

By the side of economic effort there always go questions of policy about which the producers must agree if they are to work with success. According to present-day systems, the questions of policy are put under the control of a set of men other than the producers — the politicians and statesmen. My optimism in regard to the economic outlook is equaled only by my pessimism about the political outlook. I will not venture to say that the relation between economics and politics is the greatest problem of the present moment, but it is a very great question, and it is to that that I invite your attention.

Let us note at once that it is not a new question; it is as old as the simplest forms of political organization. In the simplest agriculture the workmen cannot manage their own industry; they need to be told by their chiefs when to sow and when to harvest. The simplest organization is regulated by the political heads, and by them the trading is done, or expeditions are organized to go and get supplies. When irrigation is necessary, public control becomes necessary for more important reasons. There must be co-operation on a grand scale and the different steps must be brought into due relation. Ultimate success for all depends on the knowledge and good judgment with which these questions of policy are decided.

In our own society the legislator is needed to give to customs and usages definite form and sanction. He becomes the guardian of public or common interests, especially in regard to franchises, privileges, and compulsory powers. Here the delicacy of his function becomes apparent, for he creates and grants privileges and overrides private rights and individual will in the name of a public interest. It is necessary that he should do so—we do not see how the public necessity and convenience can be served without giving this power to the legislature.

The natural man, when endowed with this power, is very apt to look at it as a New Haven councilman did, whom I heard say, in the lobby of the city hall, when a street railroad question was pending: "It is very queer that we are making this thing and giving it away, and that we do not get any of it." The fact that the city council did not make the franchise was only a trifling mistake; the philosophy of the situation, as it appeared to an uneducated man, endowed with political power, was the important point.

It is a universal rule that he who needs protection, and accepts it, falls into subserviency under dominion. The chiefs who regulated industry under the system which I have referred to, came to be regarded as the owners of the land. They claimed a share in the product and exacted gifts and tribute. In higher civilization it came about that kings, priests, and nobles assumed the function of deciding quarrels which arose between producers, or in the market; and they got large fees for this function. To regulate the production became an easier way to get a share in the product than to participate in such production. The political functionaries got a very large share by magnifying their office.

In our modern state the function of organizing and regulating industry has lost none of its importance. The impersonality of modern industry has increased the importance of all the rules by which the parts of the industrial organization are held in harmonious relations. The interests have been subdivided, multiplied, and recombined into new and intricate relations, and of course the rights and duties have followed parallel lines of refinement and complication. The dependence of industry on political action has become greater and greater. Industry looks to the political organization for security,

peace, and established order; these constitute a status which is to industry the atmosphere of life. Franchises and privileges have not grown less important but more important. Our way of developing and using them is by joint-stock companies, which lessen the individual risk and increase the impersonality. Our laws and institutions assume with great *naivete* that the legislators are to be disinterested persons, no one of whom will ever make the reflection which I quoted from the New Haven councilman. They are assumed to act without interest or passion in the name of pure justice, and the disbursement of franchises and privileges is supposed to be for the public interest only. It is, however, true of every constitutional state, at the beginning of the twentieth century, that there are two ways of getting a share in the product of industry — to help to make it, and to help to regulate the making of it; get at it through economics or through politics. Every great state has, within a generation, had a great scandal from the action of its political organs on its industry; and democratic republics offer especial opportunities for the legislature to levy tolls on industry.

If we confine our attention to our own country we know that every legislature which meets contains a set of men who are in politics for what they can make out of it. But every industry must be carried on under the conditions which are created for it by the laws of the state; and if it is a large industry, or a new one, it will need legislation for itself — it will need compulsory powers, franchises, etc. Here is where the aforesaid set of men may impinge upon the situation. In England the method of granting compulsory powers is very careful of all vested interests; the consequence is that the expense of getting powers is so great as to be prohibitory on all small enterprises. This is a standing difficulty on that

side of the subject. The more anxious and careful the limitations by which the grant of powers is surrounded, the more expensive it must be and the more opportunity is offered for rivals to bar the way of anything new.

In our time, also, great care and attention are given to the ethical questions which arise from the adjustment of interests, and the just balancing of rights. Ethical questions always open grand opportunities for declamation and poetical generalizations, as well as for close analysis and correct deduction. Wagner¹ says that "the social question comes from a consciousness of a contradiction between the economic development and the social ideal of liberty and equality which is being realized in political life." If that is true, then it is no wonder that the social question is so hard to understand, and so enduring. Economic development is sure to come into collision with all "ideals," because economic development is hard and real and ideals are fantastic and unreal. The political ideals of liberty and equality are amongst the most fantastic of all. Such contradictions between ideals and realities surround all our discussions; trades-unionism presents many of them; they threaten the security and the peaceful development of our economic interests. The ethical questions afford a grand arena for the well-disposed bystanders who want to have a share in the discussion although they have no immediate interest in it; they generally contribute many phrases and watchwords of vague sense and wide application, if they have any application at all. Our politics are full of such watchwords and phrases which are of great utility on the stump, and many of them are carried over into economics. There is no reason at all to expect that economic development will ever come into harmony with

¹ *Lehrbuch der politischen Ökonomie*, 2d edit., p. 36.

the political ideals of liberty and equality. There is no sense at all in the talk we hear about "democracy of industry." Industry is carried on by talent, which is select and aristocratic. It is work, in regard to which men are, from the outfit which they possess and the conditions under which they work, unequal and unfree. We have inherited from the last two centuries a great stock of undigested notions which affect our minds whenever social topics come under discussion. These notions keep us from seeing realities. We have a school of publicists whose discussions consist in a reiteration of pet phrases and watchwords, which never contain more than a small fraction of truth.

We must also notice that the men who engage in economic enterprises are divided by their interests, and the parties to the several interests, if they are defeated in the economic struggle, have another chance in politics. They assail the legislature with loud complaints of their rivals and opponents, and demand that the power of the state shall be used to alter the conditions of industry or to make rules which will limit their rivals. The whole modern industrial organization is full of these conflicts of interests. The ethical elements in them are never simple; they generally depend at last on the most recondite and delicate play of economic forces and individual talent. When the legislator tries to deal with them so as to do "justice," he never has the case before him as it is before the mind of a party to the quarrel. In fact it is not possible that he ever could gain such knowledge of it. Some one aspect of the question fills his mind, and it is his prejudices and prepossessions which determine which aspect will win his attention; then he enacts something from the standpoint which he has adopted, and does wrong to all other interests. At any moment

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of time the men-on-the-curbstone and the newspapers have a set of feelings in their minds. Just now it is a notion that some men are becoming too rich; that we are threatened by the tyranny of corporations; and that the great masters of industry need restraint. This is dignified with the name of public opinion and the will of the people, which it is not only erroneous but wicked to contradict. This is the tyranny which we need to fear: the tyranny of a vague impression, held by everybody and by nobody, impossible to formulate or argue, but endowed with authority. A public man who catches it up, and pretends to satisfy it, gets excessive power without any real responsibility. All sorts of schemers hide behind these floating notions and use them for their interests in the battle with other interests, just as the walking delegate blackmails a contractor and dupes the loyalty of his followers. If we are very angry and mean to hit somebody, the next thing to do is to find out who is our enemy.

The reason why my political pessimism offsets my economic optimism is that I cannot see how, under existing conditions, industry can be set free from political control, and I do not see how economics and politics can be reconciled so that industry can prosper and law can be respected, both at the same time.

All our social order consists of institutions, customs, and usages in which old conflicts of interest have been reduced to harmony. Men have fought them out and reached adjustments which were equitable. Our courts of justice, our financial institutions, our methods of trade, and our schools of all grades are examples of social harmonies which found their form by long conflict, and settled down to smooth action by custom. The financial institutions and the methods of trade belong to the eco-

conomic system. The system of production is modern and new. There are still conflicts in it which have not been harmonized. According to modern usages, if any one is not suited in the existing system he cries out and complains. He turns to the political authority and wants a law passed to protect him from the stress or strain which he feels. The legislator responds, but he has had very poor success in his attempts to adjust equitably the conflicting rights and interests. He has not successfully imitated any of the old social harmonies, produced by long and patient struggle and endurance.

If you will recall the first appointment of the federal Railroad Commission you will remember that a decision of the Supreme Court of the United States had just opened for us a new page over the top of which was written "Interstate Commerce." The appointment of a Commission was no settlement of anything; we have been trying to find out, ever since its appointment, what the Commission is to do, what it can do and ought to do. You know what has been written on that page headed "Interstate Commerce," and we are only at the beginning of it yet. We know that there is no commerce which is not, or may not at any moment become, interstate commerce. When the first Commission was appointed we scrutinized the list to see whether the men deserved confidence. This winter we have been told that there is only one man on the Commission who is fit and competent to be there.¹ If that is true, then it only illustrates the way in which administrative commissions run down when public attention is diverted from them. If a good man is appointed, the railroads presently invite him to come over to them, and they give him two or three times the salary. At the same time

¹ New York Times, January 31, 1905.

that the Commission was appointed measures were taken to abolish passes on railroads. Another evil was to be cured by law. On February 4, last past, the newspapers brought us reports of a speech by President Stickney of the Great Western Railroad, in which he said that everybody from the President of the United States down to college professors had gone on using all the passes they could get, although it is a criminal offense to use one. In the period which has elapsed since the Commission was appointed, the Supreme Court has rendered a number of decisions which seemed to have far-reaching effects on transportation interests, but not one of them is known to have really affected the situation to any important degree. No sooner is a point settled by legislation or a judicial decision, than the threatened interests plan to secure themselves against its effects. They have in their service the ablest men under the largest pay; they find means to attain their purposes. We must expect that they will do so. Their wishes, and the means they possess to satisfy their wishes, are a part of the case with which we have to deal. The Commission, however, will not be abolished. There will be no abandonment of the policy of regulating interstate commerce. Things do not work that way. We rarely reach a conviction that we have made a mistake and turn back and give it up; we try to develop and complicate the contrivance and to put more steam into it. The political regulation, having failed to make everybody happy, is to be re-enforced and the two parts of the industrial system, the economic and the political, are to enter into a fight with each other.

It would be very interesting, if it were possible, to trace the growth of a popular conviction; newspapers and magazines sometimes try to produce one and fail. Then

again, they succeed in producing alarm and a belief that something is wrong. Next comes the popular conviction that something must be done — Daniel Webster once said that the belief that “something must be done” is the parent of very many bad measures. Next some legislators take the matter up in order to win the capital which may be got from early leadership of a popular measure. What is the real value of such a conviction that “something must be done,” if it really has been produced? How many people entertain it? What are their grounds for it? These questions need only be asked in order to show how vague and untrustworthy is the alleged “popular demand” as a ground of action. In the last weeks the House of Representatives has acted on an assumed demand that a commission should be created which should have power to fix freight rates, and on February 3 last the House set out to create such a power. How did they do it? They took up again the methods which they have developed for doing what the leaders of the party in power have decided shall be done — they held a caucus of the ruling party. They decided that there should be no debate, thus refusing to hear argument on the merits of the proposed act; they cut off the power to amend it; they suppressed with scorn and ridicule such opposition as developed in the caucus.

They thus renounced all the methods of legislative action which we inherited with legislative institutions as necessary to wise action. Then they adopted a rule of order by which to force the bill through the House. As there was some opposition, the Speaker took the floor and declared that the House had simply got to pass this bill, and that was all there was to it. “There must be harmony in the Republican party, and the party must get together and do something.” Of course this was

the appeal which, as we all know, moves the Congressman; an argument as to economic loss or gain may not reach him, but party interest is the supreme motive. The unanimity of the vote proves nothing as to the convictions of Congressmen on the measure, but only as to the excellence of the party discipline. When the question came up before the House, the Democrats complained that they were only allowed to propose a single substitute, to which Mr. Dalzell replied: "The generosity of the Republican party is demonstrated in its letting the Democrats propose any substitute at all."¹ That is, of course, the final point in that theory of our institutions. The victorious party in an election is regarded as having conquered the country; it takes the spoils and gives or allows to the minority as a boon, given in contempt, what it sees fit.

There is nothing new in all this. We have seen it grow up and take shape within a generation. I do not now speak of it because I want to criticize the political tendencies of today, but because I want to come to this question: What reasonable ground is there to expect that out of this method of political action any contribution to the wise solution of economic questions can come? There is no reason to expect it. On the contrary, we can only expect that all political interference will disturb and complicate economic problems.

I am a pessimist as to the political future because I do not believe in these methods of action on questions which affect complicated interests and rights. I have said above that, in the past, the interests threatened by laws and decisions have succeeded in warding off harm. I do not doubt that they will do it again, but that means that, in the long run, they will corrupt the political insti-

¹ New York Times, February 7, 1905.

tutions of the democratic republic. The harm is not all, therefore, on the side of the economic interests. I see no force in modern society which can cope with the power of capital handled by talent, and I cannot doubt that the greatest force will control the other forces. Our political institutions are based on the assumed power of numbers; the popular orators are all the time telling us what the "people" can do, when they arise in their might. The people have made for us what we now have, and in that we can easily see that great masses of men have no power until they are organized and led. They take notions into their heads which may be good or bad, but for the regulation of industry we want good notions only, and good notions do not come haphazard to great crowds of men. They come only to men of talent as a result of study. However, as things go now, the men on the side of numbers (democracy) affect to dislike talent and to ostracize it from political influence, while those on the side of capital (plutocracy) seek out talent and enlist its services at high wages. I cannot doubt what the effect of this selection on democratic political institutions will be. We may already see the corruption coming. We are, in fact, already governed by individuals and oligarchies; in every state in the Union the half-dozen men can be named who decide what may be done and what may not be done. The same is true in Washington. In other words, the numbers have given away their power or have allowed it to be taken from them. That is just what they have always done before in every case of democracy under the republican form. We have no democracy now; all the institutions are broken down; they are turned into oligarchies. The captains of industry and other great leaders in industrial enterprise do not mind this, for it gives them something

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which they can deal with better. Some years ago I met, in Germany, a German who was doing business in Russia. I asked him if it was not hard to carry on business there under the interferences and exactions of the police. "Oh, no!" said he, "it is much better than here in Germany. If there is a regulation there which bothers you, you arrange to pay so much to the police, and you hear no more of the regulation. Here in Germany, if they put a regulation on you, you have to obey it." I cannot agree, however, with that estimate of things. It is short-sighted; it is certain to reach its own limit. If we want to go on and prosper indefinitely, we must have energy and enterprise in economics, with few and good laws, just courts, and honest police. What we want good laws and good government for is not to keep the masters of industry from doing wrong, but to hold the parts of the industrial organization in harmony. The system of preventing a man from doing wrong by setting another to watch and control him is false, because the whole community would have to be turned, at last, into a great series of watchers and watched, and wickedness would flourish more than it does now.

Let me call your attention to another fact which seems to me to mark the using up of our political institutions. If we have a tribunal established to fix freight rates, we may call it a "court," but it will have to decide economic questions, not judicial questions. It cannot be a court. We shall call it so, in order to try to get for it the prestige which now belongs to the most unspoiled part of our political system. The only similar institution known to me is the Irish court for fixing rents. The economic parallel between rents in Europe and freight rates in America is very close and real. Rates are prices; they result from a conflict of interests; and the conflict is

intricate because many interests enter into it. Freight rates are the rate of return on capital invested and work done by the railroad company and they enter into the cost of production of the shipper. They also affect the relative profits of big shippers and little shippers and the relative prosperity of towns and ports. Freight rates are, therefore, in our country, a means of distributing returns on industry. In our present industrial organization, liberty is so great that the gains which are won conform to the degrees of talent which are put into the work. That is the proper result of liberty; it lets every force produce its due result. It is, therefore, at war with equality. But our statesmen want to produce equality; they dream of establishing conditions under which the little man shall stand equal with the man of genius. This they never can do without sacrificing liberty, and all the laws which are proposed aim to limit liberty by taxation, or the authority of a commission, or by special duties arbitrarily imposed. The statesman must always, in his laws, act upon an assumed state of facts, and he must always prescribe the same line of action for all cases. His enactments, therefore, act as limitations and trammels. But all our modern power and greatness has been developed under liberty. It is by setting free all the powers in the society that all of them have been developed up to the highest pitch and that the economic achievements have become so great. Then the men of ability who have led in the labor become great capitalists while other men remain poor. But that is offensive to the taste for equality and we hear endless lamentations over it. My argument does not require that I should deny that the masters of industry are often masterful, arrogant, and overbearing; I am told that they are so and I am quite ready to believe it; it belongs to their

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type of character that they should be so. It seems to me, however, that we cannot spare them, and we cannot expect to make them work in strait-jackets. I think that the liberty which has allowed all our great achievements is also the best for each of us in his place and way, and I regard the passion for equality as a vice of our age.

In daily practise the relation between economics and politics does not trouble us much. It is only when the statesmen propose to make a new and great interference with the industrial conditions that their acts reach the mass of us. In general we enjoy great opportunities of industrial and professional activity. We can earn a good living and accumulate some savings. We have very little occasion to feel, in personal experience, the interference of the political system. We live in a new country, under easy conditions, and the mistakes of our legislators fall only on the wide margin of opportunity which is at our disposal but not yet used. Taxation amongst us is very unjust, and falls very unequally on persons and property; but in general our attitude in regard to that seems to be that the "least said the soonest mended." In the twentieth century, however, our peculiar position as a new country will, in great measure, pass away. The dogmas of political optimism which we have inherited from the eighteenth and nineteenth centuries will be put to new tests which they cannot stand, when conditions are changed. It is now evident that our political institutions are to be put under great strain by the attempt of the United States to act as governor, patron, and receiver for the rest of America. Our institutions cannot meet such a strain, for they were planned for a confederation of petty agricultural republics. They might have sufficed for a republic of industrial interests and unambitious citizens, but they will not

suffice for an imperial world-power. We shall have to choose between the Monroe Doctrine and the Constitution of 1787. The political power will be extended and integrated. It will be of more importance economically. A clique which can control the federal government will have a power of self-aggrandizement which no men have ever had yet. It is this outlook on the future which is opening before us which made the subject of economics and politics seem to me worth attention at this time.