

## **In Praise of Reform Capitalism** **The Economic Ideas of O.D. Skelton**

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# In Praise of Reform Capitalism:

## The Economic Ideas of O.D. Skelton

Joseph Levitt

OSCAR DOUGLAS SKELTON was unusually fortunate in his intellectual gifts. In ten years he wrote seven important books of which his last, *The Life and Letters of Sir Wilfrid Laurier*, published in 1921, is the best known. It traced the French Canadian prime minister's attempt to reconcile the French and the English and his resistance to a centralized imperial foreign policy. It was enormously effective in popularizing the notion that the Liberals were the champions of national unity and Canadian nationhood. Up to this point, Skelton had described the growth of Canadian autonomy; now he was to become actively involved in developing it still further. Called to Ottawa in 1923, he became Prime Minister King's chief advisor in two imperial conferences and thus contributed to the achievement of the virtual autonomy legally expressed by the Statute of Westminster in 1931. By this time R.B. Bennett had replaced King as the prime minister and Skelton had become indispensable as the chief of the Department of External Affairs. In that capacity both under Bennett and subsequently under King, when the latter was re-elected in 1935, he used his extraordinary gift for lucid exposition to present arguments for Canada remaining isolationist and keeping away from international turmoil in Asia and Europe; thus he played a crucial role in foreign affairs in the years leading up to Canada's entry into World War II.

Yet Skelton's views on either imperial relations or isolationism are part of our past. These issues have been largely resolved. Although much better known as an historian and civil servant, it is as an economist that his ideas are still relevant; for he approached the economy as a consistent liberal, a point of view to which many people still adhere.

Born in Orangeville, Ontario in 1878, Skelton was educated in Cornwall. Winning a scholarship in 1896 he entered Queen's University where he achieved a brilliant record. He then became an assistant editor of *Booklover's Magazine* in Philadelphia. In 1902, he wrote Adam Shortt, the John A. Macdonald professor of Political Science at Queen's, that he intended to apply to both Columbia and Harvard for graduate work, but it was only three years later in the autumn of 1905 that he actually began graduate work in economics at the University of Chicago.

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During these first years of the twentieth century, the new age of steel, electricity, oil and chemicals, a veritable second industrial revolution was well underway. Between 1873 and 1913 the annual rates of economic growth in Germany and the United States was 3.9 per cent and 4.8 per cent respectively. The new enterprises attracted and formed a huge force of workers, many of whom joined unions, went on strike, and in general came in conflict with their employers. Clearly the relation between capital and labour was becoming a fundamental social problem. Karl Marx and other socialists asserted that workers, potentially a revolutionary class, were destined to overthrow the capitalist system. But in England, some liberals like Arnold Toynbee argued that reform was possible and that the interests of the capitalist and the worker could be reconciled.

The Department of Economics at Chicago proved to be a good place to explore these ideologies. Skelton's interest in socialism was aroused by one of his instructors, R.F. Hoxie, a scholar of trade unions. He also took a course on labour and capital from J. Lawrence Lauchlin, the Head of the Department, and a "pillar of conservative economics"<sup>1</sup> who believed that men accumulated great wealth through the "process of benefitting others especially those in search of employment."<sup>2</sup> Lauchlin also condemned socialism as a "philosophy of failure" in proposing to abolish competition and private property by taking away "most of the present incentive to energy and productivity."<sup>3</sup> In Skelton's writings there are many echoes of Lauchlin's theme that self interest and free enterprise are the secrets of a flourishing economy. But the professor who impressed Skelton the most was Thorstein Veblen, the author of the *Theory of the Leisure Class*. Veblen, a first rate thinker, ended his course on economic theory with a thorough examination of the works of Marx. Thus Skelton emerged from his studies with a clear concept of the major tenets of socialism.

After two years at Chicago, Skelton returned to Queen's to replace Shortt as the John Macdonald professor. He then began a lasting relationship first with Mackenzie King, the Minister of Labour, and later with Sir Wilfrid Laurier himself. In 1909 he wrote a report on the eight-hour day for the Department of Labour and the next year, a study on prices which the Liberals used in their reciprocity campaign of 1911. Along with King, he prepared for the Presbyterian Board a reading list for the clergy on the social gospel.

By now Skelton was totally sympathetic to the liberal cause. He approved the description of liberalism, given by Herbert Asquith, the leader of the British Liberal party, as popular government at home, self government within the Empire, and the free practice of religion and free trade everywhere. And he believed that in standing up to the "wrath" of the Catholic Church, taking the first steps towards a Canadian navy, and proposing reciprocity in natural prod-

<sup>1</sup> R. Heilbroner, *The Worldly Philosophers* (New York, 1967), 203.

<sup>2</sup> J.L. Lauchlin, "Large Fortunes," *The Atlantic Monthly*, July 1905, 44.

<sup>3</sup> J.L. Lauchlin, "Socialism: a Philosophy of Failure," *Scribner's Magazine*, May 1909, 616.

ucts with the United States, the Laurier government was showing itself to be true to liberal principle.<sup>4</sup>

Skelton was also a reformer. He liked the British Liberal government's 1909 measure for more equitable taxation and social insurance against employment and sickness. (But characteristically he was also pleased that anyone who benefitted from the program would be required to make some personal contribution thus avoiding the "danger of promoting social reform at the expense of individual self-reliance."<sup>5</sup>) He praised the American Progressives for struggling "against the dominance of the plutocracy and [for] the establishment of democracy in industry as well as politics."<sup>6</sup> He commended the aim of the Democrats of ensuring competition by depriving monopolies of special privileges of tariffs and railways on which their power rested.<sup>7</sup>

During these years Skelton developed definite views on labour relations. It was simply unintelligent for "reactionary manufacturers" to try to undermine union activities.<sup>8</sup> On the other hand, wages could not be raised indefinitely "without stopping the wheels of industry."<sup>9</sup> As long as the wage system endured there would be "divergence of interest and consequent conflict" and the necessity of the state protecting "one opponent from the other or itself from both."<sup>10</sup> He approved of the Liberal government dealing with widespread industrial unrest by passing the Industrial Disputes Investigation Act of 1907 which provided for the compulsory investigation of a dispute by a board consisting of one representative nominated by the employers, one by the union, and a chairman named by the government. No strike or lockout could take place until the board handed down its report. While not binding, it could be published so that public opinion would bear down on the side that was unreasonable. Skelton greeted this act as a fine state initiative to protect the "public without doing violence to the natural rights of free born British subjects."<sup>11</sup>

The trade union was only one aspect of working-class activity which interested Skelton. While still at Chicago, he had been intrigued enough by socialist parties to write two articles on the Second International.<sup>12</sup> In fact he had decided to do his doctoral thesis on socialism. Meanwhile, the Chicago clothing company of Hart, Shaffner, and Marx had been sponsoring an annual contest for the best essays on economics. One of the topics assigned in June 1908 was the case against socialism and Skelton's essay won first prize. His thesis itself was published in 1911.

<sup>4</sup> O.D. Skelton, *The Day of Sir Wilfrid Laurier* (Toronto 1916), 326.

<sup>5</sup> *Queen's Quarterly* (Q.Q.) Vol. 28, January 1910, 259. (All quotations are those of Skelton unless otherwise indicated).

<sup>6</sup> *Q.Q.* Vol. 28, October 1910, 168.

<sup>7</sup> *Q.Q.* Vol. 20, October 1921, 239.

<sup>8</sup> "The Canadian Experiment," *The Outlook*, January 1908, 37.

<sup>9</sup> *Q.Q.* Vol. 14, April 1907, 331.

<sup>10</sup> *Ibid.*, 332.

<sup>11</sup> "The Canadian Experiment," *The Outlook*, January 1908, 34.

<sup>12</sup> "The Leaders of the Red Host," *The Outlook*, January 1908, 34; "The Red International," *Q.Q.* Vol. 15, October 1907, 157-159.

No doubt the theory of socialism had presented Skelton with a subject of great intellectual interest. But more important the strength of contemporary socialist parties was now sufficient to challenge the whole capitalist order. By 1912 one vote in three would be cast for the socialists in Germany, the most powerful industrial country in Europe. The French socialists elected 52 deputies in 1906; in 1914 their number would climb to 103. Before 1914 the Independent Labor Party in England counted over 50 members of Parliament. The United States was passing through its "golden age" of socialism.<sup>13</sup> In 1912 the socialist candidate for president, Eugene Debs would win almost 6 per cent of the vote, more than double that of the previous campaign. No wonder Skelton believed socialism to be the "most remarkable international movement in history, commanding the adherence of eight million workers." (*Socialism*, 15)

Skelton meant his book to be a liberal refutation of the whole socialist doctrine. Its title, *Socialism: A Critical Analysis*, was an apt description of its contents. He began by challenging the claim of socialists that under capitalism the majority suffered "misery and failure, a precarious life-long battle with hunger, stunted and narrow development, premature death or cheerless old age." (24-5)

While acknowledging their services in focusing attention on these sad facts, Skelton criticized them for "ignoring the strong features of the competitive system." (46) He defended private property because it harnessed "the most powerful and abiding force in human nature — self interest" (42) to drive an economy that was the most conducive "to industrial progress and efficiency." (45) The happy result was a lowering of the prices of goods and services; yesterday's luxuries were now within everyone's reach. The socialists also underestimated the protection against unmitigated private enterprise which existed for working people. "Never was the sense of the trusteeship of wealth so widespread, never was the organization of philanthropy and public service so complete," he maintained. (49) Moreover the state supplemented these efforts in health and education so that the individual was well equipped for the "industrial struggle." (49) It also prevented competition "at the expense of the weak and the helpless." (47) And trade unions saved the worker from becoming a "wage slave" of their employers. (56) While the capitalist system was hardly as benign as Skelton claimed, there is no denying his contention that under it the standard of living of working people had improved immeasurably.

Skelton then went on to evaluate the Marxist analysis of the capitalist system. He conceded that the socialist thinker had made an important contribution to understanding the history of people by emphasizing the economic factor. At the same time he criticized Marx for implying that "the life of man [can] be reduced entirely to economic terms." (108) Here, however, he was over-simplifying what Marx had meant; the latter's point was not that each person's activities were motivated by economic considerations, but that their

<sup>13</sup> D. Bell, *Marxian Socialism in the United States* (Princeton 1967), 55.

character was determined by the mode of production in which they took place. The thinking and actions of the modern capitalist and worker were stamped by capitalism; they would have been impossible in feudal times.

But Marx had also taught that the class struggle was the most dynamic force in the making of history — and that modern politics were dominated by the clash between the worker and the capitalist. Here Skelton made some shrewd observations. To conceive of the entire population polarized between the working class and the capitalist class was to underestimate greatly the political importance of the small business man, including the farmer, who showed little tendency to disappear. And even to think only in terms of economic polarity was to oversimplify a kaleidoscope of shifting patterns where groups within classes fought for their own special needs. Marx had assumed that their material interests would lead workers to struggle as a class. This faith that workers would inevitably become class conscious, Skelton considered utopian. He quoted Veblen's comment that there was no reason to think that "the class interest of the working class will bring them to take a stand against the propertied class." (111) Skelton also denied that the capitalist system must always produce the kind of conflict between workers and capitalists that would undermine it; the experience of both Europe and North America has certainly not proven him wrong. Skelton also challenged the contention that a final struggle between the working class and the bourgeoisie must lead to the triumph of the former and the introduction of a classless society, an assertion for which Marx offered no evidence. Skelton rightly criticized this as simply the product of "teleological optimism." (113)

Marx had taught that the value of a commodity was determined by the amount of socially necessary labour embodied in it. In hiring a worker, the capitalist acquired the right to set him to work, to use his labour power to create new value. But the labour power the worker expended was greater than that necessary to support him. In other words the worker created values that were surplus to that necessary to keep him. This surplus the capitalist appropriated for himself.

Marx's theory of surplus value depended on the validity of the labour theory of value. It was on this point that Skelton attacked him denying flatly that the "labour factor in production has . . . the sole power to create value." (127) Marx had virtually excluded all other factors; only "grudgingly and imperfectly" had he admitted the importance of utility thus downplaying the "needs and desires of prospective buyers" as factors in determining value. (121) Marx had also ignored the entrepreneur who in bringing together the various factors of production was also adding value to the final commodity.

Skelton believed that Marx had deduced the "inevitability" of the collapse of capitalism from his labour theory of value. "It is impossible," he insisted, "to preserve the Marxian superstructure while rejecting the corner-stone." (135) But his was not the opinion of his teacher Thorstein Veblen who denied that the "Marxist doctrine of an irresistible drift towards a socialistic consum-

mation [hung] on the defensibility of the labor-value theory."<sup>14</sup> And modern writers sympathetic to Marx such as George Lichtheim and Robert Heilbroner, agree with Veblen on this point.<sup>15</sup>

After criticizing the labour theory of value, Skelton went on to demonstrate that many Marxian prophecies had failed to come true. Industrial society showed few signs of polarizing between an enormous proletariat and a handful of powerful capitalists: the small business man "whether in agriculture, manufacture or commerce" was still very much present. (164) An industrial reserve army had not yet appeared. Marx had forecast that workers would sink into poverty but Skelton showed that in the forty years since this prediction, the working class in "every civilized country" had increased its standard of living. (147) Marx had clearly underestimated the extent to which reform under capitalism was possible.

Still two forecasts have turned out to be amazingly accurate. Even Skelton conceded that the concentration of industry was the portion of Marx's theory "which has come nearest to being confirmed by time." Yet he argued that where it "is at work, it has not proceeded with the rapidity or the crushing finality as predicted." (155) Nor did the concentration of industry necessarily mean the "centralization of wealth." (165) The joint stock company made it possible for a man of modest means to acquire an interest in great companies. In retrospect, clearly Marx had the better case. John Kenneth Galbraith has estimated that in advanced industrial countries approximately half of production is carried on by a few large firms.<sup>16</sup> In his views on the economic crisis Skelton was no more fortunate. "[Engel's] prophecy of increasing intensity of crisis has, however, not been borne out," he affirmed "Many forces have worked for the attenuation rather than the aggravation of crisis since Marx's days." But he himself was to recognize the gravity of the crisis in the 1930s. And in our own day since the early 1970s things have gone desperately wrong. Robert Heilbroner sums up the situation as "another world wide crisis of capitalism is upon us."<sup>17</sup>

Moreover Skelton never understood where the strength of Marxism as an economic theory lay. He believed that the doctrine of the industrial reserve army was the "culminating point of the Marxian theory of capitalist evolution" the main thrust of which was to show that under capitalism people became poorer. But Marx had also insisted that because of competition, capitalists were compelled to use their profits to accumulate more and more capital: thus production units became more and more concentrated. This process forced the capitalist system not only to grow but to develop and change. Joseph Schumpeter explained why the Marxist thesis continued to be so attractive.

<sup>14</sup> T. Veblen, "Socialist Economy," *Quarterly Journal of Economics* (August 1906), 584.

<sup>15</sup> G. Lichtheim, *Marxism* (London 1967), 199; Heilbroner, *The Worldly Philosophers*, 148-150.

<sup>16</sup> J.K. Galbraith, *Annals of an Abiding Liberal* (Scarborough 1980), 8.

<sup>17</sup> R. Heilbroner, *Beyond Boom and Crash* (Toronto 1978), 11.

Marxist analysis is the only genuinely evolutionary theory that the period produced. Neither its assumptions nor its techniques are above serious objections . . . but the grand vision of an immanent accumulation, somehow destroys the economy as well as the society of competitive capitalism, and somehow produces an untenable social society that will somehow give birth to another type of social organization — remains after the most vigorous criticism has done its worst.<sup>18</sup>

Having discussed the Marxist analysis, Skelton proceeded to criticize the substitute, socialism, which was to replace the capitalist system. The family would be crushed between "individual selfishness and state interference." (216) Under a collectivist regime the communal care of children would only encourage population growth. These criticisms now seem wide of the mark. But his other judgements are not so easily dismissed. Capitalist property can be expropriated without compensation only by revolution, a method of social change which many who think of themselves as socialist find unacceptable. But if compensation is to be made, are working people better off if part of the newly nationalized enterprise begins with a great burden of debt? Again the socialist would abolish the self-regulating market; a central authority must now do consciously what the market has been doing automatically. Would not such an authority cramp freedom and flexibility? How would it arrange to get the more unpleasant but necessary jobs done? How would products be distributed fairly? And finally what should take the place of the stimulus of personal gain to make people work? Skelton scoffed at the idea that "heightened zeal for the commonwealth" would be effective. (212) In 1911 these were all abstract questions. But the advent of a number of socialist regimes since the Russian revolution of 1917 have made them real enough; many of the current problems of socialist economics center around them.

Skelton's book, written at the age of thirty, was a remarkable achievement. He had read deeply and widely and presented his material in an interesting and lucid fashion. In contrast to his later books, which are detailed and concrete histories, he generalized over the whole economic system. He was accurate in showing that reform was possible under capitalism, that the standard of living had gone up and therefore that the second part of the Marxist analysis regarding the working class becoming revolutionary was not being borne out by the facts. He was also prescient in foreseeing some of the difficult economic problems that socialist governments would have. On the other hand, he had failed to see that the capitalist order of his day was entering a new stage: that of its domination by virtual monopolies. The desires of the myriads of small entrepreneurs would count for less and less; increasingly the direction of the economy would be determined by a small group of extremely wealthy and powerful businessmen. It was the inevitability of this process which he would never recognize.

The publication of his book marked an important phase in Skelton's intellectual development. He now had a set of ideas about socialism and capitalism from which he would never depart. His role was changing from that of a

<sup>18</sup> Cited by G. Lichtheim, *A Short History of Socialism* (New York 1970), 105.



scholar to that of an advocate for reform capitalism. In 1913 he wrote an article for the *Monetary Times* on how to undermine the socialist appeal. Industrial development was bound to bring a stronger working class into being. Although socialism in Canada was still weak (the Socialist Party of Canada counted only 3000 members), capitalists ought to prepare their strategy now. His message was that "the hour of social as well as political democracy" had struck. The existing order would endure only if it proved that private property benefitted the great masses of people more than "collectivist property." This could only be achieved if "private initiative and private energy was combined with "social control and social justice."<sup>19</sup>

For a number of years he had favoured some concrete measures of reform. Under the prevailing system of indirect taxation, the rich paid less than their fair share; he proposed a federal income tax. He wished to improve the Anti-Combines Act of 1910 so as to charge the government with the "burden of enforcement."<sup>20</sup> He suspected a good deal of fraud in the promotion of mergers and trusts and he desired an "energetic investigation" on the way these combines were formed in Canada.<sup>21</sup> "Natural monopolies" arising either from the control of natural resources or from the ownership of public service franchises should be supervised by the government.<sup>22</sup> He always saw regulation as a means of checking the growth of monopoly and preserving competition.<sup>23</sup>

Gustavus Myers, then a member of the Socialist Party of America, and in the process of writing his *History of Canadian Wealth*, described Skelton as a "super-agent for capitalism" who was "scientifically instructing [his] capitalist class on measures" to prevent the growth of a strong socialist movement. In effect the latter was advising the capitalist class "not to resist certain reforms but to grant them voluntarily and as a matter of self preservation."<sup>24</sup> This seems a fair comment on Skelton's aim; he would not have disowned it.

During World War I the militancy of Canadian trade unions grew along with their membership. By 1918 many radical unionists had come to believe that they could win their demands only by a general strike. Alarmed, Skelton warned that it was necessary to plan a "wiser social order." The state should establish labour exchanges, technical education, and contributory insurance against unemployment, sickness, and old age. Employers ought to experiment in "welfare work and profit sharing."<sup>25</sup> He urged employers to accept the

<sup>19</sup> "Are We Drifting to Socialism," *Monetary Times Annual Review* (January 1913), 52.

<sup>20</sup> "General Economic History, 1867-1912," in Adam Shortt and Arthur G. Doughty, eds., *Canada and Its Provinces* (Toronto 1914), IX, 263.

<sup>21</sup> *Q.Q.*, 20, (April 1913), 474.

<sup>22</sup> *Economic History*, 265.

<sup>23</sup> "Drifting to Socialism," 52.

<sup>24</sup> G. Myers, "Only One Goal," *International Socialist Review*, 14 (October 1913), 124.

<sup>25</sup> "Industrial Unrest and the Way Out," *Journal of the Canadian Bankers Association* (January 1918), 124.

"absolute necessity of making democracy a reality by granting labor a steadily widening share, a responsible junior partnership in the control of industry."<sup>26</sup> And he praised King's book, *Industry and Humanity*, which proposed such a partnership as "easily the most important contribution yet made by any Canadian writer to the question of . . . the relations of capital and labor."<sup>27</sup>

Meanwhile, the Russian revolution was confirming Skelton in his view that socialism would not work. Its leaders were endeavouring "to put into force the whole gospel of Marx undiluted and unexpurgated."<sup>28</sup> He blamed the "excesses of the revolution" on those who had "preached and practised the doctrine of class war and the dictatorship of the proletariat."<sup>29</sup> Even allowing for the "stress of war and the breakdown of industry" socialist policies were characterized by "ruthless repression of free speech, forced labor, compulsory military service . . . a huge bureaucracy saddled on the people's backs, spying, terrorism and ceaseless propaganda."<sup>30</sup> He hoped that "saner and more constructive elements in Russia would secure control."<sup>31</sup> But he also opposed the sending of troops by the Allies, including Canada, to northern Russia in June 1918. That every "genuine democrat" must be an opponent of Bolshevism was no reason to help the counter-revolution.<sup>32</sup> "Russia with all her failings," he insisted, "must be given a chance to work out her own salvation."<sup>33</sup>

Skelton displayed the same liberal attitude in reacting to the decision in June 1919 of Arthur Meighen, the acting Justice Minister, to arrest the leaders of the Winnipeg General Strike. Skelton believed it was difficult to justify such a strike in principle, but in this particular case the employers were wrong to have tried to negotiate with their metal trade workers shop by shop; they ought to have agreed to meet the Metal Trades Council which spoke for the workers as a whole. Moreover, he was strongly opposed to the jailing of the strike leaders; there had been no demonstration that the leaders had planned a revolution as the government claimed. In the absence of such proof he could only conclude the action of Ottawa had been one devoted "wholly to the task of repression."<sup>34</sup> He condemned the "hysterical exaggeration, the lack of adequate enquiry into the real facts, the midnight arrests."<sup>35</sup>

Skelton also characterized the launching of a nation-wide roundup of radicals in 1920 by the American authorities as the foolish reaction of the "hysterical plutocrat."<sup>36</sup> And although things were not as bad in Canada, there had been

<sup>26</sup> *Q.Q.*, 27 (July 1919), 128.

<sup>27</sup> "New Partnership," *Canadian Bookman* (April 1919), 6.

<sup>28</sup> *Q.Q.*, 25 (July 1918), 420.

<sup>29</sup> *Ibid.*, 422.

<sup>30</sup> *Q.Q.*, 27 (July 1919), 114.

<sup>31</sup> *Q.Q.*, 25 (July 1918), 430.

<sup>32</sup> *Q.Q.*, 27 (July 1919), 117.

<sup>33</sup> *Q.Q.*, 25 (July 1918), 430.

<sup>34</sup> *Q.Q.*, 27 (July 1919), 126.

<sup>35</sup> *Q.Q.*, 28 (July 1920), 92.

<sup>36</sup> *Q.Q.*, 27 (January 1920), 319.

some disturbing acts like the censoring of legitimate foreign news and the banning of socialist books and publications. The war had created a "revolutionary temper."<sup>37</sup> He feared that the "stupid and short-sighted policy of governments and courts in firing and imprisoning men for having in their possession some harmless socialist rhetoric is manufacturing Bolshevism at a rate I could never have believed possible in Canada."<sup>38</sup> He was convinced that "free discussion, the opportunity given to every man to convince his fellows, is the only workable alternative to the machine gun from above and the dynamite from below."<sup>39</sup>

While supporting the right of socialists to criticize, he himself had never wavered from his ideal enunciated in 1913 of a capitalism that was continually reforming itself. Towards the end of the war he summarized what he believed were the blessings of the profit system:

Would the English cotton industry, the American motor-car industry, the iron and steel industry, ever have reached their present tremendous development if the possibility of high profits had not stimulated investment and compensated risk. High profits are the premium society awards to industrial pioneers. They do not mean high prices but in the end much lower prices. Profits go to the men who can introduce better methods, can organize more efficiently, can seize opportunity more quickly than their fellows. Of course, they go also to men who can overwork and underpay their employees or gouge investors or buy monopoly privileges. But it is the business of a society such as ours avoiding alike *laissez faire* and socialism to put down vigorously such anti-social methods of profit-making, while giving a free hand to activities in which individual advantage broadly coincides with social advantage.<sup>40</sup>

Although hardly any of the reforms suggested by Skelton were implemented, the militant mood of many workers dissipated in the early 1920s; the trade unions found themselves on the defensive. Skelton also observed with satisfaction that "the old collectivist ideal of ownership and operation of all industry by the state is now discredited in Europe."<sup>41</sup> Since 1919, he had been editing the *Journal of the Canadian Banking Association*. He kept reassuring his readers that the Canadian economy was recovering from its post-war slump. His mood was that of moderate optimism. In 1923, as we have seen, he left academic life to work in Ottawa. Meanwhile the economy improved and indeed entered a boom period; for the rest of the decade Skelton had little reason to revise his opinion about the capitalist system.

But the Depression of the thirties found Skelton seriously worried by the undermining of the prestige of private enterprise, a situation made all the more dangerous because of the existence of a rival economic system in the Soviet Union which claimed that by planning it could offer "order instead of chaos."<sup>42</sup>

<sup>37</sup> "This Way Out of Chaos," *Canadian Bookman* (January 1919), 80.

<sup>38</sup> *Q.Q.*, 27 (January 1920), 321.

<sup>39</sup> Cited by R.C. Brown and R. Gook, *Canada 1896-1921* (Toronto 1974), 321.

<sup>40</sup> "Canadian Federal Finance — II," *Q.Q.*, 26 (October 1918), 227.

<sup>41</sup> *The Globe*, 21 September 1924.

<sup>42</sup> "Is our Economy Bankrupt?" *Proceedings of Canadian Political Science Association*, 3 (1931), 68.

Still his faith in capitalism remained unshaken. He continued to maintain that it had showered great wealth on industrialized countries far beyond "the dreams of a bare century or two ago."<sup>43</sup> Canada had fully shared in this growth; permanent poverty had declined and the wealth was divided more evenly. Thus production and distribution were not the main problems. But the system was unable to guarantee security since "risk and instability" was the price necessary to operate an economy where decisions were made by private entrepreneurs.<sup>44</sup> The factors making for disturbance were the increased competition, the constant introduction of new technologies, the diversion of money into wasteful speculation and the efforts by all states to "attain self sufficiency by embargoes and tariffs and governmental control of foreign trading."<sup>45</sup> Skelton took pains to emphasize this last determinant. "Most of our present economic troubles," he declared, "are caused or aggravated not by our system of economic organization but by the breakdown of the political control which led to the Great War."<sup>46</sup> Government interference spurred on by nationalist fervour rather than the capitalist system was responsible for the economic crisis.

For a cure, Skelton called on business to improve its efficiency in production and marketing. The government should also help by providing some form of contributory unemployment insurance, regulating the national currency, and co-operating with other countries to achieve world peace. It might also use "public works to counteract the swing of private industry." But he continued to advocate definite limits to its activities. "It will be wise to concentrate on regulating more than operating," he maintained, "on supplementing more than on superseding private industry."<sup>47</sup> The main thing was to persist in relying on "individual initiative as the factor." The attempt by the Soviet Union to bring all aspects of production as well as the activities of millions of people "under a single central control" would never match "our democratic competitive western system."<sup>48</sup> And later in the decade he expressed his attitude concisely when he wrote that North Americans would "no more be persuaded to adopt a full blooded socialism than they will be content with rugged and ragged individualism."<sup>49</sup> Although he composed this sentence in 1938, he could just as easily have done so in 1908; in 30 years he had not changed his mind.

Skelton was to live only three years more. He died on January 1941 from a heart attack brought on by overwork in his capacity as Canada's chief civil servant. When he was born, the advanced industrial order was just beginning in Canada. As a young man he witnessed the coming of the big corporations. Their arrival raised a great public issue which has not yet been resolved: who should control this great economic power. Skelton believed that private owner-

<sup>43</sup> *Ibid.*, 71

<sup>44</sup> *Ibid.*, 79.

<sup>45</sup> *Ibid.*, 81.

<sup>46</sup> *Ibid.*, 86.

<sup>47</sup> *Ibid.*, 85.

<sup>48</sup> *Ibid.*, 87.

<sup>49</sup> *Our Generation, Its Gains and Losses* (Chicago 1938), 101.

ship was best but with the proviso that workers be allowed to join unions and that the state undertake to mitigate class conflict by undertaking some regulation and offering some social services to bring a measure of justice to society. These measures would enable the champions of private enterprise to convince the majority of the working class that a capitalist system that was constantly being reformed would satisfy their aspirations; vanquishing the socialists in public debate rather than repressing them was the best way of dealing with their opposition to the system. The significance of his ideas is that they were expressions of a liberal outlook that influenced much of the activity of the federal government through its most powerful protagonist Mackenzie King who in his own book *Industry and Humanity* cited that of Skelton as a reference. But despite the fact that both King and Skelton were using the rhetoric of liberal reform as early as the first decade of this century, we are still confronted by the question of how much government intervention is justified to control these huge enterprises.

#### Call For Papers

The Australian and New Zealand Association for Canadian Studies will be holding a multidisciplinary conference from 17-19 May 1984 at the University of Canterbury (Christchurch, N.Z.). Papers will be given on any aspect of Canadian studies or comparative Canadian/Australian/New Zealand studies consistent with the conference theme, "Regionalism and National Identity."

If you are interested in contributing to the conference, please send us *two copies* of a one-page abstract of the twenty-minute paper you would like to give. Your abstract should reach us by *no later than 1 September 1983*.

Our assessment committee will evaluate the abstracts it receives and let you have a final decision in time for you to apply for travel assistance from your university. (Canadian applicants are advised to also apply to the Social Sciences and Humanities Research Council of Canada).

James Acheson  
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