

# **The Webbs, Public Administration and the LSE: The Origin of Public Governance and Institutional Economics in Britain**

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**Abstract:** This paper is devoted to an examination of the early development of Institutional Economics in the LSE and this is primarily undertaken by evaluating the governance theory of Sidney and Beatrice Webb. When the Webbs started to enquire into the control of industry during the First World War, they realised that the new devices which were introduced under a war economy, such as costing and accounting, could be utilised in peacetime. However, not unlike James Buchanan half a century after them, they questioned the capacity of a bureaucracy to function efficiently on the grounds that asymmetry of information made it difficult for Parliament to control bureaucratic operations. They tried to devise new machinery to achieve this end. This research agenda was to become a stream of thought in the field of public administration at the London School of Economics.

## **1 Introduction**

The purpose of this paper is to highlight a neglected side of the early history of the London School of Economics (LSE) by analysing the way in which Sidney Webb (1859–1947) and Beatrice Webb (1858–1943), two of the founders of the LSE, drew upon an early form of governance theory to make a contribution to Institutional Economics in Britain. From the viewpoint of Institutional Economics, Malcolm Rutherford (2007, p. 311) described the LSE as ‘an institution catering to his [Sidney Webb’s] ideal of economics as an empirical and applied discipline’. However, beyond the keywords ‘empirical’ and ‘applied’, the real shape of the Webbs’ institutional economics is still unknown. In this paper, it will be suggested that the key theme underpinning their brand of institutional economics is similar to modern governance theory.

The early intellectual history of the LSE, which was founded in 1895, has been subjected to various different interpretations in a number of admirable monographs. According to Alon Kadish (1987), for example, the LSE was the base for those who dissented from the Cambridge line on economics, especially for young Oxford men. Gerard M. Koot (1987), by contrast, emphasised the ‘Historical Economist’ side of the Webbs’ research (and hence the LSE), and therefore placed them alongside English historicists such as William J. Ashley. In this sense, Koot is following Joseph Schumpeter’s (1954) earlier verdict that the Webbs were the English counterpart of the German Historical Economists. T. Nishizawa (1988; 2002), on the other hand, has emphasised the LSE’s role as an institute for ‘Commercial Education’.

In this paper I focus on the public administration side of the LSE. Sidney Webb was a Lecturer and Professor of Public Administration at the LSE from 1895 to 1927. The Webbs described the dominant purpose of the institution as the education of ‘administrators, whether in commerce and industry, or in the national and municipal Civil Service’ (1929, p. 28). It will be shown that their ‘public administration’ theory has been unjustly neglected.

Richard Toye (2003, p. 15), in research based on the historical context of 'planning' in the Labour Party, asserts that '(t)he Webbs in particular concentrated on administrative rather than economic solutions'. According to him, their task was one of 'devising the set of institutions which would ensure social harmony in the new society'. Toye (2003, pp. 15, 25) concludes that '(t)o view Sidney Webb as the godfather of Labour's planning policies would therefore be a mistake'.<sup>1</sup> He suggests that in the Webbs' case the words 'control of industry' are more appropriate than 'planning'.

The paper has five main sections. In section two I identify the prototype of the Webbs' theory of governance through Beatrice Webb's early work on Consumers' Associations. In section three I follow the evolution of their discussion on the 'control of industry' throughout the First World War. In section four I describe the Webbs' plan for the reconstruction of the British economy after 1918. In sections five and six I evaluate the significance of the Webbs' research into governance undertaken at the LSE after the War.

## **2 The Microcosm of the Webbian Governance Theory: Beatrice Webb and the Consumers' Association**

In the nineteenth century, many British economists treated the Co-operative movement as the ideal institutional mechanism by which to improve the lot of the working classes. There were two streams of co-operation: Producers' Associations and Consumers' Associations. It is well known that John Stuart Mill and Alfred Marshall evaluated Producers' Associations from an economic viewpoint and considered them, at least tentatively, as a means by which to raise the working man to a higher plane of existence. Beatrice Webb (née Potter), by contrast, emphasised the role of Consumers' Associations and saw them from the specific perspective of their role in the development of human behaviour in politics.

Producers' Associations had several aspects, including the common ownership of capital, workers' control and profit-sharing. Mill (1848, pp. 775-94) focused on profit-sharing systems that would make workers more responsible for the management of firms. Producers' Associations, however, declined during the late nineteenth century. Marshall (1889, pp. 237-53), basing his ideas on Mill's framework, hoped that, in spite of the difficulties of commercial success, the working class would become 'gentlemen' through Producers' Associations.

Beatrice Webb criticised Producers' Associations as impracticable and saw Consumers' Associations as 'admirable school[s] for the future citizens'. (Potter 1891, p. 192) The story of the commercial success of the Rochdale Pioneers was, of course, well known at that time. Beatrice was, however, more interested in the efficiency of a system of representative democracy that was implicit in Consumers' Associations. In these bodies, general members appointed Boards of Directors by election. These directors appointed officials who served the members (Potter 1891, p. 74). If members judged an official to be inefficient, he or she could be voted out and replaced. Through this system of representative government, the members could check the efficiency of the officials. 'In Consumers Associations', Beatrice stated:

all those who are interested possess ... complete material for a sound judgment as to the relative excellence of services rendered by individual producers and professionals. The members can estimate the expenditure of faculty as well as the satisfaction of desire; they can compare social cost with social value. Hence emulation among officials to secure the

confidence and goodwill of their constituents replaces profit-seeking. (Potter 1891, p. 212)

In short, Beatrice describes the economic system in terms of incentive machinery. The purpose of economic activity is to satisfy 'desire', so the problem to be solved is how to maximise the 'expenditure of faculty'. For her, 'profit-seeking' is one of the various types of incentive machinery and, in Consumers' Associations, 'emulation among officials' for 'confidence and goodwill' works effectively. In other words, the market mechanism is 'only one of [the] social institutions engaged in or concerned with wealth production' (B. Webb 1926, p. 423).

Subsequently, the Webbs described such an attitude to social science as 'applied sociology':

Efficiency is the sole object, as it is the supreme test, of social institutions of this class, which may be employed in the service of any social ideal or general purpose whatsoever. The special characteristic of social institutions of this class, which may be termed the technical or scientific, is that they are devised and organised according to the teaching of applied science. (Webb and Webb 1932, p. 28)

The Webbs' concept of efficiency is not as clearly stated as the principle that was proposed by Vilfredo Pareto and which now dominates modern economics textbooks. It signifies the state in which the path between 'faculty' and 'desire' is connected smoothly. This 'efficiency' of social institutions may be a little ambiguous, but it can be tested empirically as an 'applied science'. In the case of Consumers' Associations, the problem is comparatively simple, and it is easy enough to see that the deployment of Webb's efficiency principle in the case of such Associations is a microcosm of their public governance theory. The Webbs subsequently devoted a large part of their professional lives to applying this principle to the more extensive industrial operations. They set out to provide the blueprint for the control of industry.

### **3 The Control of Industry and the First World War**

#### **(a) *The Fabian Research Bureau and The New Statesman***

The Webbs' views on the way to control industry were developed predominantly during the years of the Great War, when they examined first-hand the war-time command-and-control mechanisms that were imposed on the British economy. It was, however, the rise of syndicalism in 1911–12, immediately prior to the outbreak of the Great War, that initially provided the impetus for them to consider the subject in a systematic fashion. They founded the Fabian Research Bureau and *The New Statesman* in 1913 to publish their research findings and to promote their ideas. The basic idea of their control of industry was simple: consumers have priority over producers. In the Webbs' own words:

What they [the Syndicalists] demand is a complete ousting, from the organisation of the community, both of the inhabitant elector and of the citizen consumer, and the vesting of all power and control in the producers, organised exclusively as producers. To this the Socialist objects that we cannot entrust power to a minority of the community, still less to a minority of which each member will have interests conflicting with those of the majority. (Webb and Webb 1913, p. 622)

What the Webbs envisaged was 'a complex hierarchy' in which the citizen-consumers, organised on a geographical basis, would have 'supreme control' (1913, p. 623). It is clear that the idea of control of industry was based on Beatrice's theory of Consumers' Associations (1915, p. 1). However, further discussion of how to control the whole administrative system was still inadequate at this stage. The First World War made this issue a priority.

**(b) *Labour and the New Social Order (1918)***

According to B. Supple (1990, p. 340), the First World War promoted the public investigation of industry and made state-oriented industrial policies 'ideologically possible' because the Government realised that 'market forces might produce suboptimal results'. J. Tomlinson (1994, p. 57) similarly sees the First World War as 'mark[ing] the beginnings of industrial policy'. The Webbs were representative of those Labour intellectuals who seriously sought to apply the experiences of the war economy to reconstruction after the war.

J. M. Winter (1974, p. 186) has already provided an account of the revival of 'the old Webbian policy of permeation'<sup>2</sup> throughout the First World War. In 1918, the Labour Party organised the 'War Emergency: Workers' National Committee' (WEC) in which Sidney Webb took a lead. The WEC worked as a think-tank rather than a pressure group. It proposed policies such as the prevention of poverty caused by mobilisation, the control of pricing and distribution of food, and house rent regulation. The Government adopted some of these policies. Food control, house rent regulation, and control of the mines and coal prices were put into practice (Winter 1974, pp. 191-206).

Winter (1974, p. 184) asserts that, under Sidney Webb's intellectual leadership, the WEC 'provided a firm foundation for the reorganization of the Labour Party in the last year of the war'. In reality, Sidney Webb drafted *Labour and the New Social Order* (1918) and provided his ideas on state-oriented industrial policy. According to him, the war economy provided evidence of the 'inefficiency and waste' of the 'individual system of capitalist production'.<sup>3</sup>

Based on his experience of the war economy, Sidney Webb asserted that state-oriented 'Control of Industry' was more 'efficient' than an unorganised market economy. The problem for him was to devise a machinery to make it work in peacetime. Under the title 'Democratic Control of Industry',<sup>4</sup> he proposed his main ideas of 'price control' and 'nationalization'. These two ideas were to be developed separately through government committees.

**(c) *Price Control and Nationalisation: the Committee on Trusts and the Sankey Commission (1919)***

Sidney Webb's proposals on price control were based on the idea that, during the war, state control of the importation and transportation of food and clothing successfully prevented profiteering through newly-formed trade associations. At the same time, the government devised business methods such as the centralisation of purchasing, rationing, costing and the public audit of manufacturers' accounts. Sidney Webb tried to continue price control in a sophisticated form after the war.

This idea of price control was developed through the Committee on Trusts, to which Sidney Webb was appointed a member under the Ministry of Reconstruction in 1919. The former body made history in British industrial policy.

It aspired to be a British version of the Sherman Antitrust Act (1890) in the United States, and was instrumental in the passing of the Profiteering Act (1919).<sup>5</sup>

In the Addendum to the Report signed by Sidney Webb,<sup>6</sup> it was asserted that 'free competition no more governs the business world' because of the 'combinations' which emerged after the war. The trade associations originally formed as part of the war effort changed their shape into monopolist trusts after the war. 'The primary object of combination or association between businesses in a trade is to raise the level of profits by eliminating competition among the various firms' (Committee on Trust 1919, p. 13). The only effective safeguard was control of price, based on the precise 'costing' which had been developed under the war economy. This machinery was named 'Publicity and Measurement', and was to be developed later by the Webbs (Committee on Trust 1919, p. 14).

Sidney Webb also proposed the 'immediate nationalisation' of the railways, mines and electric power. The opportunity to nationalise the coal-mining industry came with the Sankey Commission in 1919. Industrial relations had deteriorated in the coal-mining areas because of the return of soldiers. The Miners Federation of Great Britain demanded a rise in wages, a shorter working day and nationalisation of the mines. It threatened strikes if these demands were not met. Along with R. H. Tawney, Sidney Webb was appointed as a commissioner on the Coal Industry Commission (known as the Sankey Commission) in 1919.<sup>7</sup>

Sidney Webb argued that better conditions for miners should be paid for by improvements in production. This demanded 'a complete unification of the ownership and management' and a 'reorganisation of distribution'. For him, nationalisation was the only solution because the coal-mining industry was run without co-ordination by as many as 1,400 firms (Coal Industry Commission 1919, p. xix; Webb and Webb 1920, p. 195). Based on the testimony of Sir Richard Redmayne (the principal coal official) that nationalisation would promote efficiency by an unification of business administration and economy of scale,<sup>8</sup> Sidney Webb concluded that nationalisation of the mines would enhance production, diminish costs and prevent waste.

Through the Committee on Trusts and the Sankey Commission, the Webbs evolved their ideas on the control of industry. They deployed these new ideas in 1920 to develop a blueprint for the reformation of political institutions. It is to this blueprint that I now turn.

## **4 The Governance of the Administrative State**

### **(a) Webbian Governance Theory**

In *A Constitution for the Socialist Commonwealth of Great Britain* (1920) the Webbs provided the administrative framework for their industrial policy. What is surprising is that they criticised the contemporary political system as 'extremely imperfect' because of the 'hypertrophy' of administration. According to the Webbs, democracy worked not as an organ for positive administration, but as the machinery for a revolt against the King and/or the aristocracy.

In the early 19th century, the national government was occupied exclusively with 'primary political function[s]', such as defence, foreign affairs, the maintenance of order and the administration of justice. However, the Webbs argued that in the present day there were a large number of 'new functions', from public health and social welfare to industrial administration. These new functions had simply been heaped on the traditional machinery (Webb and Webb 1920, pp. 72-4).

As a result of the growth of government business, 'bureaucracy' had necessarily evolved over time.<sup>9</sup> A modern administrative state, in which the bureaucracy was more powerful than the Parliament, had emerged.

According to the Webbs, administrative power was concentrated in the hands of Cabinet ministers who were responsible for hundreds of officials in their respective departments. However, this ministerial responsibility became 'illusory as an instrument of democratic control over a great and complicated administration' (Webb and Webb 1920, p. 170) for there was an asymmetry of information between cabinet ministers and the bureaucrats:

What has happened, in fact, during the past half century, with the continuous increase of the functions of government, has been the gradual establishment of a largely unselfconscious bureaucratic conspiracy against Parliamentary interference or control. (Webb and Webb 1920, p. 172)

The Webbs asserted that control over policy by Parliament had become an 'illusion'. It is interesting to note that they had such a critical view of bureaucracy, because they themselves had been called 'bureaucrats' or 'official socialists' (Hobsbawm 1964, p. 312; Hobhouse 1911, p. 72). Paradoxically, their ideas in this area are similar to the Public Choice Theory that has been promoted by James Buchanan. Usually these streams of thought have been perceived as opposites: the Webbs are described as Social Democrats and Buchanan is seen as representing Neo-Liberalism. I am, of course, not in any way implying that the Webbs are inconsistent by pointing out that they have common ground with Buchanan. Instead I wish to argue that any common features of these two ideological opposites (namely, the Webbs and Buchanan) may be explained by the modern theory of governance.

The Webbs tried to construct a system of control over bureaucracy through Parliament, and proposed introducing another House of Parliament. They called this a 'Social Parliament', which would be independent of the 'Political Parliament'. The Social Parliament would be responsible for 'new functions', such as social services, industrial policies and the control of industry. Under the Social Parliament there should be 'for each great service, a separate standing committee, charged with the continuous oversight of its own service' (Webb and Webb 1920, p. 173).

This scheme for a Social Parliament was too radical for the Webbs' contemporaries. Thus, J. R. Commons criticised it as 'economically sound' but 'politically impossible'. Commons (1921, pp. 82, 90) understood it as a sort of 'pluralism' of political powers and concluded that a 'single sovereignty which is in position to lay down the rules of the game' was needed. However, in terms of modern governance theory, it is more important to focus on the Webbs' vision of the ideal statesman within such a system. They thought that an MP should be not only a representative of the people, but also an expert in the matters with which he was concerned. Thus, it may be useful to call the Webbs' ideal statesman a 'technocrat statesman'. In fact, just after the war J. M. Keynes, the ideal example of a technocrat statesman, was asked to stand as a Labour candidate.<sup>10</sup> A better example of the 'technocrat statesman' would be Sidney Webb himself and, indeed, he may have seen himself in this way when he was appointed to the Ministry of the Board of Trade in the first Labour cabinet in 1924.<sup>11</sup>

### **(b) *Measurement and Publicity***

In the Webbs' scheme, technocrat statesmen on standing committees in the Social Parliament were seen as having control of the nationalised industries. But, even a

technocrat statesman cannot (or should not) interfere in the details of the daily management of nationalised industries. To avoid this inefficiency, the Webbs proposed the 'differentiation of control from administration'. In their scheme, current 'administration' would be passed to a 'National Board' set up in each industry. A 'standing committee' would not interfere in 'administration', but would only 'control' its broader policy targets.

These proposals were on traditional lines and similar to those advanced by John Stuart Mill. He warned that boards should not 'dictate in detail to those who have the charge of administration', for 'the interference is almost always injurious. Every branch of public administration is a skilled business, which has its own peculiar principles' (Mill 1867, p. 103).<sup>12</sup> The degree to which these ideas were examined reached a climax in the discussions over Public Corporations in the 1930s. It was in this context that H. Morrison (1933) stated that administrative autonomy was important because government interference (both Parliamentary and bureaucratic) was harmful to efficiency. Webbian 'control' theory may seem to be old-fashioned in this light, but, given the new goals in the new industrial environment, this is not entirely correct. In the Webbian governance theory parliamentary control over the administrative bodies (including bureaucracy) is emphasised. Their scheme is understandable in the framework of modern public governance over an administrative state.

In order to make control more effective, the Webbs proposed to utilise the new technical base developed during the First World War in such areas as 'accountancy and audit, costing and comparative statistics' (Webb and Webb 1920, p. 175):

They [standing committees] will need at all times to know, statistically and comparatively, what is the output and what are the results at the various points of the service; they will require to ascertain, by all the devices of costing and audit, how the service compares with analogous services elsewhere, and with its own previous record. (Webb and Webb 1920, pp. 191-2)

With this 'searchlight of published knowledge' it was possible to obtain 'the greatest possible efficiency in relation to the efforts and sacrifices' because it would reduce 'bureaucratic concealment'.

The Webbs called this new machinery 'measurement and publicity', and advised that it could be utilised in modern complicated public administration. In the modern administrative state, 'bureaucracy' is strong and officials are selfish. Because of the asymmetry of information between Parliament and the bureaucracy, Members of Parliament cannot control officials. In this case, the public sector will become inefficient, as Buchanan famously concluded.

However, if the machinery of 'measurement and publicity' works well, Parliament will be able to 'control' the 'efficiency' of the public sector. In this sense, the Webbs' theory is similar to the New Institutional Economics developed by Ronald Coase, Joseph Stiglitz and Oliver Williamson. In the Webbian governance theory, the efficiency of the whole system depends on technical aspects such as costing and audit. Here, we should remember their assertion that 'efficiency is the sole object of social institutions of this class' (Webb and Webb 1920, pp. 195-6). The Webbs also maintain that what is needed is a 'change that would make British democracy much more democratic', and they remind us that their attempts have been 'so to amend our institutions as to sort out the issues' (Webb and Webb 1920, pp. 86, 93). So, the Webbs' discussion concentrated on the technical side of efficient machinery.

This 'measurement and publicity' could also be applied to private industries in general. The Webbs proposed a Standing Committee of Productivity in the Social Parliament to control private industries. Its task was to promote 'efficient management' and 'control of prices'. In order to secure this 'efficient management', the Webbs advocated the use of 'independent professional experts'. Their functions were to be:

... applying, for instance, the instrument of strict and accurate costing to every establishment in every industry; comparing, one with another, the expense and output of every process in all its applications; supplying each establishment, with the object of inducing it to increase its own efficiency, with a stream of reports showing how it compares with others at home and abroad; providing incessant comparative statistics of the cost of each component or factor in all the establishments of the same kind, and with full and varied information as to what is happening elsewhere. (Webb and Webb 1920, p. 329)

Based on new devices developed in the war, such as costing, business information of individual firms can be visualised from outside. In this case, 'measurement and publicity' means that less efficient firms can use the latest knowledge in business. The Webbs estimated roughly that if 'only the present standard of efficiency in the best ten per cent of establishments could be universalised ... the aggregate output could be ... at least doubled' (1920, p. 326).

Moreover, 'control of prices' will have an indirect but positive effect on productivity. The Webbs maintain that:

It will of course be at all times the duty of the Social Parliament to see to it that the current market price does not unduly exceed that which its departments will have ascertained, and its standing committees will have reported to be, for the time being, the socially necessary expense of production or of importation, assuming a standard of efficiency in practice attained at the moment by the better half of the establishment. (Webb and Webb 1920, pp. 330-1)

In place of monopolistic market prices, the 'control of prices' can, the Webbs assert, promote industrial progress. Less efficient firms can obtain the most up-to-date knowledge of business administration, but they cannot stop there. Governmental prices will be set at the average 'standard', and less efficient firms will be driven to be more productive or eliminated. Of course, every single firm will be exposed to this artificial competition.

## 5 LSE and Control

The findings presented in the previous sections support rather than challenge Kadish's description of the LSE as the institutional home of those dissenting from Marshall's Cambridge. Based on Kadish's picture, both Koot (1987) and Nishizawa (1988; 2002) describe the commerce-oriented discipline that was being developed at the LSE and delineate its differences from the economic discipline that was being constructed at Cambridge. Given Kadish's framework, it is now possible to state that the idea of the control of industry marks another difference between the LSE and Cambridge.<sup>13</sup>



Some scholars have recently begun to pay attention to the way in which attitudes to industry control differentiated the two institutions. C. J. Napier (1996), for example, compares Marshall's antagonism to technical business education with the desire of Ashley and Webb to make 'accounting a more than nominal element of business education'. According to Napier:

To the precursors and heirs of Marshall, business organisation was not an exciting issue: economic science analysed distribution and exchange, but what went on inside a firm was at best only of descriptive interest. However, both Ashley and Webb's successors, in their different ways, cultivated an applied economics tradition that was willing to look within the 'black box' of the firm as well as to study the operations of firms within markets. (Napier 1996, p. 428)

A. Loft (1986, pp. 149-50) also suggests that 'in his [Sidney Webb's] vision of the future there was an important place for management experts such as cost accountants', which, it was hoped, would 'play a role in the reconstruction of Britain after the war'.

After the First World War, the development of 'cost accounting' (apart from bookkeeping and financial accounting) is recognised by accounting historians. In the LSE, a course entitled 'Costing as Applied to National Factories' was offered in 1918 by M. Webster-Jenkinson, the Controller of Factory Audit and Costs in the Ministry of Munitions of War (LSE 1918-1919, pp.10, 70). In addition, L. R. Dicksee (who taught 'accounting' at Birmingham University as well as at the LSE from 1902) was appointed as the Sir Ernest Cassel Professor of Accounting in 1919, when the qualification of BCom was introduced at the LSE.

Ralph Dahrendorf (1995) describes the progress of the LSE as a movement towards a 'business school', a process which was pushed forward by Sidney Webb.<sup>14</sup> However, it is possible that Sidney Webb had another reason to promote the business school. Subsequently, the Webbs (1929, p. 28) described the task of the LSE as that of educating 'administrators, whether in commerce and industry, or in the national and municipal Civil Service'. This indicates that for them commerce and public administration were equally important. A fusion of the two is the 'control of industry'. That is to say, the need to control industry was a keynote in their vision for university reform.

In fact, the Webbian school of public administration evolved into a predecessor to the modern governance theory. In the list of Sidney Webb's pupils in the LSE public administration course, we find not only W. Grice (local government) but also H. Finer and W. A. Robson. Finer is famous for advocating the 'accountability theory' through the Finer-Friedrich controversy of the late 1930s.<sup>15</sup> Indeed, 'accountability' was one of the basic concepts of modern governance theory. Robson played an important role in the LSE in the 1950s. Both Finer and Robson tried to devise an administrative mechanism which would be under the control of Parliament. It is possible to trace the legacy of modern governance theory from Sidney Webb to Finer and Robson: in other words, to the Webbian school of public administration in the LSE.

## **6 Conclusions**

The Webbian school of public administration may be called an 'LSE Institutional Economics' of sorts. Rutherford (2007) implies strong connections between the

American Institutional School and the LSE (including the Webbs).<sup>16</sup> In fact, the Webbs have an 'evolutionary' perspective on social institutions. They state that 'a perpetual adaptation of existing institutions becomes unavoidable' in the modern world. If social institutions are not changed deliberately and successively 'to fit the ever-moving conditions of the age', there will be 'revolutionary' change, 'violently and abruptly'. They maintain that:

It is one great advantage of Democracy as the basis of social organisation that it permits of a continuous process of adaptation in all social institutions, so that these remain at all times in correspondence with the development of the minds of the people concerned. (Webb and Webb 1920, p. 98)

For them, democracy is a feedback system for the adjustment of social institutions to economic circumstances. The core of Webbian governance theory is the premise that the 'efficiency' of a socio-economic system is based on the evolution of 'institutions' under democracy. The Webbs urge that:

That on which the world to-day most needs light is how to render more effective every form of social organisation: how to make more socially fertile the relations among men. And this nascent science and art of democratic institutions ... must be ... as effectively opened up to the masses of manual workers as to the administrators and technicians. Without this community of knowledge there will, very shortly, be no popular consent. There is no need so imperative to-day as increased economic and political science. There is no peril so dangerous as the failure to get community of education among all classes. (Webb and Webb 1920, p. 354)

After all, the effectiveness of their governance theory, or 'control of industry', was to depend on the knowledge of 'the conditions of the successful working of social institutions' on the part of the masses.<sup>17</sup> In modern parlance, Institutional Economics was to be added to basic economic training in their social reform scheme. For the Webbs, the LSE was the centre for studying it.

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## Notes

1 This means that Oldfield's (1972) interpretation of the Webbs as the originators of the thought behind Labour party 'planning' should be reconsidered (Toye 2003, p. 25).

2 From the late 1880s to the early 1890s, the Webbs adopted a 'policy of permeating' the educated political élites of the Liberal party (McBriar 1964, pp. 234-45) by means of reasoned pamphleteering. In both the earlier and latter cases, the Webbs tried to influence the policy-making process by means of think-tank activities.

3 In order to reconstruct the British economy, he proposed: (a) the socialisation of industry to eliminate 'inefficiency and waste'; (b) the application of science and intelligence to every branch of industry; (c) the improvement of social, political and industrial organisation; and (d) the redistribution of resources according to their real national importance (Labour Party 1918, pp. 3-4).

4 The 'four pillars' of his proposals were: (a) Universal enforcement of a national minimum; (b) Democratic control of industry; (c) Revolution in national finance; and (d) Surplus wealth for the common good.

5 However, the Act was forgotten following the settlement of the post-war inflation.

6 The Addendum was signed by Ernest Bevin, J. A. Hobson, W. A. Watkins and Sidney Webb.

7 Tawney developed his 'function'-based socialism from his experiences on the Sankey Commission. His aim was to eliminate 'ownership' from the control of industry.

8 According to Redmayne, nationalisation would lead to: '(1) Prevention of competition, leading to better selling prices for external coal being secured; (2) Control of freights; (3) Economy of administration; (4) Provision of capital allowing of quicker and more extensive development of backward mines; (5) More advantageous purchases of materials; (6) Reduction of colliery consumption; (7) More harmonious relations between the workmen and the operators due to steadier work and adequate remuneration of workmen; (8) Obliteration to a great extent of vested interests and middlemen; (9) Unification of the best knowledge and skill leading to greater interchange of ideas and comparison of methods. If good results are obtained at one mine and bad in another, these results would be open to all to benefit therefrom' (Coal Industry Commission 1919, p. xx).

9 'The very growth of the government business, and the enormous multiplication of the number of persons directly in the government service makes almost inevitable—if every public service is administered by one and the same executive hierarchy—a development of that "Administrative Law" by means of which a bureaucracy entrenches itself against interference' (Webb and Webb 1920, p. 78).

10 Letter from Sidney Webb to Keynes on 14th Jan., 1918 (MacKenzie 1978, p. 98; see also Skidelsky 1992, p. 348).

11 It may be possible to trace a tradition in the Labour Party from Sidney Webb to Clement Attlee, Hugh Dalton, Stafford Cripps, Hugh Gaitskell and Tony Crosland, all of whom were able scholars as well as ministers.

12 Mill warned that the board should not 'dictate in detail to those who have the charge of administration', for 'the interference is almost always injurious. Every branch of public administration is a skilled business, which has its own peculiar principles' (Mill 1867, p. 103).

13 D. H. Robertson (1923) also used the term 'control of industry', but criticised the Webbs' ideas as 'collectivism'. Robertson's idea of 'control of industry' was 'where the risk lies, there the control lies also'. See Shimodaira (2005).

14 Finally, this resulted in the resignation of the Director, W. Pember Reeves, who disliked the 'business school'. Beveridge was appointed in place of Reeves. It may not be coincidental that Beveridge was appointed as the director of the LSE and delivered a lecture on 'The Public Service in War and in Peace' in 1919 (LSE 1919–1920, p. 38).

15 Carl Friedrich emphasised the autonomy of bureaucracy from Parliament in the political context of the American Presidential system. See Thynne and Goldring (1987).

16 According to Covalleski, Dirsmish and Samuel (1995), J. R. Commons' view on the utilisation of accounting information in the public sector was similar to that of the Webbs.

17 Webb and Webb 1920, p. 354.

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