The classical conception of an economic system was that of natural harmony of individual interests and wills. It was argued by physiocrats in France and Adam Smith in England that if the impediments which human institutions have imposed upon the free play of natural tendencies in the sphere of industry and commerce were removed, a beneficial and harmonious order would emerge. Freed from obstructions, nature would give a positive guidance to individuals in the conduct of affairs. Each man would be "led as by an invisible hand to promote an end which was no part of his intention".¹

By pursuing his own interests, he promotes that of the society more effectually than when he really desires to promote it. This natural harmony, it was contended, was not confined to the actions of individuals only. Through individual conduct, it harmonises the seeming conflict of competing business and trade, leading man through divided labour so to cooperate as to bring to all their proper share in these gainful operations.

In such a system, it was claimed that there are "a natural price", "a natural wages", "a natural order" which

human nature would discover for itself and men's natural liberty will be simply the absence of any hindrance to this spontaneous action of human nature. 2

When political economy matured into a specialised study at the hands of David Ricardo, this invisible hand was no longer required. All that was needed was that the ordinarily intelligent man should put his labour or his capital to its most gainful use, giving as little and taking as much as possible. In this way, economic resources as an aggregate would be utilised as productively as possible and the largest body of wealth would be distributed in due proportions among all who had consciously cooperated in its creation. If progress is hampered for a while by successful manufacturers and merchants, competition must compel them quickly to hand down in lower prices to the general public all but a fraction of the industry.

The evolution of the marginalist doctrine in more recent times, which describes the movement of minutely divisible units of capital and labour into business and trades of maximum efficiency and productivity, has given a more precise meaning to the concept of laissez faire. If this divisibility and free mobility of all forms of capital and labour actually existed, they would guarantee a natural

harmony which would impel everyone to do his best and get what he was worth. In the words of J.B. Clark, "the distribution of the income of the society is controlled by a natural law of wealth and that the law, if it worked without friction would give to every agent of production, the amount of wealth, which that agent creates." From each agent a distinguishable share in production and to each a corresponding reward. Even if there were conflicts of interests and maladjustments, they were regarded as flaws or frictions in the operation of the system which, on the whole, worked harmoniously. Most of them were treated as temporary disturbances natural and inevitable in a growing organism. They were remedied in course of time by the competition in the economy which was thought to be malleable enough to adjust itself automatically, guided by the equilibrium of supply and demand. This process, it was added, would be accelerated and made more accurate by the spread of education and of reliable economic data among all classes.

But contemporary capitalism has belied many of the sanguine expectations of earlier economists, especially in the fields of distribution, for the exact working of competition has been considerably hampered by the concentration of production in fewer and fewer hands. In the age before capitalism, competition was a predominant force to break down all the stiff formalised economic relationship; but

3. J.B. Clark "Distribution of Wealth" p. 3. (New York,1899)
prolonged and intensified beyond a certain limit, it began to reverse its effects. From being a socially disintegrating force, it began to build up new relationship and new institutions. As John Stratchey aptly points out:

"the competitive process by its own ruthless strength, and in accordance with its own inner logic, continually creates bigger and fewer units with which to fight out the competitive battle." Since the eighteenth century, the individual craftsman, the individual merchant and later the individual industrialist, has been replaced by the partnership and the firm. This in turn has been superseded by the joint Stock Company. Later on, the small private joint Stock Company has itself been outclassed by the large Public Corporations. Finally, there has come into existence giant Corporations, usually a dozen or so in each industry, sometimes in the form of trusts, combines or cartels, occasionally although not typically, as semi-monopolies or even monopolies. Such giant units are now the dominant feature of contemporary capitalism. The extent to which this process of concentration has gone can be seen from the behaviour of some of the leading and advanced capitalist countries of the present century.

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To begin with, let us take the example of the American economy as it is the most advanced capitalist society of our time and as information on the structure of the American economy is considered to be the best and most elaborate. Professor Galbraith in his book "American Capitalism" writes "that the heads of Corporations that produce between a third and a half of the national products of the United States could be seated comfortably in almost any neighbourhood motion-picture theatre (between 400 and 500)."5 "A recent investigation by the Federal Trade Commission shows that for the year 1946, the 113 largest manufacturing corporations owned 46 percent of the property, plant and equipment employed in manufacturing."6

There are numerous industries where the number of firms serving the same market remains large and where no one or no small number have any considerable proportion of the total business; but one of the outstanding contemporary authorities on market organisation has concluded that "the principal indications of studies of American market structure are (among others) that concentration of output among relatively few sellers is the dominant pattern."7

5. Quoted in "Contemporary Capitalism", op.cit., pp.21-22
In Britain also, conditions are almost the same. According to 1938 census of production, it is found that in any given industry, about a quarter of the labour force worked in the three largest firms in that industry. There are in Britain under 12,000 "public" Joint Stock Companies altogether and these 12,000 units are responsible for, it is estimated, about one-half of the entire economic activity of the community. Thus these 12,000 firms do as much business as all the private Joint Stock Companies, the nationalised industries, direct state enterprises, the cooperative movement and all the innumerable firms, partnerships and one-man business of all kinds, put together. 8

With regard to German capitalism, it was actually the leader in the fields of concentration and this tendency was at its zenith under the Third Reich. According to press reports, the process of concentration has again been going on in all its vigour since the early fifties. 9

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The example of these three leading capitalist countries of the world conclusively proves that the process of concentration of production in the hands of a limited few is an undisputed fact. It also proves that as the economy expands, the tendency is more and more in the direction of concentration rather than diffusion. The result is that the managers of these firms are able to affect prices instead of being affected by them. Prices, from being objective data which move automatically with no man's will, become things which may be moved within certain limits, by the conscious decisions of groups of men. When this is accepted all the complacency about the self-regulating and automatic mechanism of capitalism becomes untenable. This new power to influence prices gives the entrepreneurs the power to influence the level of profits also. Although there are certain limiting factors which prevent the margins from being widened, the limits within which they can be widened are by no means small. This has enabled entrepreneurs to create and sustain large profits thereby creating inequities in the distribution of income.

An inequitable distribution of income may be conducive to accumulation and consistent with efficiency so long as there is an acquiescence in the existing mode of distribution. But when the workers become conscious of
the inequities of their economic lot, this awareness reacts upon their efficiency by causing an unrest and discontent with the current "social determination of values". When an actual sense of the inequity of distribution becomes firmly entrenched in the minds of the majority of workers, it interferes with their earlier automatic efficiency. For the present, this new moral fact of widespread and acute discontent on the part of large sections of workers is a matter of great concern to all those who desire peaceful progress. This new fact militates against efficiency and productivity of industry, thereby hampering the harmonious blending of the human units, in the economic system. It is become manifest that if energy and efficiency are to be restored to the system, some conscious policy of "industrial peace" has to be evolved and applied, in order that the efficient cooperation of the factors of production may be accomplished. There are many signs in industrial Europe and the United States of America of an increasing willingness on the part of workers and industrialists to experiment in methods of attaining industrial peace with a clear recognition that the existing economic system does not adequately fulfil the equitable and harmonious functions with which the classical economists endowed it.

Thus profit is the windmill at which labour tilts very often. It is the main citadel at which labour
directs its repeated attack, "for the climate of our day is hostile to income differentials in general, foreign differentials in particular, and to handsome profits to the extreme. This being the case, profit-sharing is a voluntary device initiated by employers to reconcile the claims of labour to a share of the surplus in the industry. It does not in any way weaken or infringe upon the rights of labour to improve its material conditions by invoking the aid of law, exercising collective bargaining through trade union movement or arriving at a working agreement with management to accept the principle of conciliation and arbitration. Profit-sharing is a new principle of rewarding industrial labour. Though usually labour is rewarded in the form of wages, profit-sharing when accepted allows the division of net profits between capital and labour, according to some form of pre-arranged formula. It is an attempt to satisfy labour on the question of profits by seeking to make him a profit-taker as well as a wage-earner. By and large, it is an inductive approach to the problem of industrial peace.

In this connection, I express my deep sense of obligation to Professor D.P. Mukerjee and Mr. Mohd. Shabbir Khan (Reader in Economics) for the valuable help and guidance they have given me in the preparation of the thesis.

Muslim University
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