THE
CAPITALIST MANIFESTO

by Louis O. Kelso and Mortimer J. Adler
6 ECONOMIC HISTORY:

THE CLASSIFICATION OF ECONOMIES

FIRST STAGE: FROM THE BEGINNING TO THE NINETEENTH CENTURY

Until the emergence of industrial production in the nineteenth century, all the economies of the past were laborist economies. Many were in fact slave economies, because a large portion of the human labor used to produce wealth was drawn from men who were owned as chattels. But a laborist economy need not be a slave economy. In fact, the primitive form of the laborist economy involved no slaves at all. It was only in its civilized form that slavery was introduced and became indispensable to the development of civilization.

We define an economy as laborist if labor (i.e., human productive power and skill) is the chief force in the production of wealth, and is either the sole form or the principal form of productive property entitling its owners to shares in the distribution of the wealth produced.

The primitive laborist economy was that of the isolated family or the small village or tribe, in which there was some division of labor among the members of the group, in which each family owned its own labor power, its tools and its animals, in which land was usually common rather than appropriated, and in which few were hirelings, i.e., dependent for their subsistence on payments made by others.

In some primitive laborist economies, including some that exist today, the distribution of the total wealth produced was and is accomplished by gift and apportioned to need rather than determined by right and apportioned to earning. In such cases, the institutions of the market and competitive evaluation by demand were and are also absent.39

However, where in a primitive laborist economy the distribution was by right rather than by gift (as, for example, in isolated colonies or frontier settlements), that distribution was also laboristic in form. It could hardly have been otherwise if it tended to approximate a just distribution; for in an economy where labor is the chief productive force, the distributive shares of the wealth produced, to be justly apportioned, must be largely determined by the different amounts of labor—both power and skill—whereby men contribute to the
production of wealth.
In certain primitive laborist economies—again the frontier settlement affords a good example—the ownership of productive property was widely diffused. Each man or family owned his or its own labor power, tools, and animals. An almost universal diffusion of this sort will not be achieved again until the capitalist revolution is fully accomplished; for in most of the civilized forms of the laborist economy, certainly in all that were built on slave labor, there was highly concentrated ownership of labor as the chief form of productive property; as, in the first hundred and fifty years of the capitalist economy, there was and still is highly concentrated ownership of capital as the chief form of productive property.40

What has just been said calls attention to the critical difference between the primitive and civilized forms of a laborist economy. The latter form usually involves chattel slavery or feudal serfdom. Hence it concentrates in the hands of the slave owners or feudal lords the ownership or control of the chief form of productive property, i.e., human labor or skill.

The civilized form of the laborist economy arose with the emergence of cities and with a division of society into a leisure class of free men and a working class of chattel slaves, mechanics, and artisans. The slave owners, or feudal lords, were also the landowners and the owners of the tools, animals, raw materials, etc. Hence the ownership of almost all productive property was concentrated in the hands of the few and with that, of course, went a great concentration of political power. The leisure class was the ruling class. The working masses were without political status, rights, and liberties; and, except for bloody uprisings, such as the Peasants’ Revolt at the time of the Reformation, they had no way of exerting any political power.41

In the civilized form of the laborist economy, there was not only a division of labor in the sphere of subsistence work, but, what is more important, there was also a sharp division of human activity itself into subsistence work and leisure work. While slaves and toilers produced the wealth on which the whole society subsisted and prospered, the propertied men of leisure, at least those

39 On this point, see Karl Polanyi, *The Great Transformation*, New York, 1944: Ch. 4.

40 It reaches the absolute limit of concentration in Soviet Russia where the State owns all capital instruments and so is the only capitalist. It was slightly less concentrated in the “laissez-faire capitalism” of England and the United States in the nineteenth century. It is still less concentrated in the “welfare capitalism” of England and the United
The “Bloodless Rebellion” in England in 1688 and the French Revolution a century later were uprisings of the new merchant class against the feudal aristocracy of king and court. The condition of the working masses remained unchanged by this change in the character of their masters.

who were virtuous as well as free, produced the goods of civilization. It was generally thought that slavery, serfdom, or their equivalents in submerged human labor, were necessary for the emancipation of the few to do the work of civilization.

SECOND STAGE: FROM 1800 TO THE PRESENT DAY

We defined a laborist economy as one in which human labor is the sole or chief productive force, entitling the owners of labor (their own or that of chattel slaves) to shares in the distribution of the wealth produced.

With the invention and improvement of power-driven machines, labor began to lose its place as the chief form of productive property. As society passed from handicraft production to machine production and from nonmechanized to mechanized agriculture and mining, labor progressively contributed less and less to the wealth produced; capital instruments, more and more. As the efficiency of the machines increased, the burden of production gradually shifted from men to machines. With that change, capital replaced labor as the principal form of productive property.

When labor is the chief productive force in the economy, it must be combined, of course, with other productive factors, such as natural resources and hand tools. Similarly, when machines constitute the chief productive force, they must also be combined with other productive factors, such as natural resources and labor. The main difference between a nonmechanized system of production and an industrial system, therefore, lies in the substitution of machinery for labor as the principal form of productive property.

As we have already seen, capital consists of property in all the means of producing wealth except one, i.e., labor. Hence, by the substitution of machinery for labor as the principal form of productive property, we pass from a laborist to a capitalist economy.

The distinctive character of a capitalist economy is thus indicated. It can be defined as an economy in which capital instruments are the chief productive force and, together with natural resources, constitute the principal form of productive property entitling its owners to shares in the distribution of the wealth produced.

THE CLASSIFICATION OF ECONOMIES
All economies are either economies in which labor is the chief productive force and the principal form of productive property, or they are economies in which capital rather than labor occupies that place. The primary division among all economies is thus based on mode of production. By this criterion, all economies are either laborist or capitalist.

Subordinately, economies which are either laborist or capitalist in mode of production can be further divided by reference to mode of ownership and form of distribution. We have already made such subdivisions among the laborist economies of the past.

We have seen that the ownership of labor power was either (a) universally diffused, as in primitive laborist economies in which slavery did not exist, or (b) relatively concentrated, as in civilized laborist economies in which large amounts of human labor were owned by a small slave-owning class. We have also seen that the form of distribution was either (a) by right, *i.e.*, based on amount of contribution to production, or (b) by gift, *i.e.*, based on needs rather than on rights.

In those cases in which all, or a major portion, of the wealth produced is distributed among those who by their labor produced it, we call the form of the distribution “laboristic.” The principle of such distribution may be either justice or charity depending on whether it is based on rights or needs. Labor receives what labor earns when shares of the wealth produced are apportioned among those who produce it by a competitive evaluation of the contributions workers make to its production.

The slave economies present us with what at first appears to be an anomalous case. They were laborist in mode of production, but they were not laboristic in mode of distribution, inasmuch as the major portion of the wealth produced went to the slave owners who were also owners of land, tools, and animals. If we can call the slave owners “capitalists,” even though labor was the principal form of productive property that they owned, we can describe the form of distribution as “capitalistic,” thereby signifying that the major portion of the wealth produced was distributed to those who earned it, not by their own labor power but by the use of other instruments of production which they owned.

So far the terms we have used to describe the various forms of the laborist economy are purely descriptive. They describe the way in which the wealth of a society is produced, the way in which its principal productive property is owned, and the way in which the wealth produced is distributed. *But when we pass from the form of
distribution to the principle of distribution, we cannot avoid questions of justice. Thus, for example, we have seen that, in an economy that is laborist as to mode of production, either justice or charity (i.e., either rights or needs) may be the principle of a distribution that is laboristic in form.

We are also confronted with the anomalous case of the slave economies that are laborist as to mode of production but are “capitalistic” rather than “laboristic” in the form of their distribution. The basic fact that slavery is intrinsically unjust, because it violates each man’s natural right to property in his own labor power, underlies the anomalous character of the slave economies. It explains how they can be capitalistic in form of distribution, even though they are laborist as to mode of production. Wherever we find such discrepancy between the mode of production and the form of distribution, we have good reason to suspect that the economy is not organized in accordance with all three of the relevant principles of economic justice—the principles of distribution, participation and limitation.42

Nevertheless, if we judge the slave economies in terms of only one of these principles, i.e., the principle of apportioning distributive shares on the basis of contributive shares, then the capitalistic form of distribution in a slave economy did observe one principle of justice while violating the other two. This amounts to saying that if we do not question the highly concentrated ownership of human labor (which violated the principles of participation and limitation), then slave owners, in receiving the major portion of the society’s wealth, received what the productive use of their property earned for them.

**THE FORMS OF CAPITALISM**

With these criteria of classification clear, we turn to economies that are capitalist in mode of production, in order to classify them further by reference to (1) mode of ownership, (2) form of distribution, and (3) principle of distribution. We will try to present a purely descriptive classification first; but while a description of the forms of capitalism can be separated from questions of justice and liberty, the human significance of the forms described cannot be judged except in the light of such questions.43

42 In fact, it can be stated as a general rule that the more closely the form of distribution matches the mode of production, the more nearly an economy approaches justice in distribution. A capitalistic form of distribution in a laborist economy (e.g., ancient slave economies) is unjust; and similarly, a laboristic form of distribution in a capitalist economy.

43 In what follows, the reader will be aided by remembering that we have adopted the adjectives “laborist” and “capitalist” to designate an economy by reference to its mode of production, and that we shall use the adjectives “laboristic” and “capitalistic”
in designating an economy by reference to its form of distribution.

What follows, then, is a classification of economies that are all forms of capitalism in the basic descriptive sense of that term. In our judgment, the primary division of economies should be made by reference to mode of production rather than mode of ownership or form of distribution. What we are about to describe as the various forms of capitalism are all economies that are clearly capitalist rather than laborist in their mode of production.

(1) *The Mode of Ownership.* The capital instruments of a society can be
(a) privately owned and operated by individuals, families, and corporations; or (b) publicly owned by the State and operated by its governing bureaucracy.

(a) Under a system of private ownership of capital, the ownership may be highly concentrated in the hands of the few at one extreme, or widely diffused among the population at the other extreme; or its degree of concentration or diffusion may fall somewhere between these two extremes. Insofar as it is highly concentrated, it gives the few economic power with which they can exert undue influence on the organs and personnel of government. Insofar as it is widely diffused, it gives the people generally the economic independence they need to bulwark their political liberty.

(b) Under the system of public ownership of capital, the ownership is completely concentrated in the corporate personality of the State, which means that, for all practical purposes, it is highly concentrated in the hands of the policy making officeholders who exercise the political power of the State. Only if those persons were completely responsible to the electorate and subject to all the checks of popular sovereignty could the operative control of the capital instruments owned by the State be widely diffused, even though the ownership of them is not. But where, in a capitalist economy, private persons and corporations do not own property in capital instruments, they are without the leverage of economic power to exercise control over those who have political power; and so, where the State is the only capitalist, both economic and political power tend to become concentrated in the organs or bureaus of government. The bureaucrats who act in the name of the State are beyond check and cannot be made responsible. Under such conditions, democratic processes are fictitious, and the economic as well as political freedom of individuals is all but extinguished.
(2) **The Form of Distribution.** In economies in which capital instruments are the chief productive force and the principal form of productive property, the form of distribution is either (a) capitalistic or (b) laboristic. We are using these terms here in the same descriptive sense that we used them before in connection with economies in which human labor is the chief productive force and the principal form of productive property.

(a) The distribution is capitalistic in form if the major portion of the wealth produced goes to the owners of capital. In an economy in which the private ownership of capital prevails, and in which that ownership is highly concentrated in the hands of a small class, the residue which remains to be apportioned among the laboring masses will inevitably be less than is needed for a decent standard of living, or in some cases even for a meager subsistence.  

(b) The distribution is laboristic in form if all or the major portion of the wealth produced goes to those who contribute to its production only by the use of their own labor power; and it is partly laboristic and partly capitalistic in form if the distributive share which goes to the owners of capital is less than the major portion of the wealth produced, being the

---

44 In his *Economic Policy for a Free Society*, Chicago, 1951, Henry C. Simons summarizes the case for the diffused ownership of property as indispensable to both political and economic freedom. “Private property in the instruments of production,” he writes, “is an institutional device both for dispersing power and for securing effective organization of production. The only simple property system is that of a slave society with a single slave owner—which, significantly, is the limiting case of despotism and of monopoly.” (He might have said the same of a capitalist economy with a single owner of capital—the State.) “Departure from such a system,” Simon continues, “is a fair measure of human progress. The libertarian good society lies at an opposite extreme, in the maximum dispersion of property compatible with effective production. . . . Basic to liberty are property rights in labor or personal capacities. The abolitions of slavery and serfdom are the great steps toward freedom—and, by the way, are striking reconciliations of apparent conflict between productional and distributional considerations. Property in one’s own services, however, is a secure, substantial right only where there are many possible buyers. It thus implies private property in other resources and freedom of independent sellers of labor to choose and to move among autonomous, independent organizations or firms. It also implies a distinctively modern institutional achievement, namely, the separation or dissociation of the economic and the political—a political order that sustains formal rights and a largely separate economic order that gives them substance.” Simon then goes on to say that all property rights—both in capital and in labor—are integral aspects of personal capacity, and that “a society based on free, responsible individuals or families must involve extensive rights of property,” presumably in capital instruments as well as in labor. See “A Political Credo” in *op. cit.*, pp. 27-28.
residue that remains after a substantial portion of that wealth goes to labor in order to provide a majority of the population with a decent standard of living.  

In an economy in which the ownership of capital is completely concentrated in the hands of the State, the form of distribution is purely laboristic, and necessarily so.  

In an economy in which capital is privately owned, but in which that ownership is concentrated in the hands of the few, the form of distribution cannot be purely laboristic without completely violating the rights of private property in capital. A purely laboristic distribution of industrially produced wealth is inconsistent with the effective private ownership of capital. It nullifies a productive use of such property in order to obtain the share of the wealth which it produced. But under a system of private ownership, and one in which that ownership is highly concentrated, it is possible for the form of distribution to be either purely capitalistic or partly capitalistic and partly laboristic.

British capitalism throughout the nineteenth century is the classic example of a capitalistic economy in which the form of distribution was purely capitalistic.  

British or American capitalism in the middle of the twentieth century is the classic example of a capitalistic economy in which the form of distribution is mixed, i.e., partly capitalistic and partly laboristic.  

The capitalism of Soviet Russia is the classic example of a capitalistic economy in which the form of distribution is purely laboristic.  

We cannot describe the difference between these two alternatives without considering the principles that control these two forms of distribution—on one hand, the principle of justice together with respect for human rights; on the other hand, the principle of charity together with concern for human needs.

(3) The Principle Underlying the Form of Distribution. The principle underlying the form of distribution is either (a) one of strict justice, based on the rights of private property in capital and labor, as well as on other human rights; or (b) one of charity.

When the principle is one of charity, concern for human needs or welfare may lead to only a limited invasion of the rights of private property in capital, in which case the form of distribution will remain partly capitalistic; or the principle of need may completely replace the principle of rights, in which case private property in capital will be completely abolished and the form of distribution will become purely laboristic.

The capitalist economy of Soviet Russia represents one in which a purely laboristic distribution is avowed to rest entirely on the
principle of human needs or welfare. The substitution of needs for rights is of a piece with the abolition of private property in capital. Both together express the view that since the State should take possession of all capital instruments for the welfare of the people, the wealth produced by capital should be distributed to them according to their needs and not apportioned on the basis of the varying contributions which individual men make by their labor.\textsuperscript{48}

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{48} According to Lenin’s interpretation of it, in \textit{State and Revolution}, the Marxist principle—“from each according to his ability, to each according to his needs”—replaces and transcends all considerations of justice and rights. The communist ideal, according to Lenin, will not be fully realized until such bourgeois considerations are as completely abolished as the institution of private property in capital, with which they are connected. See \textit{op. cit.}, Moscow, 1949: Ch. V, Sects. 3 and 4.
\end{enumerate}
\end{footnotesize}

We said above that the purely laboristic distribution in Soviet Russia is avowed to rest entirely on the principle of human needs or welfare. From recent reports, it would appear that actual practice deviates from Marxist theory, insofar as a much higher standard of living is accorded by the State to managerial and technical labor than to mechanical labor. This might be thought to be an atavistic revival of some concern for rights, in view of the fact that in any capitalist economy managerial and technical labor contributes much more than mechanical labor to the production of society’s wealth. But if the establishment by the State of wide differentials in living standards springs solely from a wish to provide the necessary incentives or inducements to get certain kinds of work well done, then the controlling principle is neither one of justice nor of charity, but of expediency. It aims at the survival of the economy itself, or at its greater productivity and prosperity.\textsuperscript{49}

The present capitalistic economy of Great Britain or the United States represents one in which a partly laboristic distribution is sometimes mistakenly avowed to rest on the principle of human rights. The mistake is a profound one. To correct that mistake, it is necessary to re-examine the capitalistic economy of Great Britain or the United States before the power of labor unions, supported by the power of government and by the legislative regulation of wages and hours and the policy of full employment, raised the general standard of living to its present level.

We have already observed that in an economy in which the private ownership of capital prevails and in which that ownership of capital is highly concentrated in the hands of a small class, a capitalistic form of distribution necessarily gives the major portion of the wealth produced to a few men or families, and leaves for the
The principle of charity or welfare is thus qualified by a principle of expediency in Soviet Russia’s purely laboristic form of distribution. We shall see presently that a principle of expediency may enter into other forms of distribution, as, for example, in the partly laboristic and partly capitalistic form of distribution which has developed in Britain and America in the last forty years.

majority of the population a residue so small that their standard of living is at a subsistence level or less.

Is the principle underlying such a capitalistic distribution just? And, we cannot help asking also, is it expedient?

We have already indicated the answer that must be given to the first question. We pointed out in the preceding chapter that one principle of justice, i.e., the principle of distribution, can be operative in a society that is unjust in other respects, i.e., by violating the principles of participation and limitation. We also pointed out earlier in this chapter that an economy achieves justice in distribution when its form of distribution matches its mode of production. Thus, if an economy that is capitalist in its mode of production has a capitalistic form of distribution, it achieves justice in respect to distribution, but it may nevertheless be quite unjust in other respects.

A capitalist economy in which large numbers of men cannot effectively participate in the production of wealth because the ownership of capital is concentrated in the hands of the few is hardly a just economy. Though its capitalistic form of distribution is based on full respect for the property rights of the few who are capitalists, the economy violates two of the three principles of justice—the principles of participation and of limitation.

The economic hardship, or, worse, the abject misery of the great mass of men, was the immediate consequence of the injustice that was done in the capitalist economies of Great Britain and the United States during the nineteenth century. The cause was not the private ownership of capital, which is as just as the private ownership of labor power; nor was it the purely capitalistic form of distribution, which is also in itself quite just in an economy that is capitalist in its mode of production. The cause was the highly concentrated ownership of capital.

In addition to being unjust, with deplorable consequences for the welfare of the masses, the capitalist economy we have just been describing would have “sowed the seeds of its own destruction,” as Marx predicted, had its capitalistic form of distribution continued without modification. With the major portion of the wealth going to the one-tenth of the population who were the owners of capital, the residue that went to the remaining nine-tenths gave them insufficient purchasing power to support a high level of production.
Only by raising the general standard of living and creating a widely
diffused purchasing power can the consumption of wealth support
mass production in a capitalist economy. Hence if it was nothing
else, the transformation of the form of distribution from a purely
capitalistic one into a partly laboristic one was highly expedient. It
kept the economy going, and saved it from the disastrous climax of
the cycle of boom-and-bust.

There is ample evidence of such motivation in the explicitly stated
policies of the New Deal, as well as in the declarations of those union
leaders who picture labor as in partnership with capital to make
capitalism a prosperous economy for the welfare of all concerned.50
But the action of labor unions and the effort of government regula-
tion to create a partly laboristic form of distribution were not entirely
motivated by considerations of expediency with an eye to keeping
the economy afloat. The original, abiding, and

deeper interest was in alleviating human misery and improving the
lot of the masses.

Without excluding or minimizing a concern for the stability of the
economy, the controlling principle in the transformation of the form
distribution stemmed from deeply humanitarian motives—concern
for pressing human needs and the economic welfare of the “for-
gotten man.” These good purposes, as well as the efficiency and
prosperity of the economy itself, were served by creating a mixed
form of distribution which over the years has become more and more
laboristic, less and less capitalistic.51

These good ends were served, however, without correcting the in-
justices of the nineteenth-century capitalism which was selfdestruc-
tive as well as inhumane because, with a highly concentrated private
ownership of capital, it maintained a purely capitalistic form of dis-
tribution. On the contrary, the mixture of a laboristic with a
capitalistic form of distribution in a capitalist economy, especially in a technologically advanced one in which nine-tenths of the wealth is produced by capital instruments, does serious injustice to the owners of capital. It invades, attenuates, or erodes their property rights in capital in proportion as it makes a larger and larger cut in the distributive share which should be theirs by right of earning it in order to increase the distributive share given to the owners of labor power, which is for the most part not earned by them.

The present capitalist economy of Great Britain and the United States, therefore, not only fails to correct the injustices that it inherits from the last century, but also adds thereto the injustice of a form of distribution that has become more and more laboristic, as measured by the increasing portion of the wealth that is rightly due to the owners of capital but goes to labor. The fact that this transformation in the distribution of wealth can be “justified” by

51 We have referred to the principle of distribution that rests on a concern for human needs as one of charity. It can also be called the “welfare principle” or the “principle of socialism.” The present capitalist economy of Great Britain and the United States, which we have described as one in which the form of distribution is mixed (partly laboristic, and partly capitalistic) can, therefore, also be described as “welfare capitalism” or “partly socialized capitalism.”

formation in the distribution of wealth can be “justified” by the ends it has served, i.e., the general welfare of our people and the prosperity of our economy, may make it humane or expedient, but it does not make it just.

To be just, the production and distribution of wealth must be organized so that all human rights are fully respected—the right of everyone to receive the full share of what his productive property produces as well as the right of everyone to participate in production through the use of property which, under a capitalist mode of production, is capable of earning a viable income or a decent living.

To correct the injustices that were present in capitalism in its first stage and still exist as a result of the highly concentrated private ownership of capital, and to correct in addition the injustice that has recently been introduced by an increasingly laboristic form of distribution under the principle of charity, welfare, or socialism, it is necessary to reinstate a purely capitalistic form of distribution, with full respect for the rights of private property in capital, and at the same time to innovate a widely diffused private ownership of capital.

Only in that way can all relevant economic rights be safeguarded. Only in that way can all three principles of economic justice be
embodied in a capitalist economy. Only in that way can a capitalist economy be justly organized. Only in that way can the prosperity of a capitalist economy be preserved or augmented, and the economic welfare of the population be cared for, without recourse to expedients that are not only unjust because they invade property rights but are also inimical to freedom because they involve concentrations of political and economic power in the same hands.

The so-called communist revolution established the complete socialization of a capitalist economy. Completely socialized capitalism may be able to operate with enough efficiency to ensure some measure of economic prosperity. It may be able, by a purely laboristic form of distribution, to take care of human needs and even to provide a gradually improved standard of living for all. But if it succeeds in these respects, it can do so only at the sacrifice of justice and liberty, of personal rights and individual freedoms—all of which are bound up with the institution of private property and the right of a man to live on what he earns by property over which he has exclusive control.

What is called for is the capitalist revolution, a revolution which not only serves the cause of justice and liberty, but also has the power to create, more surely and fully, an efficient and prosperous economy, and a standard of living that amply provides for the economic welfare of all.

The path the capitalist revolution will take faces in exactly the opposite direction from that taken by the communist revolution. It seeks to diffuse the private ownership of capital instead of abolishing it entirely. It seeks to make all men capitalists instead of preventing anyone from being a capitalist by making the State the only capitalist.

The capitalist revolution also turns away from the mixtures and confusions of economies that are partly socialized or laboristic-capitalisms. But it does not turn back to the unjust and inhumane capitalism of the nineteenth century. It moves forward to the full fruition of the principles of justice that were possible under capitalism from the beginning. It seeks to make an economy that is capitalist in its mode of production one that is also purely capitalistic in its mode of distribution, as it should be. And by seeking to make all men capitalists, it strives to make effective their right to live on what they can earn by their capital property as well as by their labor, as men should be able to live in a society where capital instruments produce most of the wealth.