

THE GREAT IDEAS ONLINE

February 2019

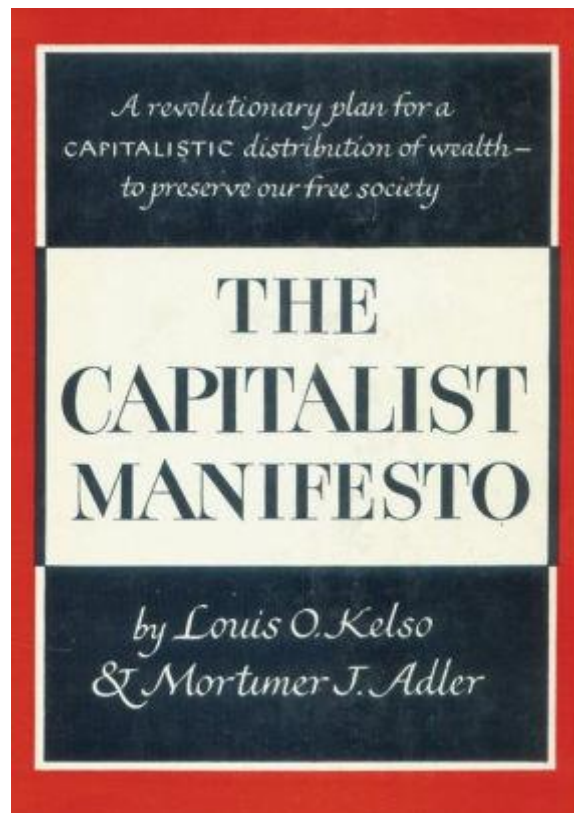
Philosophy is Everybody's Business

Nº 978

Archivist's Note

With this TGIO we begin the serialization of *The Capitalist Manifesto* an important book by Louis Kelso and Mortimer Adler written in 1958. Reading the Preface which is included in the TGIO will show you why this book is important. In order to show you the scope of the book I have included the Table of Contents from the original book. Many future TGIOs will contain a chapter from this book, although some longer chapters may appear as several TGIOs. Because of the length of the book we may have TGIOs on other Great Ideas topics, but rest assured you will see the entire text of the book presented in order over time.

Ken Dzugan
Senior Fellow and Archivist
February, 2019



THE CAPITALIST MANIFESTO

by **Louis O. Kelso**
and
Mortimer J. Adler

CONTENTS

PREFACE	vii	
PART ONE: THE IDEA OF THE CAPITALIST REVOLUTION		1
1 WHY A CAPITALIST MANIFESTO?	2	
Then and now	2	
The prevailing sense of well-being	4	
Our machine-produced happiness	7	
Our feeling about socialism	8	
The ambush	8	
An appeal to reason	10	
2 ECONOMIC FREEDOM:PROPERTY AND LEISURE		12
The three elements of economic freedom	12	
Labor, leisure and freedom	15	
The form and character of human work	19	
The image of an economically free society	22	
3 SOME PROBLEMS TO BE SOLVED	28	
The problem of organizing production	28	
The problem of diffusing ownership	28	
The problem of liberty and equality	28	
4 ELEMENTARY ECONOMICS	31	
Factors in the production of wealth	31	
The role of man as a factor in the production of wealth		33
A technical note on the productivity of labor	39	

The forms of property	41	
Primary and secondary distribution	44	
5 ECONOMIC JUSTICE AND ECONOMIC RIGHTS		50
Property and justice	50	
Free competition as the determinant of value	54	
The problem of justice and welfare in an industrial economy	57	
The three relevant principles of justice	62	
The organization of a just economy	65	
(1) The Principle of Distribution.	66	
(2) The Principle of Participation.	74	
(3) The Principle of Limitation.	79	
6 ECONOMIC HISTORY: THE CLASSIFICATION OF ECONOMIES		
	83	
First stage: from the beginning to the nineteenth century		83
Second stage: from 1800 to the present day	86	
The classification of economies	87	
The forms of capitalism	89	
(1) The Mode of Ownership.	89	
(2) The Form of Distribution.	90	
(3) The Principle Underlying the Form of Distribution.		92
7 THE ECONOMIC FUTURE	99	
The four capitalisms	99	
The three alternatives	105	
The two socialist revolutions	107	
(1) The Completed Socialist Revolution.	107	
(2) The Creeping Socialist Revolution.	114	
Mixed capitalism's insoluble problem: inflation	122	
Our only choice—capitalism	131	
8 THE THEORY OF CAPITALISM	141	
The economics of capitalism	141	
The politics of capitalism	145	
The ethics of capitalism	152	
PART TWO: THE PROGRAM OF THE CAPITALIST REVOLUTION		
	156	
9 SUMMARY OF THE PRACTICAL PROGRAM	147	
The nature of the proposals	147	
General policies	150	
Specific recommendations	151	
10 THE POINT OF DEPARTURE FOR THE REFORMS PROPOSED		
	153	
The situation from which we start	153	
The role of primary distribution in a capitalistic economy		155
Individual security vs. Security for all individuals	158	
The degree of concentration in the ownership of capital		160
The forms of concentrated ownership of capital	162	

How mixed capitalism deals with the effects of concentrated ownership	165
11 MEASURES AIMED AT BROADENING THE OWNERSHIP OF EXISTING ENTERPRISES	170
Equity-sharing plans	170
Modification of death tax laws and gift tax laws	172
Modification of personal income tax laws	179
Terminating deliberate governmental promotion of concentration of ownership and of market monopoly	179
12 THE MODERN CORPORATION AND THE CAPITALIST REVOLUTION	183
Corporations in the present mixed economy	183
Corporations in the transition to capitalism	186
Restoring effective ownership of capital to the stockholders of business corporations	189
Financial efficiency in business corporations vs. Technical efficiency	192
Other changes affecting business corporations	193
13 MEASURES AIMED AT DETERRING AN EXCESSIVE OWNERSHIP OF CAPITAL BY INDIVIDUAL HOUSEHOLDS	196
Investment preference for small or new capitalists	196
Income tax deterrents to personal concentration	198
14 MEASURES AIMED AT DIRECTLY STIMULATING AN INCREASE IN THE NUMBER OF NEW CAPITALISTS	202
The primary function of credit in a capitalistic society	202
Historical precedents	203
Credit and the diffusion of capital ownership	210
Financed capitalists	211
The need for new types of insurance	217
The new capitalists	219
15 CONCLUDING SUMMARY	226
APPENDIX: THE CONCEALMENT OF THE DECLINING PRODUCTIVITY OF LABOR IN OUR PRESENT ECONOMY	231
NOTES	239

PREFACE

While signing my name to THE CAPITALIST MANIFESTO as coauthor with Louis Kelso, I wish to disclaim any credit for the original and basic theory of capitalism on which this Manifesto is based. That theory is entirely Mr. Kelso's. It is the product of many years of inquiry and thought on his part. The full statement of it will soon be published in *Capitalism*, of which Mr. Kelso is sole author.

I would also like to explain how I came to appreciate the critical importance of the theory of capitalism; and why I felt that its revolutionary insights and program should be briefly summarized in the form of a manifesto addressed to all Americans who are concerned with the future of a democratic society, with the achievement of the fullest freedom and justice for all men, and, above all, with a twentieth-century reinterpretation of everyone's right to life, liberty, and the pursuit of happiness.

In the twenty years or more in which I have been developing a theory of democracy as the only perfectly just form of government, I slowly came to realize that political democracy cannot flourish under all economic conditions. Democracy requires an economic system which supports the political ideals of liberty and equality for all. Men cannot exercise freedom in the political sphere when they are deprived of it in the economic sphere.

John Adams and Alexander Hamilton observed that a man who is dependent for his subsistence on the arbitrary will of another man is not economically free and so should not be admitted to citizenship because he cannot use the political liberty which belongs to that status. If they had stated this point as a prediction, it would have been confirmed by later historic facts. The progressive political enfranchisement of the working classes has followed their progressive economic emancipation from slavery and serfdom, or from abject dependence on their employers.

As I first saw the problem, it came to this: What is the economic counterpart of political democracy? What type of economic organization is needed to support the institutions of a politically free society? The answer suggests itself at once, at least verbally: "economic democracy." But we do not really have an answer unless we can give concrete meaning to those words.

We begin to form some notion of the economic counterpart of political democracy, or of the economic substructure needed to support free political institutions, when we recognize that it must involve two things: (1) *economic liberty, i.e.*, the abolition of all economic slavery, servitude, or dependence; and (2) *economic equality, i.e.*, the enjoyment by all men of the same economic status and, therewith, of the same opportunities to live well.

But what do we mean by the abolition of all forms of economic servitude or dependence? Certainly, that no man should work as a slave. But that by itself would hardly seem to be enough. In the whole of the pre-industrial past, economic freedom was thought to depend on the possession of sufficient property to enable a man to obtain subsistence for himself and his family without recourse to grinding toil.

In the oligarchical republics or feudal aristocracies of the past, the few who enjoyed the political freedom of citizenship or noble rank were always men of relatively independent means. The principle of universal suffrage in our democratic republic now confers the political freedom of citizenship on all. If that is effective only when it is accompanied by economic freedom, are we called

on to envisage a society in which all men will have the same kind of economic independence and security that only the few enjoyed in the past?

The question of what is meant by *economic equality* is even more difficult. We can be sure of only one thing. Economic equality cannot mean *equality of possessions* any more than political equality means *equality of functions*. Yet if we proceed by analogy with the ideal of political democracy, which we conceive as a politically classless society with a rotating aristocracy of leaders, we can at least surmise that an economic democracy must somehow be conceived as an economically classless society, and that, too, with a rotating aristocracy of managers.

Until very recently, as I thought about these questions, I had grave doubts that what has come to be called “capitalism” could establish the kind of economic democracy which political democracy required as its counterpart. I now understand the reasons for my doubts. They were based on an understanding of “capitalism” which was colored by the sound criticisms that had been leveled against its injustices and inequities, not only by Marx and Engels, and by socialists generally, but also by Popes Leo XIII and Pius XI, and by social philosophers or reformers as diverse as Alexis de Tocqueville, Horace Mann, Henry George, Theodore Roosevelt, Woodrow Wilson, Hilaire Belloc, Jacques Maritain, Amintore Fanfani, and Karl Polanyi. Of these, only Marx, Engels and their followers proposed communism as the remedy.

What all these men were criticizing was *nineteenth-century capitalism as it existed in England and the United States*, the two countries in the world most advanced industrially. That nineteenth-century capitalism was unjust, no one can question. But there is a question as to whether nineteenth-century capitalism conforms to the idea or ideal of capitalism; and with this goes the question whether the historic injustices committed by the capitalism of the nineteenth century are historic accidents or are intrinsic to the very idea of capitalism itself.

Ten years ago, at a time when I did not understand the idea or ideal of capitalism as something quite different from what existed under that name in the nineteenth century, I naturally tended to suppose that the economic injustices perpetrated in the nineteenth century were intrinsic to capitalism. If that were so, then they could not be remedied without giving up capitalism itself, and finding some alternative to it—socialism, a co-operative system, a corporative order, or something else.

In that state of mind, I was also bothered by the fact that the very expression I had been forced to use in order to give some meaning to economic democracy—the expression “classless society”—was the slogan and banner of the communists. The *Communist Manifesto* called for the overthrow of the class-structured bourgeois society, divided into owners and workers, oppressors and oppressed, and set before men’s minds the ideal of a classless society, achieved through the dictatorship of the proletariat, in which the state itself would be the sole owner of the means of production, and all men would be “equally liable to labor.”

I could not help agreeing with those who pointed out the fatal flaws in the communists’ revolutionary program. If men are dependent for their subsistence upon the arbitrary will of the state, or on that of its bureaucrats who manage the state-owned means of production, they are as unfree economically as when they

are dependent upon the arbitrary will of private owners. Furthermore, “the equal liability of all to labor,” which is a basic principle in the communist program, impedes rather than promotes economic freedom. The communist classless society is, therefore, hardly the economic democracy we are looking for as the counterpart of political democracy.

But while proponents of capitalism have argued against communism as the foe of political liberty and quality, they have not offered a positive program for establishing an economically classless society. They have not countered the call for a communist revolution by proposing a capitalist revolution which, by carrying out the true principles of capitalism, would produce the economic democracy we need as the basis for political democracy.

One other fact obscured my understanding of the problem, or at least led me to consider a wrong solution of it. That was the extraordinary change which had taken place in the American economy during my lifetime. Beginning with Theodore Roosevelt and Woodrow Wilson, and running through all the administrations of Franklin Roosevelt and his successors, Republican as well as Democratic, capitalism in twentieth-century America has undergone a remarkable transformation which puzzles many European observers who cannot understand precisely how America has managed to remain a capitalist country, and yet has succeeded in avoiding the Marxist prediction that capitalism would be destroyed by its own imbalance between production and consumption. Or, to put it another way, they wonder whether capitalism in twentieth-century American is still *capitalism in essence*. They suspect that it is really one of the “many paths to socialism.”

This suspicion is not unfamiliar to Americans. Many of them, especially the most outspoken opponents of the New Deal, have voiced it themselves. They have deplored, again and again, the “creeping socialism” which has been eroding, if not overthrowing, the institutions and principles of capitalism. If the charge of creeping socialism is correct, then it can be argued that America has produced an economy which supports political democracy only by gradually, and perhaps self-deceptively, substituting socialist for capitalist principles. What is true of America is also true of England, with a little less self-deception in the latter case.

To understand the charge of “creeping socialism,” one need only make a check-list out of the ten-point program which Marx and Engels proposed in 1848 and which they described as a way of making progressive “inroads on the rights of property, and on the conditions of bourgeois production.” The measures they proposed for “socializing” the economy by wresting “all capital from the bourgeoisie” and centralizing “all instruments of production in the hands of the State,” are as follows:

1. Abolition of property in land and application of all rents of land to public purposes.
2. A heavy progressive or graduated income tax.
3. Abolition of all right of inheritance.
4. Confiscation of the property of all emigrants and rebels.
5. Centralization of credit in the hands of the State, by means of a national bank with State capital and an exclusive monopoly.
6. Centralization of the means of communication and transport in the hands of

- the State.
7. Extension of factories and instruments of production owned by the State; the bringing into cultivation of waste lands, and the improvement of the soil generally in accordance with a common plan.
 8. Equal liability of all to labor. Establishment of industrial armies, especially for agriculture.
 9. Combination of agriculture with manufacturing industries; gradual abolition of the distinction between town and country, by a more equable distribution of population over the country.
 10. Free education for all children in public schools. Abolition of children's factory labor in its present form. Combination of education with industrial production, etc., etc.

In his recent book, *Contemporary Capitalism*, John Strachey, the leading English Marxist, refers to the industrial economy of the mid-nineteenth century as "early stage capitalism." That was capitalism prior to political democracy, prior to the technological advances which accelerated capitalization, and prior to the enactment, in whole or in part, of the revolutionary measures proposed by Marx and Engels.

Strachey refers to contemporary capitalism—the capitalism of England and the United States in the middle of the twentieth century—as "latest stage capitalism." That is not only a technologically advanced economy with ever increasing accumulations of capital. It is not only a capitalistic system that is being operated by a democratic society. It is also, in Strachey's judgment, a partly socialized capitalism which has been brought into being by the legislative enactment of much of the Marxist program and without the violent revolution Marx thought would be necessary. But in his view it is a revolution nonetheless—a revolution still in process, the ultimate goal of which, according to his projection, is "last stage capitalism," or the completely socialized industrial economy in which the State is the only capitalist.

Strachey's account of what has happened in the last hundred years is not far from the truth. The radical differences he points out between "early stage" and "latest stage" capitalism are unquestionable. His description of the present economy of England and the United States as partly socialized capitalism is accurate. But his notion that the process of socialization must be completed to remove the inherent conflicts between capitalism and democracy is as wrong as it can be.

The socialization of the economy can be completed, according to Strachey, only when the abolition of private property in the means of production replaces the present highly attenuated private ownership of capital. But when that happens, all capital property must be vested in the State; and then, as Milovan Djilas has pointed out, you have a new class of "owners"? the bureaucrats who form the managerial class in a totalitarian state. Djilas's book, *The New Class*, offers irrefutable evidence that a completely socialized economy, far from creating a free and classless society, creates one in which there is sharp class division between the rulers who are, in effect, the owners and the workers who are economically as well as politically enslaved. In the light of it, we can see clearly that it is socialism, not capitalism, which is essentially incompatible with democracy.

For many years I was prone to some of the errors and fallacies which blind socialists to the truth about capitalism and democracy. They are shared by many Americans, including our leading economists, who, while they would not go as far as Strachey, nevertheless think that the progressive socialization of the economy during the last fifty years has been an advance toward the ideal of the democratic society. It was precisely these errors in my own thinking which made me doubt that capitalism as such (*i.e.*, not creeping socialism disguised as capitalism) could create the economic democracy—the economically free and classless society—which would provide the very soil and atmosphere in which political democracy can prosper.

These errors remained with me until I became acquainted with the thought of Louis Kelso. According to Mr. Kelso's theory, capitalism perfected in the line of its own principles, and without any admixture of socialism, can create the economically free and classless society which will support political democracy and which, above all, will help us to preserve the institutions of a free society. In what we have become accustomed to call "the world-wide struggle for men's minds," this conception of capitalism offers the only real alternative to communism, for our partly socialized capitalism is an unstable mixture of conflicting principles, a halfway house from which we must go forward in one direction or the other.

No one with any sense of justice or devotion to democracy would wish to go back to capitalism in its original or primitive form. No one with any sense of the scientific-industrial revolution that is just beginning, and which will transform our society in the next hundred years, would regard our present partly capitalistic and partly socialistic arrangements as constituting a system that is capable of maintaining itself statically in spite of its obviously unstable equilibrium between two opposing forces.

One is the tendency toward socialization and the attenuation of property rights in capital. The other is the effort to retain the vestiges of private property in capital. In one direction lies the goal of the socialist or communist revolution. In the other, by means of giving full strength to the rights of private property in capital while at the same time harmonizing those rights with the applicable principles of economic justice, lies the goal of the capitalist revolution.

The latter is clearly the better of the two revolutions, even if both, by virtue of technological advances administered for the welfare of all men, were able to achieve the same high standard of living for all. A high standard of living is at its best a plentiful subsistence, consisting of the comforts and conveniences of life. It does not by itself ensure freedom or the good life. It is compatible with slavery to a totalitarian State, and with subservience to the wrong ends.

There is all the difference in the world between a good living and living well. The goal of the capitalist revolution, as Mr. Kelso sees it, is not economic welfare as an end in itself, but rather the good human life for all. In achieving this end, the capitalist revolution will not sacrifice freedom for welfare. It will secure liberty as well as equality for all men. It will subordinate economic to political activity—the management of things to the government of men.

Mr. Kelso gave me the opportunity to read the manuscript of a book about capitalism which he first drafted some ten years ago. In the last two years, I have had many conversations with him while he has been in the process of rewriting that book, which is now completed. In the course of these conversations, we

have both come to see the broad philosophical and historical significance of the fundamental tenets of a sound theory of capitalism. It was with these discoveries in mind that I persuaded Louis Kelso to engage with me in the writing of THE CAPITALIST MANIFESTO.

The first part of this Manifesto explains the philosophical and historical ideas that are involved in a sound understanding of the principles of capitalism and of the revolution to which those principles lead.

The second part sets forth a practical program which we believe is a feasible way of accomplishing the capitalist revolution in the United States within the next fifty years. By making our society a pilot model of democratic capitalism we can also make the United States the world's leader in the march toward freedom and justice for men everywhere.

Mortimer J. Adler

San Francisco, February, 1958



THE GREAT IDEAS ONLINE

is published weekly for its members by the

CENTER FOR THE STUDY OF THE GREAT IDEAS

Founded in 1990 by Mortimer J. Adler & Max Weismann

Max Weismann, Publisher Emeritus

Elaine Weismann, Publisher and Editor

Phone: 312-943-1076

Mobile: 312-280-1011

Ken Dzigan, Senior Fellow and Archivist

A not-for-profit (501) (c)(3) educational organization.

Donations are tax deductible as the law allows.