legislature to win the authority of the State for their own sectional policies. But, on the other hand, it is no less true that the legislature reaches down among the transport interests to force upon them certain conditions serving the public interest in so far as this is not susceptible of being produced by the forces of the market.

Since then the Government must often act in such a way as will disturb the legitimate expectations of economic interests, let it at least do so as wisely as possible. And in helping it do this, the organized interests are, literally, indispensable. I will not weary you here by describing the elaborate network of consultation which has evolved in the last half century between private industry, including organized labour, on the one side, and Government on the other. It is sufficient to say that most important groups have contact with both the legislature and the executive. In the legislature they are not only represented by individual spokesmen; their views are often encapsulated in the policy of one or other of the two main parties (with one or the other of which the major economic interests tend to align themselves). With the executive their contact is continuous. A great deal of informal consultation goes on between civil servants and their 'opposite numbers' in the trade association, the trade union or the large firm. And, side by side with this, there is a multiplicity of advisory committees on which representatives of the private associations sit cheek by jowl with one another and with civil servants and sometimes ministers. Nor should we forget the frequency with which special com-

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mittees of inquiry are established in which the private associations make their views known to the Government.

It is quite wrong to suppose that without this contact, Government would somehow be 'pure' or 'neutral': that it would stick to its political tasks and leave the market to stick to its economic ones. For, as we have seen, there are points where it has the moral duty to intervene. In such circumstances this symbiosis of the organized interests with the Government is what alone makes such interventions just and fruitful. Party programmes are never complete or specific enough to permit their authors to submit all the *minutiae* of a policy to the verdict of the electorate. It would be most undesirable, anyway. Likewise, nobody can foresee in advance all the problems that will crop up during the five years of a Parliament's life. At all points in the life of a government there necessarily exists a gap between it and the electorate.¹ This gap is filled by its contact with the organized interests—with what I have called, generically, the Lobby.

'Its existence and its recognized status in our political processes' (I have written elsewhere) 'provide continuous consultation between government and governed all the time. During this time the various associations supply the parties, ministries and officials with that technical and specialized advice without which laws would be mere chimeras and administration a mere bungle. Nor is that all they do. They tell ministers and civil servants how they *feel*. Anger, contempt or pleasure, expressed at first hand, are a valuable corrective to the bald facts of the case in an office file.

'In fact lobbying embodies two basic democratic procedures—the right to participate in policy-making and the right to demand redress of grievances. They are best appreciated by considering British government

¹ Cf. L. Tivey: "Democratic Theory." (Sociological Review, Vol. 6, No. 1 (1958) pp. 109 et seq.

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without them. Suppose parties and civil servants simply refused to have any contact with the Lobby? Suppose the party simply claimed that it was "the will of the people" with a mandate for doing all it had proposed? Its rule would be a rigid and ignorant tyranny. And if civil servants likewise claimed to be merely the servants of the Government in power, with no mandate to cooperate with the Lobby, its rule would also be a rigid and stupid bureaucracy. In the age of bigness and technology, the Lobby tempers the system: it does so by promoting this continuous interchange between governors and governed.²

May I now turn to my third point? As you will see, it is intimately connected with my fourth. It is simply that the host of sectional associations and organisations act as a counterweight to the power of Government. It is quite true that they may, and often do, use their power to induce the Government to interfere with the free play of the market. But it is equally true that they also use their power to prevent the Government doing that very thing. The Road Haulage Association has fought strenuously to prevent the nationalization of road haulage. The Iron and Steel Federation, I.C.I. Ltd., and the insurance companies have contested nationalization too. Likewise the trades unions have successfully struggled for collective bargaining and against compulsory arbitration and a national wages policy. Power faces both ways. The power to do right (whatever that may be) is the power to do wrong. It is precisely in the existence of sources of political pressure which are independent of and may be hostile to the Government, that liberal democracy consists: it is in the complete absence of such centres of private power that the totalitarian state consists. In proportion as private associations are strong, Government is weak. This may be for good or for evil: but never let us forget the *fact*.

² S. E. Finer: "Anonymous Empire", pp. 107-108.

But what is this 'power' to which I have so consistently referred? It is the Marxists who have most continuously referred to the so-called 'political power' of economic organizations. Remarkably enough there is no place in the whole Marxist canon where one can find a description of the *ways* in which economic power manifests itself politically.

It is clear that Capital and Labour do not enjoy identical opportunities for influencing the Government, and so we shall have to make distinctions between them. But one can say, by way of summary, that their power consists—in a representative democracy—in five properties. First comes the fact that they are *mobilized*. In most industrialized countries today private businesses are highly concentrated, both industrially (in cartels, interlocking directorates and price rings), and organizationally, in trade associations of all kinds. Labour is likewise highly concentrated, both by work place (the factory and the shop floor) and organizationally in trade unions. 'Organization' may be further sub-divided. In the first place there has come about a marked concentration of ownership and/or control of business enterprise. Thus, in 1950, the profits of fifty large industrial concerns in Britain accounted for about one-third of all industrial profits; and of these fifty companies thirty-three were connected, by interlocking directorships, with eight major banks.¹ Paralleling this, one would find a high degree of concentration in the British trade union movement. Seventeen unions, a mere 2.5% of the total number of unions, contain some six-and-a-half million members, or two-thirds of the total membership of all unions. The six largest organizations account for over half of the membership affiliated to the T.U.C.² Next, business enterprises—and trade unions—form a vast nexus. Producers consume each other's products. Both rely on distributors and on the

1 S. Aaronovitch: "Monopoly", pp. 44-56.

2 Carr-Saunders, Jones, Moser: "A Survey of Social Conditions in England and Wales", pp. 32-33.

common services of banking and insurance houses, transport contractors, builders and the like. Contracting and sub-contracting carries the relationship down, through different social strata, to barrow-boy and owner-driver where it is hard to say where 'capital' ends and 'labour' begins. This interdependence of firms and industries is matched by a similar interdependence of trade unions. Each depends upon the services of the workers in other trade unions. A stoppage at a factory which builds motor-car bodies, for instance, can bring the whole motor-car industry to a halt, and this in turn can affect a hundred other trades throughout the country. Lastly, both businessmen and workpeople are strongly organized in special interest groups. In England there are some 2,500 trade associations, of which about half are manufacturers' associations. There are also the 'peak' organizations (the F.B.I., the N.U.M. and the A.B.C.C.) and it is rare to find any large firm (except for retailers who have their own organizations) which is not represented in one or other of these three peak associations. For their part, some nine and a half million workpeople are organized in trade unions of which there are some 650. But many of these are small and 85% of the membership is contained in 50 unions.

In short, both capital and labour are very highly organized in Britain. We must add, in parenthesis, the important note that pensioners, rentiers and consumers as such, are *not* highly organized. Indeed they are hardly organized at all.

The second political implication of economic power lies in the possession of *wealth*. Here the owners and managers of industry have an advantage over labour. As a group their resources tend to be considerably larger than those of other interest groups; they can produce their money much more quickly than other groups and can spend it for somewhat longer. Wealth, in our civilization, invests its owners with a certain prestige and glamour. But apart from

that, of course, it enables its owners to pursue two important political objects. It can pay for propaganda—for articles, advertisements, leaflets, pamphlets and so forth. The Economic League and Aims of Industry are heavily subsidized by certain firms to provide such services as these. Secondly, business can subscribe funds to political parties and it is no secret that in this country the directors of companies, and in some cases private companies themselves, do provide funds for the Conservative Party. Labour is not entirely defenceless since the trade unions often produce their own journals, and, through the mechanism of the political levy, heavily subsidize the British Labour Party.

Thirdly, comes the political influence of *numbers*. Here Labour has a clear advantage—it has the votes. Some two-thirds of trade unions, and of trade union leaders, are strongly indoctrinated with an anti-capitalist ideology. Some half of the Conservative votes in 1951 and 1955 came from the manual working class. Without such votes the Conservative Party could no longer survive, but in so far as it has to depend on these votes it gives a vital hostage to manual labour. A fourth political derivative of economic power is the degree of *access* to Government. Here the honours are roughly equal. Labour has about one hundred trade unionists and some twenty co-operators on one side of the House and these are counter-balanced by about one hundred and fifty company directors on the other.

Finally, and most importantly, comes a power which, in conjunction with the high degree of mobilization which both Capital and Labour possess, makes the two sides of private industry much more important than any other interest in our community.

This power I call the *surrogate* power of private industry. This power, together with a high degree of mobilization, makes its political intervention so important as to be almost irresistible. I may explain it thus:

Private industry, though carried out under private

auspices for private gain, is nevertheless something that affects all members of the community. If a single baker's shop shuts its doors, that is a private matter. If every baker simultaneously refuses to supply bread, that is indisputably a public matter. As long as private industry continues to supply essential goods and services, it is left to its own devices. As soon as it interrupts these goods and services—it is the right and duty of the Government to act. The public interest is affected, and of this the Government is the custodian.

In this sense then, private industry exercises functions on behalf of the community, and in its default the Government would be deemed responsible for them. In this sense therefore, it is the deputy or, as I call it, the *surrogate* of Government. This surrogateship confers on both sides of private industry two important possibilities. First, they may—deliberately or otherwise—slow down activities which the Government wants to foster, or speed up processes the Government is trying to discourage. Thus the Iron and Steel Federation proved obstructive in 1950-1951, when the Government Corporation was seeking to administer the iron and steel industry: similarly, the National Union of Railwaymen opposed wage restraint in 1948-9 when the Government and the T.U.C. were trying to establish it. Secondly, as we have seen, the Government depends on private associations for expert and technical advice, and, indeed, in some cases on their administrative help. All this may be withdrawn. The Iron and Steel Federation in 1950-1951 declined to co-operate with the Government Iron and Steel Corporation which, legally, *owned* the firms composing the Federation! Likewise, in 1956, the T.U.C. ostentatiously declined to permit the Chancellor of the Exchequer to address their conferences: and just the other day it refused co-operation to the Cohen Committee.

Formal decisions to obstruct or to boycott are, fortunately, rare. But behind this formality there is an omnipresent

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threat. It is rarely stated, for to state it would signalize the breakdown of constitutional processes. It is the possibility that certain groups may withdraw their labour and their services from the economy. A certain economic policy may cause the public to stop saving, or deter business-men from investing, or make trade unionists claim wage increases. However innocent of deliberate intent to embarrass the Government, embarrass it these actions must.¹

This power to embarrass or frustrate the Government may be used wisely and in the public interest. Equally well it may be used unwisely and in a sectional interest. In either case however, one truth applies. It is a counterpoise to the power of Government.

This brings me to my fourth point—the danger in this situation. And this is very simply stated. If all associations and groups in the community carried much the same political weight, then one might expect them roughly to check and balance one another. Our difficulties spring from the fact that some interests carry much more weight than others. And these are the ones which possess not only mobilization, but surrogate power as well: in short the producer-earner interests rather than the pensioner-consumer interests. In the scales of political power the two sides of private industry easily outweigh all other interests in the community. And capital and labour do not, as some might think, simply cancel out. On the contrary, more often than not, they add up. The National Farmers' Union and the Union of Agricultural Workers form one single protectionist bloc. The textile unions and the textile employers form one single protectionist bloc. In matters of wage increases the increases are granted provided the employers can pass it on to the consumer: so that in exploitation of this kind, once again, employers and trade unions form a joint-interest. And such pressures, for the reasons I have stated, are the ones that

¹ Cf S. E. Finer: "The Political Power of Private Capital". (Sociological Review, Vol. 3, No. 2; Vol. 4, No. 1; 1956).

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Government—no matter what its political complexion—finds it impossible to resist.

I have argued that it is no remedy to call on the Government to keep its hands off the economy,—to trust to the self-regulating forces of supply and demand. Such demands, made by economists throughout the ages, resemble the heartrending appeals of the prophets of Baal, have an identical effect, and for a very nearly identical reason—they are addressed to the wrong person. A solution is not to be found in the sphere of economics. It demands political artifice and political education.

You will not, I feel sure, expect me at this stage to expound and justify a long programme of remedies. In any case, there are no remedies. The best we can do is to alleviate; we cannot cure. May I then simply indicate the broad lines on which some advances might conceivably be made? I can sum them up under four—rather latinate—headings. They are:— Information; Proliferation; Arbitration; and Education.

By *information* I mean that you and I, the general public, should be told which M.P. is speaking for what interest (if in fact he should be doing so) when he addresses his constituents, the press or the House of Commons. To my mind every M.P. ought to be required to record the fact and details of his connexions with any outside body of which he is a member, a patron or an agent. Many already do so; and what these do, all ought to do. If such information were widely spread, we could follow Parliamentary Debates with much more understanding than at present. Many of these are simply a struggle between rival sectional interests. To know the extra-parliamentary connexions of M.P.s is to be made sharply aware when this is so. And to be made so aware is half way towards being able to control the outcome of such debates.

By *proliferation* I mean simply what Rousseau meant when he said that he did not want any 'partial societies' at

all, but that 'if there are partial societies, it is best to have as many as possible and to prevent them from being unequal'.¹ To this end, all private associations ought by law to be voluntaristic—free to enter and free to quit. There ought be no 'closed shop' either in price-rings or trade unions. Secondly, no private association should enjoy any legal privileges that other private associations do not likewise enjoy : as for instance, certain legal immunities enjoyed by trade unions.

By *arbitration* I mean that as far as possible, the claims of economic interests for special treatment should be submitted to appropriate tribunals before being submitted to Parliament. I was impressed by the power of consumers to resist the Egg Marketing Scheme in its first form, by virtue of the fact that this scheme had first to be submitted to a public inquiry. I was similarly impressed by the standing given to consumers when the British Transport Commission Freight Scheme was considered by the Transport Tribunal. And I am in favour of the procedure under the Monopolies Act by which the parties must prove before a court that their restrictive agreements are not against the public interest.

Finally I come to *education*. I am far from averse from the popularization of the principles of economics : on the contrary. But I cannot help thinking that if a tithe of the attention given in the last century to inculcating its 'salutary principles' had been diverted to explaining how our constitution works and what are our duties as citizens, much of our present difficulty might never have arisen. In particular there is one view which ought to be universally inculcated—that however much the principle of egotism may be necessary for the construction of a so-called 'science' of economics, it can lead to oppressive exploitation if it is adopted as the maxim of our civic duty as citizens.

I J. J. Rousseau : "The Social Contract", Book II, Chapter III.

Let me explain why. It will serve both as the summary of my argument, and the final conclusion to this lecture.

Each, we have been told repeatedly, by trying to maximize his own satisfaction, is led—'by an invisible hand'—to promote the good of the whole community.

This statement is then qualified. It is, after all, meant only in a Pickwickian sense. In brief, it only applies, we are told, as long as the individual or the association operates only inside the market.

But is not 'only operating inside the market' an act of *self-abnegation*? Who would face business uncertainties and the chilly blasts of competition if he could by political pressure abolish his competitors and ensure himself a permanent income?

The real world exists in two planes, not one : there is an economic one *and* a political one. In order that the economic plane may be self-regulating, economists have had to think away the existence of the second. This is an elegant tool for purposes of exposition and analysis ; but that is all it is. When it comes to the prescription of policies, however, the political dimension may not be simply thought away. Economists have therefore sought to overcome this difficulty by assuming that it will, or can, neutralize itself : in Bentham's words, 'be quiet'. But this is illogical. For the principle of self-interest which supplies the motive power to the self-regulating market carries the individual out of the economic plane into the political one. Thus the State can never 'be quiet' unless the individuals making up the market so wish it. So to wish it, demands self abnegation : *not* the principle of self interest.

In this real and three dimensional world of economics *and* politics, of private industry and Government, the principle or even the assumption of self interest will *not* bring about the greatest good of the whole community. On the contrary. It will lead to the exploitation of the consumers

Golden Rule for a world of organized interests. It is simply this : that no sectional interest, organization or group should ever demand of Government more than it, if it were itself the Government responsible for the whole community, would be prepared to grant.

by the producers and of the weaker producers by the stronger. It will lead to the greatest satisfaction of only some, at the expense of all the rest.

In this real world, a different canon is needed. It is the canon that nobody ought morally try to get more from the community than he puts into it : that it is great to have the giant's strength but tyrannous to use it like a giant. This is the substantial truth which Rousseau saw.

'Each man,' he writes, 'in detaching his interest from the Common Interest sees clearly that he cannot entirely separate them ; but his share in the public mishaps seems to him negligible beside the exclusive good he aims at making his own . . .

'His fault is that of changing the state of the question, answering something different from what he is asked. Instead of saying, by his vote "it is to the advantage of the State," he says—"it is of advantage to this and that man or party that such or such a view should prevail"'.¹

The attitude Rousseau describes here is astonishingly contemporary. How many times in the last few years have we not heard the Director, or General Secretary or Executive Committee of some association or trade union say : 'This body was set up by its members to defend the interests of its members and its first loyalty is therefore to its members.' Fortunately for us, however, the contrary view has been the usual one. We are lucky that bodies like the Trades Unions, the F.B.I., the A.B.C.C. and so forth—however much more we feel they might do—have on the whole taken their civic responsibilities seriously. They *do* exercise responsibility and restraint : and this is how, according to Rousseau, they ought to act.

I can put this another way. It is what I would call the

1 J. J. Rousseau : "The Social Contract", Book IV, Chapter I.

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