

J. R. Commons' Administrative Approach

Shingo TAKAHASHI¹

¹ Tokyo College of Transport Studies. email: s.takahashi@toko.hosho.ac.jp

ABSTRACT.

This study examines John R. Commons' administrative approach, which coordinates economic agents' interests. Commons had sought a method of coordinating the interests in modern capitalism through the study of labor relations in the United States. He showed that changes in labor relations were tied to the expansion of the market. In « American Shoemakers », he insisted that the labor conflict occurred not as a result of changes in tools or methods of production, but directly as a result of changes in the market. On the other hand, he focused on the « commission », which was intended to deal with conflicts of interest. Commons emphasized this administrative approach to economic issues in his later years because it contained due process, which was significant in assuring the opportunity to show each personal « freedom ». Commons' theory and Regulation theory have similar historical analyses of capitalism, institutions in capitalism, coordination of interests, and labor-management relations. But Commons' institutional economics have evolutionary thought about this economic society. Therefore, at least, we should explore the possibility about a method of coordinating the interests on the basis of consideration and the significance of Commons' institutional economics, especially his administrative approach.

Keywords: commission, going concern, willingness, freedom, due process, reasonable capitalism.

A. INTRODUCTION

John R. Commons (1862–1945) had sought a method of coordinating interests in modern capitalism through the study of labor relations in the United States. The method of regulating the interests is reflected in his concept of institution, that is, « collective action in restraint, liberation, and expansion of individual action » [Commons: 1934a, p.73].

This study focuses on the administrative « commissions » that Commons emphasized in his later years. We consider this administrative approach as a method of coordinating interests. This study incorporates the results of labor history research on Commons. On this basis, we focus on the transformation of stakeholders and the changes to interests in capitalism resulting from expanding the market. This view is different from that of conflicts of interests by an immobilized class. Commons analyzed the 19th and 20th century's capitalism and showed a method of coordinating the interests that differed from those of Marx and Regulation theory. On that point, we think that there is a contemporary significance and uniqueness to Commons' approach. Thus, this study begins its discussion with Commons' labor history research. Then, we discuss the administrative committee system that he posited in his later years. We examine the relations of the administrative committee and the concept of « going concern ». Finally, from these considerations, we intend to obtain contemporary insights into regulations.

B. COMMONS' RESEACH OF LABOR HISTORY

B.1. MARKET EXPANSION AND SHOEMAKERS

Commons is a founder of institutional economics, along with Veblen and Mitchell. He is also a founder of the Wisconsin school of labor history research. According to Kobayashi, the Wisconsin school's strength lies in its attitude to research, which was based on facts. In the era of Commons, where existing literature and data were poor, research entailed building the necessary concepts from facts and experience. In addition, this method was also the way to become an authority in one's field [Kobayashi: 1988, p.16]. Commons had worked in a printing plant with labor unions since he was a college student. These experiences became the basis of his consideration of labor problems. We first summarize the article « American Shoemakers, 1648–1895 » [Commons: 1909], which is a masterpiece of Commons' labor history research. From there, we will capture the characteristics of his labor history research.

Commons' analysis of labor history showed changes in labor–management relations based on the expansion of the market. He captured the changes in labor–management relations by considering the « protective organization » of shoemakers in the United States from an historical perspective. He started from a consideration of the « Company of Shoemakers » in Boston, which was the first guild in the United States, formed in 1648. Early shoemakers were itinerant. They visited a customer's house and made shoes with materials provided by the customer. On the other hand, a settled shoemaker would have his own workplace and make shoes with his own materials. Settled shoemakers came to realize the benefit of joining together, and accordingly formed a guild to ensure mutual cooperation. The « Company of Shoemakers » in Boston was a protective organization for settled shoemakers. Its purpose was to eliminate the itinerant shoemakers that made goods of inferior quality [Commons: 1909, p.222].

Settled shoemakers in this period combined the three functions of merchant, master, and journeyman. The merchant function involved managing the type and quality of work. Their reward depended on their ability to determine the price according to both product quality and successful negotiation with the customer. The master function entailed managing the workplace and

the work equipment such that orders received from a merchant were successfully passed on to the journeyman. The reward depended on how well capital and labor were managed. Finally, the journeyman function was to produce the order. The reward here depended on the proficiency and quality of the labor as well as the working speed [*ibid.*, pp.223–224]. At this stage, the shoemaker, who worked as an individual craftsman, produced « bespoke work » according to the customer's specification. Thus, for settled shoemakers, quality was more important than the commodity price because they could only obtain the reward for quality goods if they eliminated inferior goods.

However, some shoemakers began to produce general shoes in popular sizes to meet immediate orders from temporary residents and guests. Since it was difficult to make many shoes alone, the master function began to separate from the journeyman function. In order to support the broader market, the master handed raw materials to a journeyman who would deliver the finished product. The journeyman thus created « shop work » in addition to « bespoke work », while the master became a retail merchant and employer. Thus, a single job comprising three functions became divided along function lines. One result of this can be seen in the establishment of both « The Society of Master Cordwainers » (1789) and « The Federal Society of Journeymen » (1794) in Philadelphia. Journeymen formed a protective organization because they worried that the masters might lower their wages. However, since the initial masters formed a price regulation organization (protective organization) in order to eliminate discount suppliers, the interests of masters and journeymen did not necessarily clash at this point.

Then, some masters started to develop an external market. They sent sample goods to an external market, then manufactured and dispatched individual products only after taking an order for specific goods. In other words, they became a « wholesale merchant and employer ». Commons called this stage the « wholesale order phase » of industry [*ibid.*, p.230]. From this stage on, the masters began to have a great deal of commodity stocks, and competition grew fierce. Therefore, wage bargaining to reduce costs became increasingly important, and the master's employer function became predominant. As a result, the « collision of capital and labor » began [*ibid.*, p.240].

B.2. AFTER THE APPEARANCE OF COMMERCIAL CAPITAL

After these relationships emerged and had time to settle, a situation arose that further harmed the labor–management relationship. Commercial capitalists emerged and came to dominate both the masters and the journeymen through management of vast southern and western new markets. Behind this change lay the establishment of transportation networks and the development of the banking system. The provision of bank credit made it possible to have a large amount of goods in stock prior to receiving actual orders. It also made the market speculative.

Commercial capitalists, who dominated the commodity sales network, also came to dominate the masters and journeymen who were the production mechanism, in various ways. They could force the journeymen to work in their warehouses or to deliver the finished products after handing over raw materials. Furthermore, they could also entrust production to contractors, which forced workers to do the actual labor, or they could reduce product prices by using prison labor [*ibid.*, pp.244–245]. Unsurprisingly, journeymen came to object to these trends, establishing « The United Beneficial Society of Journeyman Cordwainers » in 1835. In a statement, they noted opposition to reducing wage levels and to working long hours. Eventually, the 'Trades' Union, under the leadership of this union, finally carried out the first ten-hour strike in the United States [*ibid.*, p.241].

The journeymen used various tools in shoe manufacturing, not a factory machine. In addition, the early shoe sole-sewing machine was labor-complementary and did not pose a threat to shoemakers. However, the pegging and sole-sewing machines that appeared around 1860 were in fact labor alternatives. The factories that introduced them expanded rapidly due to increased demand spurred by the Civil War.

The protective organization of « Knights of St. Crispin » was formed in 1868. They did not oppose introduction of machines. Instead, they opposed employment of unskilled workers

called « green hands ». However, shoes manufactured using unskilled workers and steam engines were able to compete in price with shoes manufactured using prison labor and Chinese labor, which had been cheap. At the same time, these machine-produced shoes had quality equal or even superior to that of shoes produced by the journeymen [*ibid.*, pp.256–257].

The Factory system for shoe manufacturing was largely established in the early 1880s. Labor became a piecework system instead of one of cooperative work and manual labor. The protective organization called « The Boot and Shoe Workers' Union », which was formed in 1895, intended to have as members all workers in that industry, rather than only those working certain jobs. They insisted on protecting trade and opposed employing foreign immigrants, prison labor, child labor, and long working hours [*ibid.*, p.258].

The previous section describes the development of the shoe industry in the United States, together with the labor history of shoemakers. A summary of these trends is shown in Table 1.

Table 1. Industrial stages, classes and organizations of American shoemakers

Extent of Market	Kind of Bargain	Industrial Classes			Competitive Menace	Protective Organizations (Case)
1. Itinerant	Wages	Farm family Skilled helper			Family workers	None
2. Personal	Custom order	Marchant-Master-Journeyman			Bad ware	Boston « Company of Shoemakers » 1648
3. Local	Retail	Marchant-Master-Journeyman			Market work	Philadelphia « Society of the Master Cordwainers » 1789
4. Waterways	Wholesale order	Marchant-Master		Journeyman	Scab	Philadelphia « Federal Society of Journeymen Cordwainers » 1794
5. Highways	Wholesale speculative	Marchant-Capitalist	Contractor	Journeyman	Sweatshop	Philadelphia « United Beneficial Society of Journeymen Cordwainers » 1835
6. Rail	Wholesale speculative	Marchant-Jobber	Manufacturer	Journeyman	Green hands	« Knights of St. Crispin » 1868
7. World	Factory order	Manufacturer		Wage earners	Immigrants Foreign products	« Boot and Shoe Workers' Union » 1895

Source: Commons: 1909, p.220

B.3. THE SIGNIFICANCE OF « AMERICAN SHOEMAKERS »

In Table 1, the shoemakers who once had three functions, namely merchants, masters, and journeymen, became differentiated into capitalists, brokers, and journeymen following the expansion of the market. Finally, they diverged into factory owners and wagedworkers. The problem was the challenges these posed to the « protective organization » in the process. The presence of a competitor who became a threat to each economic entity also changed in the transition of business practices and differentiation in industrial hierarchies. Various protective organizations had emerged to combat these various threats. In other words, they were the formation of a « going concern », in Commons' terms.

By considering the plight of American shoemakers, Commons showed that changes in labor relations were tied to the expansion of the market. He concluded his study by saying, « Thus have American shoemakers epitomized American industrial history » and « The shoemakers have pioneered and left legible records. Their career is interpretative, if not typical » [*ibid.*, p.264]. Commons insisted that the labor conflict, which was the conflict between masters and journeymen, occurred « not as a result of changes in tools or methods of production, but directly as a result of changes in market » [*ibid.*, p.231]. This idea became the common approach of the Wisconsin school and had a major impact on labor history studies.

c. THE ADMINISTRATIVE APPROACH IN MODERN CAPITALISM

C.1. ADMINISTRATIVE COMMITTEE SYSTEM

In his later years, Commons, coming to the conclusion of his analysis of labor history and going concerns, made several policy proposals at the end of « The Economics of Collective Action » [Commons: 1950], which was his last work. These proposals concerned how to build institutions. He focused on the administrative committee as the fourth governance department following the legislature (parliament), the government (the executive: President and Governor), and the judiciary (courts). For example, the industry committee's roles would quasi-legislatively reflect the interests of stakeholders on the bill and quasi-judicially adjust the interests of labor and management in addition to the statistical survey. When you think about undertaking a policy more rapidly, courts could take too long to reach a judicial decision. The legislature, which held responsibility for actually enacting laws, often missed being able to act at the optimal time because political maneuvering delayed its ability to take action. Therefore, administrative policymaking based on hearing directly from stakeholders and considering statistical surveys by experts was excellent in terms of being able to take immediate effect. In « The Economics of Collective Action », Commons argued that such an approach was effective in the three areas of labor, agriculture, and credit.

He was concerned about the risk of going to extremes if we failed to use power. But he thought that people would be able to prevent extremism by relying on objectivity in conjunction with statistical surveys and « due process ». The administrative committee held significance as a place of negotiations in order that the workers, who were also consumers and the general public, could secure economic « opportunity ». For Commons, individuals were not passive rational economic actors but rather possessed an active « willingness ». Ensuring that negotiations are held in administrative committees is essential in that individuals exert active « freedom ». Eventually, Commons concluded that people would be unable to defend capitalism and democracy if they did not exert their active freedom.

C.2. ADMINISTRATIVE COMMITTEES AND GOING CONCERNS AS A MEZZO-LEVEL

In « The Distribution of Wealth » (1893), which was his first work, Commons pointed out that in the capitalism of the United States, which had been expanding exclusive privilege (patents, copyrights, trademarks, exclusive marketing rights and so on), inequality was an economic opportunity. He considered it a form of social improvement to correct this inequality because economic opportunity was a legal relationship defined by the government. In his early writings, Commons saw this improvement as requiring reforms of the electoral system. He claimed that a system of proportional representation should be adopted in order to reflect minority opinion as well. But in the end, he considered that the lobbyist was the true representative of interests in the legislature. He also considered the judiciary as unsuitable for dealing with class conflict, as its rule evolved to cover even though it was suitable for dispute resolution between individuals [Commons: 1925, pp.383–384].

When we re-capture these, Congress has the responsibility of enacting the rules (law) in the macro dimension, albeit with political maneuvering. A court, which is the judiciary, has the duty to select artificially the rules enacted by Congress under the influence of convention as well as the role of resolving conflicts between individuals in the micro dimension. The administrative committee has the need to adjust interests rapidly in the mezzo level, which is between the micro and macro dimensions. Taking the industry committee described above as an example, it serves as a place to try to align the interests of the going concern of the labor unions and the going concern of companies or employers' associations.

A going concern is not a mere group. Rather, it is an ongoing group formed by willing individuals around a common purpose and expectations. The willingness actively decides their behavior. Commons thought that there were political, economic, and cultural concerns, and the working rules among these concerns formed their agendas and structures. Accordingly, his concept of an institution is a body that is « collective action in restraint, liberation, and expansion of individual action » [Commons: 1934a, p.73]. However, individuals do not belong to only one

going concern. Rather, people belong to the political concern of a nation as well as the cultural concern of a family. Regarding economic concerns, a person could belong to the concern of a labor union and consumer associations as well as a company. The administrative committee had the remit to adjust their interests by interacting with representatives of these going concerns.

D. ADJUSTMENT OF INTERESTS BASED ON CHANGES IN THE MARKET

What can we derive about the adjustment of interests from these considerations? From consideration of the article « American Shoemakers », we confirm the fact that the « protective organization », which corresponds to the going concern, first emerged following the expansion of the market. On the basis of these facts, we would like to point out that the following three factors will be important to various groups and organizations when negotiating their interests.

First, if we utilize the administrative committee as a means of adjusting interests, it is necessary to make sure that the committee truly reflects the going concerns' interests. Administrative committees exist in the United States and in Japan. But sometimes, stakeholders do not attend committee meetings. This neglect means that a committee would have limited ability to proactively determine its own actions and might thus lead to inequality of economic opportunities.

Second, if administrative committees are utilized, each attendee requires « forbearance », i.e., self-restraint. Otherwise, some opinions might be overlooked and the committee might end in deadlock. In Japanese administrative committees, in particular a « Council », « due process » in many cases is a mere facade because government officials tend to decide the discussion's direction. Commons feared a democracy falling into rule by bureaucracy. He said:

It is not rotation in office that cures bureaucracy. The most democratic of Americans become bureaucrats as soon as they are installed in office. Bureaucracy is just the ordinary human instinct for exclusive possession of power. Its essence consists in imposing its will upon others without really consulting them. [Commons & Andrews: 1916 (1920), p.480]

The approach of « imposing its will upon others » renders it difficult to form order from « forbearance » in negotiations, and would not motivate participants to reconsider their interests.

Third, we need to recognize that going concerns, which are stakeholders, change along with changes occurring in the market. This point must be emphasized in this paper, especially considering the contemporary significance of this theme. This point reflects Commons' view of the individual and social class in addition to the analysis of Commons as an inspiration for the Wisconsin school, and has continued importance even today. Because Commons thought that individuals did not belong only to a particular class but rather belonged to various concerns, as previously described. Individuals would change the going concern to which they belonged as they changed and grew as individuals. In addition, an individual's position changed in line with changes to the market, as discussed in the article « American Shoemakers ». At that time, the going concern, which was a « protective organization » started by shoemakers to protect their own interests, formed or changed as threats themselves emerged or evolved.

Therefore, if we take advantage of the administrative committee as a place to allow different interests to express their needs, as well as a place for different going concerns to adapt and respond to each other's interests, administrative officers, as fair conciliators, need to take into consideration the opinion of each going concern that is a protective organization. However, such a step alone will not be sufficient. Administrative officers need to recognize that going concerns change in response to changes in the market as a natural part of being « protective organizations

». Furthermore, administrative officers need to try to predict a protective organization's reaction to new « threats » that might emerge.

E. CONCLUSION

We have considered capitalism historically and have focused on the « institution » as mediating between individuals and the economy as a whole, especially in terms of labor relations (wage labor relations). The Regulation school has also dealt with these themes. In recent years, French researchers, including regulationists such as B. Théret, have paid attention to Commons [Dutraive et Théret: 2013], translating « Institutional Economics » [Commons: 1934a] into French. Commons' theory and Regulation theory share historical analyses of capitalism, institutions in capitalism, adjustment of interests, and labor-management relations.

In Regulation theory, whether growth in the capitalist system is stable or unstable is determined by the relationship between the accumulation system and mass consumption. Its starting point is 20th-century Fordism, from which Regulation theory classifies the various post-Fordism capitalist systems. Among them, coordination of interests such as labor conciliation is incorporated into the theory as an adjustment form (Regulation Form) and as the result of modulating the long-term accumulation system. They ultimately influence the path of capitalism in a country, such as whether it achieves stable growth or falls into crisis. In short, an important concern of Regulation theory is whether modern capitalism can maintain its growth.

On the other hand, Commons assumed that both conflicts and mutual dependence would exist between individuals. To describe the relevant dynamics, he adopted the concept of a « transaction », which is the ultimate unit of activity, comprising law, economics, and ethics [Commons: 1934a, p.58]. Then, he tried to build a theory of collective action dealing with going concerns as an aggregate of personal willingness and individual transactions. At that time, Commons emphasized the point that institutions not only suppress individual behavior but also expand the scope of individual action. If we fit this view to the administrative committee system, it is important to ensure due process, in which economic agents obtain the opportunity to state their claims based on their willingness and exert their « freedom ». Finally realizing « reasonable » capitalism by reducing conflicts of interest was an ultimate goal for Commons. Therefore, even if stable growth in a capitalist system is realized, such as that predicted by Regulation theory, such capitalism is not said to be « reasonable » unless institutions serve to expand individuals' freedom.

As mentioned above, Commons analyzed capitalism's process of development along with the expansion of the market. He thought that changes in business practices in the micro dimension along with the changes of the market created a new convention and influenced the decision made by the all courts. As the concept of property has changed from corporeal property to incorporeal property and intangible property, the court's selection of rules has artificially affected macroeconomic activity and will thus lead to the expansion of new markets. Although Commons' institutional economics see economic society as undergoing a process of evolution, is Regulation theory able to account for this evolutionary process? Considering these points, great differences exist between Commons' institutional economics and Regulation theory. We do not know the extent to which Commons theory and Regulation theory can be merged. But at least, we should explore this possibility on the basis of consideration and the significance of Commons' institutional economics, especially his administrative approach as discussed in this paper.

F. REFERENCES

- Chavance B. [2007] *L'économie institutionnelle*, Paris: La Découverte.
- Commons, J. R. [1909] 1913. « American Shoemakers, 1648-1895 », *Quarterly Journal of Economics*, 24 (November). Reprinted in Commons [1913], pp.219-266.
- Commons, J. R. [1913] *Labor and Administration*, New York: Macmillan.
- Commons, J. R. [1924] 1995. *Legal Foundations of Capitalism*, New Brunswick and London: Transaction Publishers.
- Commons, J. R. [1925] « Marx Today: Capitalism and Socialism », *Atlantic Monthly*, 136 (November). Reprinted in Commons [1996], pp.371-385.

- Commons, J. R. [1934a] 1990. *Institutional Economics: Its Place in Political Economy*, New Brunswick and London: Transaction Publishers.
- Commons, J. R. [1934b] *Myself*, New York: Macmillan.
- Commons, J. R. [1950] *The Economics of Collective Action*, New York: Macmillan.
- Commons, J. R. [1996] *John R. Commons: Selected Essays*, eds by Rutherford M. and W. J. Samuels, London and New York : Routledge.
- Commons, J. R. and J. B. Andrews [1916] *Principles of Labor Legislation*, New York and London: Harper and Brothers. second revised ed.1920; third revised ed 1927; fourth revised ed 1936.
- Dutraive, V. and B. Théret [2013] « Political Sovereignty and Monetary Sovereignty: An Interpretation from J. R. Commons (in Japanese) », *Keizai Ronso (The Economic Review)*, vol.187, no.1, pp.83-110.
- Kobayashi, H. [1988] *American Labor History: A Study of the Wisconsin School* (in Japanese), Osaka: Kansai University Press.
- Takahashi, S. [2010] « J. R. Commons' s Theory of a Going Concern (in Japanese) », *Bulletin of the Center for Historical Social Science Literature Hitotsubashi University*, no.30, pp.19-31.
- Takahashi, S. [2013] « Evolution of Law and Economic Activities: On Analysis of Collective Action by J. R. Commons (in Japanese) », *Keizai Ronso (The Economic Review)*, vol.187, no.1, pp.51-63.