

CHAPTER VIII

INCREASING COSTS OF PRODUCTION

Increased Expenditure Analysed—'Trust' methods—
The Retailer-cum-Manufacturer—Tendency towards
Specialisation—Increasing use of Machinery.

EVERY year the British manufacturer is met with a big increase in the cost of production. This is traceable to (1) increased wages, (2) shorter working hours, (3) higher prices of raw materials, (4) new taxation. Increased wages have been very marked in every group of trades with the exception of mining and pig-iron manufacture. The official figures for 1911—the latest available—show in that year an increase of £25,927 per week in the wages of 825,204 work-people.

This works out at about eightpence per employee per week, and, although the individual increase appears very small, in the aggregate it becomes a very substantial burden. A manufacturer who employs only five or six hundred men, called upon to pay only eightpence per week extra to his employees, thereby finds his expenses augmented by £1000 per annum, which represents 5 per cent.

interest on £20,000 of capital engaged in the business. The burden has been made additionally heavy in some trades by a reduction of the hours of labour, with the net result that whilst the cost of production has increased the output has diminished. The higher prices of raw materials have affected many industries, sending up the cost of production from five to ten per cent. and over. By the Employers' Liability Act, and more recently by the Insurance Act, the amount payable in domestic taxation has advanced. The increased expenses during the past few years may be apportioned as follows :—

Increase in wages	Between 3½% and	5%
Decrease in production	„ 2½% „	5%
Rise in raw materials	„ 7% „	10%
Increased taxation		2%
Total		13% to 22%

The increase does not stop there. The cost of building a house to-day is about fifteen per cent. more than last year. The cost of all cast-iron goods has further increased by twenty per cent. The cost of printing, which went up five per cent. not long since, is at the time of writing the subject of a conference of the master printers. Taking the

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percentage of increase at its lowest, namely, fifteen per cent., it may easily be seen how heavily the burden presses on the small trader, who is already sufficiently harassed in his efforts to cope with keen competition. Perhaps the best indication of the effect of the increased cost of production may be gathered from the following figures, representing a successful manufacturer's financial year :—

Manufacturer's capital	..	..	£50,000
Total turnover	..	..	£200,000
Gross expenses	..	..	160,000
Gross profit	..	..	£40,000
Administrative and other expenses	..		15,000
Net profit	..	..	£25,000

Yield on Capital equal to 50%

If, as has been shown actually, to have happened during the past year, the cost of production, that is, working expenses, be increased by 15 per cent., the gross expenditure will advance from £160,000 to £184,000 and consequently the gross profit will be reduced to £16,000. After meeting administrative and other charges, the net profit thereafter is about £1000, or 2 per cent. as against 50 per cent.

Thus :—

Manufacturer's capital	..	..	£50,000
Total turnover	..	..	£200,000
Gross expenses	..	£	160,000
Add 15% increase	..	"	24,000
			184,000
Gross profit	..	..	£16,000
Administrative and other expenses	..	..	15,000
			Net profit, £1,000

Yield on Capital equal to 2%

It is imperative, therefore, that the manufacturer who finds the cost of production increased by 15 per cent. should advance prices to the consumer so as to afford a larger margin of profit. In some industries this advance has not been possible because of keen competition, and the manufacturer has thus been faced with the alternative of reducing administrative expenses to the lowest possible point or carrying on his business at a loss.

Thousands of traders have been carrying on successful businesses with a smaller margin of profit than that I have cited. We know this by an examination of the accounts of industrial joint-stock companies, which have been more heavily hit than the private trader,

because the administrative expenditure of joint-stock companies — directors, departmental managers, secretaries, offices, etc.—is much heavier than in the private firm personally managed by two or three partners, and does not lend itself so readily to reduction.

Evidence is already forthcoming in the returns of insolvency that increasing expenditure is driving traders into bankruptcy. In 1911 there were 7549 cases of insolvency, with total liabilities of £9,357,000, against 3880 cases in 1910, 4764 in 1905, 4410 in 1900, and 4415 in 1895. Whilst the majority of bankruptcies are still due, directly or indirectly, to speculation, a perusal of the returns show that the number of bona fide traders failing through increased expenses and competitive trade is on the increase.

In some trades an advance in selling prices has relieved the situation, but only to a limited extent, because, whilst wages have risen, they have not done so in the same proportion as have costs of production. Where prices have been raised against the consumer, a distinct reduction in consumption has been noticeable. In some industries, notably many related to the textile trade, prices have tended downwards rather

than upwards, and this is directly traceable to the spreading of English 'trust' methods. I use the phrase 'English "trust,"' because the trust system which is extending in this country does not run on precisely the same lines as the 'trusts' in the United States, though indeed it carries in many ways grave possibilities of injury to the British trader.

The 'trust' system was not introduced into Great Britain *by* the Americans, but was copied by the British manufacturer *from* the Americans, and in the process has been adapted to British requirements. Otherwise, it is doubtful if it would have succeeded here to the extent that it has done. The attempts made at various times by Americans to control British industries by 'trust' methods have not met with marked success.

The Atlantic shipping industry, the British tobacco industry, and the London newspaper publications have all been subjected to 'Americanisation,' but up to the present the control of none of these has been taken out of British hands. The reconstruction of the Metropolitan Underground Railways of London is probably the only notable success which has attended Americanisation in this country, and even in this instance it has yet to be proved

whether the passing of London's traffic facilities into the hands of a financial direction largely American will ultimately benefit the public.

Nevertheless, Great Britain has built up its own 'trusts,' which may not yet be so widespread as those of America, but indications are not wanting to show that the method is gaining ground—to the detriment of the small trader and manufacturer. Cotton, cocoa, soap, chemicals, cement, tobacco are already practically under the control of a few firms possessed of enormous resources. In some instances the directors of these combines have at their command many millions sterling of capital.

They can dictate terms to the retailer to an extent undreamt of by the man in the street. The draper who sells thread, the grocer who sells cocoa, the firm which buys chemicals, the builders who use cement, the tobacconists who retail cigarettes must, if necessary, be content with so narrow a margin of profit as to come very near to closing their establishments rather than quarrel with the few wealthy firms who control their supplies.

They would be more accurately described as 'combines' rather than 'trusts'; for a trust is an undertaking that controls the supply of raw

material used in its industry so as to prevent outside competitors obtaining supplies except at exorbitant prices.

There are in the United States vast confederacies (so President Wilson has described them) of banks, railways, express companies, insurance companies, manufacturing corporations, mining corporations, power and development companies, and all the rest of the circle, bound together by the fact that the ownership of their stock and the members of their boards of directors are controlled and determined by comparatively small and closely inter-related groups of persons who, by their informal confederacy, may control, if they please and when they will, both credit and enterprise.

Fortunately for Great Britain, this state of things does not yet exist here; but the big 'combine' can bring so much pressure to bear upon a competitive undertaking that there is little to choose between the 'combine' and the 'trust.' The lady who gives up one firm's make of cotton thread and takes to that of another firm does not alter the ultimate destination of the profits of her purchase; and the man who discards one brand of tobacco for another firm's 'special mixture' is still

buying of the same 'combine' which controls the industry. Fortunately, in these specific cases, both combines are in the hands of men of high business integrity who have been driven to amalgamation, owing to the competitive system. The public, in fact, are probably the gainers by the reduction in costs of production which has resulted from the combination. The growth of the 'combine' has recently extended to other retail industries, and there are indications that it is still further enlarging its scope. A few of the fields in which the individual trader is giving way before the competition of the multiple-shop owners are as follows:—

Refreshment Shops.	Dairymen.	Outfitters.
Bootmakers.	Grocers.	Tobacconists.
Chemists.	Drapers.	Butter Merchants.

Originally the individual retail trader was able to hold his own against the more wealthy trader who owned several establishments, but the introduction of the joint-stock system with its amalgamated shops inflicted considerable injury upon him, and now that the multiple-shop companies are beginning to manufacture their own goods and supply direct to the public, it looks as though the small trader is about to receive his *coup de grâce*. Herein lies the

danger of the 'combine' system. Beneficial as it may be to the public by bringing them into direct touch with the manufacturer, it opens up new methods of commerce which have yet to pass the test of experience.

Hitherto the developments in this direction have been mainly in regard to the necessities of the buying public. Retail tea merchants have purchased tea estates in Ceylon and the Far East and have grown, gathered, and imported their own teas; butter merchants have acquired large farms in various parts of the country; bootsellers have established their own factories, employing thousands of men; even newspapers have acquired large areas of timber lands for supplying the timber to make their own paper.

It would seem that as the system develops, it must resolve itself either into the manufacturer becoming also a retailer, or the retailer becoming also a manufacturer. Some retailers have solved the difficulty by acquiring a 'controlling' interest in a manufacturing house, and vice versa. In any event, the development of the retailer-cum-manufacturer appears to me to be a significant portent of the future methods of trading in the larger towns.

A tendency towards specialisation in industries became observable almost immediately after the introduction of the railways. The millowner had been accustomed to spin, weave, and dye his cloth within one building because of the heavy cost of carriage by road. The cheapness and speed of carriage by the railway led to the separate establishment of mills and factories by spinners, weavers, and dyers. The spinner found that he could send to the weavers and to the dyers and get his cloth woven and dyed more cheaply than he could himself carry the work through. Consequently the weaving industry and the dyeing industry became specialised and distinct industries.

The effect of cheaper transport was the same upon other industries, which tended to split up into specialised sections, each having their own trade conditions and characteristics. This tendency was still further accentuated by the introduction of the Joint Stock Companies Act. Individual persons engaged in trade had not cared to risk the dangers which might attend specialisation in any one branch of their own industry, but the joint-stock system enabled a group of persons to incur a defined and limited risk and to acquire the capital for the development of some

special part of their trade, the success of which was problematical. The greatest impetus to specialisation in modern times has been the stress of competition. If the reader will inquire into any trade or industry that he can call to mind he will be able to trace how, during the past two or three decades, that trade or industry has been broken up into three or four or even more different branches.

The printing and publishing trades occur first to my mind while writing these lines. A generation or two ago there were a dozen or more well-known publishing houses who published any literary wares that were likely to reflect credit upon their houses and bring profit to the counting-house; the publishers who specialised were comparatively few. To-day there are publishers in every branch of literature — scientific, medical, antiquarian, commercial, legal, sporting, social, political, ethical, theological, and so on.

Again, the printer has ceased to be a printer pure and simple. He may be a copper-plate printer, engraver, lithographer, music printer, bankers' cheque printer, newspaper printer, book printer, photographic printer, postage stamp printer, magazine printer, almanac printer, railway ticket printer, colour printer,

bank note printer; for every one of these is now a distinct and specialised branch of the printing trade, and it is only the largest firms who find it profitable to have branches for each class of work. The same specialisation now obtains in every trade, and is extending even to the further partition of existing sub-divisions of trade.

The trend towards specialisation is not confined to trade. It exists in the professions. We select our lawyers according to their experience in equity, criminal, chancery, or other branches of the law; the family lawyer as such has almost ceased to exist. The accountant is known as a bankers' accountant, a stock exchange accountant, or a soft goods trade accountant. Even the writer, the artist, and the sculptor all find the need for specialisation. The result of this process is a greater concentration on detail, and an increased efficiency in certain departments of industrial life; with, on the other hand, a decrease in that spirit of independence and individuality which marked the work of the old craftsman and the master-man whose workshops were capable of handling every part of his trade.

The tendency towards specialisation is in many trades leading to the production of a

limited quantity of the finest goods in preference to an unlimited production of cheaply-made goods. In the iron and steel industry during modern times our manufacturers have applied themselves to the making of the finest and most elaborate goods in preference to the export of the more crude kinds of iron and steel. The result has been a proportionately lower use of the raw material, but a much higher proportion of labour in the goods. Goods worth from £10 to £20 per ton have replaced those of £5 per ton.

According to some statistics given in *The Statist*, a similar development has taken place in the cotton industry. During the quarter-century just past our shipments of the lowest grade of cotton piece-goods—unbleached fabrics—have fallen by 183 million yards, while shipments of all the higher-grade goods have risen by 1340 million yards. It is possible that the same tendency would, on detailed examination, be found in other industries. We are, as a nation, applying ourselves more and more to the production and shipment of highly-specialised goods and of goods of relatively high value, to the comparative neglect of goods of the lowest grade.

The application of special machinery to particular classes of work naturally goes hand in hand with the specialisation in industries. When trade shows signs of falling off there will doubtless be a great acceleration in the rate at which machinery is adapted to industries now largely carried on by hand labour. Slackness of orders will lead to increased invention and the construction of machinery adaptable to the needs of different kinds of hand industry. The popular fallacy that the use of machinery displaces labour and reduces wages is not well founded. When machinery is first introduced into a trade the labour may be reduced, but the increased efficiency leads to a greater volume of work, and hence to more employment.

Moreover, the labour engaged on machines is more highly remunerated than is hand labour. This is not mere conjecture, but is established by the facts brought out in the Census of Production. Mr Flux, before the Royal Statistical Society, submitted figures which clearly showed that where most machinery is employed the greatest output per head of labour is obtained, and where least machinery is in use, you may find the greatest amount of female labour, which is

the lowest paid. The following are Mr Flux's figures :—

Average net Output per Head	Males per cent. of all Employed	Females per cent. of all Employed	Horse-power of Engines at Factories per 100 employed in all Establishments
Under £50 ..	37.9	68.1	21
£50 and under £75 ..	40.0	60.0	50
75 „ 100 ..	72.4	27.6	97
100 „ 125 ..	90.2	9.8	100
125 „ 150 ..	93.0	2.0	266
150 „ 175 ..	64.0	36.0	81
175 „ 200 ..	92.0	8.0	215
200 and over ..	93.6	1.4	793

The figures are based upon industries employing five and a half million persons. Further, the established fact that workshops employing machinery obtain an annual output per head of £100 against a net output of £50 where machinery is not employed leads inevitably to the conclusion that manufacturers and traders will come more and more to use machinery. That part of labour which is now in receipt of low wages should stand to benefit, because with the increased efficiency of a workshop there should come increased wealth to enable the manufacturer to pay higher wages. Especially is this benefit likely to accrue in those industries which use women and child labour in preference to machinery.