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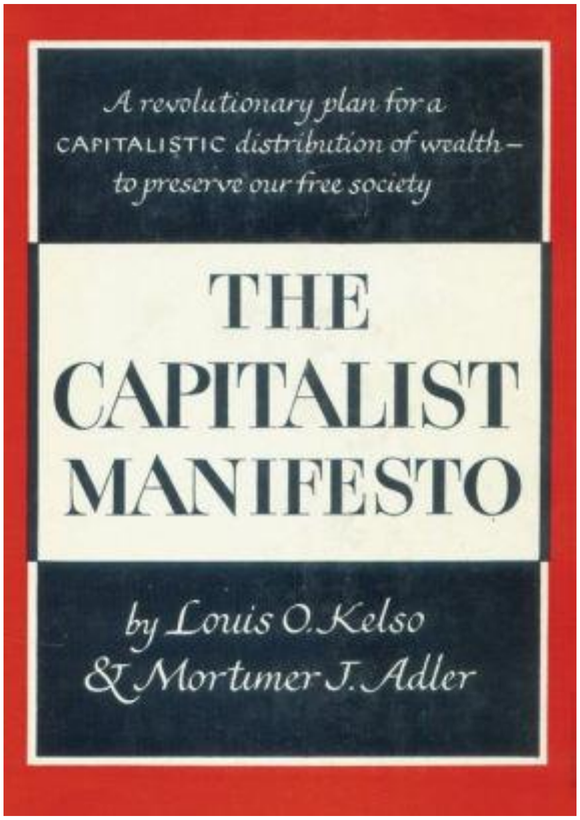

THE CAPITALIST MANIFESTO

by Louis O. Kelso
and
Mortimer J. Adler

15 CONCLUDING SUMMARY

We have considered some of the practical problems involved in a transition from our present partly capitalistic and partly laboristic economy to a well-balanced and completely capitalistic economy. Our attention has been divided throughout between the disadvantages of the one and the advantages of the other. It has been important to keep reminding ourselves of the economic pains we have suffered as a result of trying to fit, after the fashion of Procrustes, a capitalist system of production, which retains the vestiges of private property in capital, into the bed of a predominantly laboristic distribution of wealth.

True, we have almost become inured to pains that once seemed less bearable when we first experienced the steeply graduated income tax, the subsidization of some producers at the expense of others, the empowering of organized workers to levy private taxes upon the rest of the economy or some part of it, and the direct intrusion of government into the business of producing wealth and redistributing it. But this should not lead us to suppose that things cannot get worse or that our endurance is without limit.

Our whole analysis of the ways in which a laboristic distribution of wealth retards the advance of technology, causes the alienation of private property in capital and the erosion of its basic rights, tends to create an overwhelming consolidation of economic and political power in the already highly centralized government of our country, and threatens the existence of individual freedom leads us to one inescapable conclusion: *there is no way of preventing all these things from becoming unendurable except by dissolving our mixed economy in favor of Capitalism.*

However formidable the central task of the capitalist revolution may have appeared to us at the outset, *i.e.*, the task of broadening capital ownership to include millions on millions of new capitalists, we should be strengthened in our resolution to undertake it and surmount all its difficulties when we consider the risks we incur and the problems we face if we try instead to perpetuate our present mixed capitalism.

To focus our full attention on the critical choice that we are called upon to make by the best use of our intelligence and our power of free decision, it may be helpful in these closing pages to summarize the alternatives that confront us.

(1) Capitalism recognizes that capital is the principal producer of wealth in an advanced industrial economy. Mixed capitalism must continue to pretend that human labor is the principal producer of wealth.

(2) Capitalism acknowledges that subsistence work, which is mechanical in quality, is an evil that men are compelled to endure to a certain extent but which, since it is humanly unrewarding, should be reduced to the minimum in human life. Mixed capitalism cannot afford to acknowledge the clear distinction between doing necessary labor for extrinsic compensation and the free engagement of men in liberal and creative pursuits; nor can it accept the superior human worth of work that produces the goods of civilization over work that produces the goods of subsistence.

(3) Capitalism makes possible an eventual reduction of the tax burden to the point at which the revenue government procures by taxation does no more than pay the operating costs of its services. Mixed capitalism must contemplate a constantly growing tax burden the revenues from which, in excess of the costs of government, must be used by government to redistribute wealth in ways that prevent the economy from collapsing.

(4) Capitalism gives maximum encouragement to technological improvements that progressively make the production of wealth more efficient and at the same time transfer more and more of the burden of it from men to machines. As one of the main consequences of its laboristic distribution of wealth, mixed capitalism tends to retard technological progress.

(5) The broadening of the ownership of existing capital and the creation of new capitalists with the formation of new capital can be carried out by self-liquidating means. The laboristic redistribution of the wealth produced by capital is never self-liquidating. Instead it liquidates private property in the capital instruments which produce the bulk of an industrial economy's wealth.

(6) Under mixed capitalism, the laboristic redistribution of wealth is a never ending process. It must continue, driven by the force of technological progress, until all the wealth of the economy is distributed under the control or mandate of central government.

Under Capitalism, and even in the transition to Capitalism, the ever increasing number of proprietors of capital permits an automatic and direct distribution of wealth through participation in production.

(7) Under mixed capitalism, the alienation of private property in capital and the attenuation of its rights, together with the assumption by government of the powers needed to redistribute wealth and thus maintain the economy, lead to the concentration of economic and political power in the hands of central government. Under Capitalism, the restoration of private property in capital and full respect for its rights, together with the elimination of the need for government to engage in the redistribution of wealth, keeps political and economic power in separate hands and gives the individual proprietor of capital the economic power and independence he needs as a leverage against improper encroachments by government. As capitalists and only as capitalists can the citizens of an industrial democracy preserve and strengthen their free political institutions.

(8) Capitalism alone is perfectly compatible with democracy, alone provides it with the economic substructure it needs, and alone creates the justly organized industrial economy that is the counterpart of democracy as the justly organized polity of a mass society. Under the unalterable conditions of a mass society, mixed capitalism necessarily tends away from democracy and toward socialism, *i.e.*, State capitalism with its inevitable concomitant, the totalitarian state.

(9) Capitalism achieves general economic welfare through economic justice in the distribution of wealth and thereby achieves it with no loss of human dignity or freedom. Mixed capitalism achieves general economic welfare through a mixture of charity and expediency in the distribution of wealth, and consequently degrades men either to the condition of children benevolently provided for or to the condition of puppets used as means to economic ends.

(10) Capitalism and democracy together create an approximation of the ideal classless society in which all men are citizens and all are capitalists, and in

which the good life that was possible only for the few in the pre-industrial plutocracies and slave economies of the past becomes equally possible for all. Mixed capitalism must always remain an economically class-divided society, in which the perpetuation of the class war involves a continuing conflict of interests and struggle for power. Unless the ultimate resolution of the class war is found in Capitalism through justice for all and with freedom for all, it will be found in socialism and the totalitarian state—that caricature of the classless society in which all men are equally enslaved, for none has the political freedom of a citizen or the economic freedom of a capitalist.

APPENDIX: THE CONCEALMENT OF THE DECLINING PRODUCTIVITY OF LABOR IN OUR PRESENT ECONOMY

We have asserted that, with negligible exceptions, increases in the output of wealth per man-hour have been achieved in our industrial economy with a steadily diminishing contribution of both power and skill on the part of mechanical workers, and a steadily increasing contribution of skill on the part of technical and managerial workers. A major portion of the efforts of technical and managerial workers has been devoted to increasing the inherent productiveness of capital instruments. While their inherent productiveness has increased at every stage of technological advance, the inherent productiveness of mechanical labor has at best remained constant, and so, relative to the increasing productive power of capital, the productive power of mechanical labor has progressively declined.

If these things are true, as we claim they are, then it is also true that mechanical workers, who constitute the great bulk of our labor force and of our population, make a relatively small contribution to the production of our society's wealth as compared with the contribution made by the owners of capital. From this truth, one further consequence should follow. Since a factor of production is presumably valued primarily for its ability to produce wealth, the inherent productiveness of labor should bear about the same relationship to its economic productivity as the inherent productiveness of capital bears to its economic productivity, *on condition, of course, that the value of their relative contributions is objectively determined through the mechanism of free competition.*[103] Hence, to whatever extent free competition is operative among the factors of production, we should expect to find that the economic productivity of mechanical workers has progressively declined.

In the light of statistics on the distributive shares of the national income going to labor and to capital, the objection may be raised that even though the physical contribution of mechanical workers to the production of wealth has long been declining, their

[103] Although it would seem that the economic productivity of labor should rise or fall, relative to that of capital, with a rise or fall in its physical capacity to produce wealth (*i.e.*, a rise or fall in its inherent productiveness), the truth of this relationship depends upon circumstances other than the one that a factor of production is valued primarily for its ability to produce wealth. Among these other circumstances are the following: (a) the fact that capital formation (at least where not directly overstimulated to produce "full employment") takes place only in response to growth in consumer demand for the products or services requiring the newly formed capital, whereas an increase in the labor supply takes place through population increase and not in response to such consumer demand stimulus; (b) technological advance increases the *demand* for capital, but increases the *supply* of labor; an increase in employment resulting from increased demand for wealth—now directly stimulated to achieve full employment—is frequently mistaken for evidence that labor-saving devices of themselves increase the demand for labor; (c) population increase, in an advanced industrial society, increases the supply of labor more than it increases the demand for labor through increased consumption. Throughout, it is assumed that population tends to increase and that technological advance continues.

distributive share, and consequently their economic productivity, has long been rising.

Let us consider first the central question of fact. Labor's share of the national income, *i.e.*, the share of the wealth produced in a particular year, rose from 50 percent in the decade beginning in 1870 to 58 percent in 1929, 68.5 percent in 1953, and 70 percent in 1956.[104] From these figures, it would seem that the economic productivity of mechanical workers, who comprise some three-fourths of the labor force, has risen, that is, if their distributive share of the national income can be taken as an accurate and objective index of the value of their contribution to production.[105]

How shall we explain the discrepancy between (1) our assertion that the relative economic productivity of mechanical labor has declined along with its relative inherent productiveness and (2) the figures which show that the distributive share received by such labor has increased for many decades and that it is largest in the most important sector of our economy, *i.e.*, the corporate sector?

Were we to admit that the distributive share of the national income received by labor is an accurate and objective index of the value of labor's contribution to production, then we would have to concede that the relative economic productivity of labor has increased in spite of the fact that its relative inherent productiveness has declined; or we would be compelled to question that fact itself

104 See *Historical Statistics of the United States*, 1789-1945, Bureau of Census, 1949, p. 15; *National Income*, 1954 edition, U.S. Department of Commerce, p. 9; *Economic Report of the President*, 1957, p. 132. Statistics for the earlier period are, of course, subject to question; *e.g.*, how much labor was performed at home for which no money compensation was paid? In the corporate sector of the economy, which accounts for more than half the national income, the employees' share of total income was stable at about 74 percent from 1929 to 1951. It rose to 76 percent in 1952, 77.5 percent in 1953, and to 79 percent in 1956. See *National Income*, 1954 edition, p. 9, and *Survey of Current Business*, U. S. Department of Commerce, July, 1957, p. 15, Table 12.

105 See *Statistical Abstract of the United States*, 1956, pp. 208-214. It appears that the real wages of mechanical workers have risen at least as fast as the real incomes of managerial and technical workers, if not faster.

and, perhaps, to dismiss it as illusory even though it appears to be so amply and clearly evidenced.

We think that the relatively declining inherent productiveness of mechanical labor cannot be questioned, and that the apparent discrepancy between the declining economic productivity of labor and its increasing distributive share of the national income can be explained.

Before we set forth that explanation in detail, we should say at once that we challenge the assumption made by those who think that labor's increasing share of the national income represents an accurate and objective evaluation of its contribution to the production of wealth. We hold a view exactly the opposite of those who maintain that the action of labor unions, supported by legislation and other applications of governmental power, has made it possible for the contribution of labor to be fairly and objectively evaluated. On the contrary, we hold that this, among other things, has prevented a freely competitive evaluation of labor's contribution, with the consequence that labor's share of the national income is by no means a true index of its economic productivity.

The wage levels of organized workers, who constitute about 35 percent of the nonagricultural labor force, do not represent freely competitive determinations, but result from the unified efforts of organized labor to increase hourly earnings against the background of a large number of federal and state laws designed to prevent employers from resisting wage demands made by employees.[106] While coercion and duress are recognized by our legal system as vitiating all other types of contractual obligation, we have established a system of collective bargaining to determine wages and other economic benefits of organized labor, under which something very close to duress is the decisive factor in the "bargaining."

106 For a brief review of these laws, see Roscoe Pound, *Legal Immunities of Labor Unions*, published last year by the American Enterprise Association, Washington, D. C.

Before we argue in support of this basic point, two other considerations should be mentioned. One is the corporate income tax, which now takes 52 percent of corporate income at the federal level and an additional small percentage at the state level in most states. This large percentage represents wealth produced by capital, but in national income statistics it is not attributed to either capital or labor. Thus over one-half of the wealth produced by the capital of corporations (and corporations produce well over half the wealth of our society) is wholly omitted from the statistical picture. In reckoning the distributive shares of the wealth produced, it should be attributed to the owners of capital. If it were, it would greatly change the picture of the relative economic productivity of capital and labor.[107]

The second consideration is the fact that corporations distribute to their stockholders only a part of the wealth produced by their capital—generally not more than one-half of corporate earnings after taxes. As the Bureau of Census has noted, "some parts of income earned, such as corporate savings, have definitely not been received by the individuals concerned and indeed may never be received by them."[108] The vast sums withheld by corporations from stockholders and invested to form additional corporate capital must also be included in the computation of the distributive share of the wealth produced that belongs to the owners of capital. Not to include these sums in the computation further distorts the picture of the relative economic productivity of capital and la-

107 Such levies as the employers' share of social security contributions, taxes on real and personal property, manufacturers' excise taxes and other indirect taxes represent wealth produced by capital to the extent that the impact of such levies is not passed on to consumers. Except in rare instances, they do not fall upon the distributive share that workers draw from production. The extent to which such levies are passed on to consumers varies with the circumstances. It seems likely that many billions of dollars of such taxes do represent wealth produced by capital and would have to be included in the distributive share of the owners of capital before the relative economic productivity of capital and labor could be appraised.

108 *Historical Statistics of the United States*, 1789-1945, p. 6.

bor, for it measures the economic productivity of capital by the distributive share awarded the private owners of capital in an economy in which private property in capital has been greatly attenuated.

If we combine these two points, which show that the actual distributive share received by the private owners of capital is far from being a true index of the economic productivity of capital, with the point that labor's share is not a true index of its economic productivity because it is not determined by free competition, there is no longer any basis for believing that the available statistics give us an accurate picture of the relative economic productivity of capital and labor.

However, it may be still objected that the wages of nonunion workers—approximately 65 percent of the nonagricultural labor force—have risen almost as rapidly as the wages of union workers. This, it may be argued, indicates that where the wage determinations are in fact competitive, the distributive share of labor has been rising for three decades; and so we are once again confronted with the fact that the economic productivity of labor has been increasing. Such a view overlooks many factors of critical importance. The effect of administered wage levels in the unionized sector of the economy has been to produce similar, and sometimes even higher, wage levels in the nonunionized sector. The following considerations explain why this is so.

(1) Unionization is concentrated in the leading industries of the economy: manufacturing, trucking, railroads, shipping, warehousing, construction, air transport, electric power, communications, petroleum, chemicals, rubber, etc. By pre-empting these basic and critical industries, the competitive field for unorganized workers is narrowed. Many of the companies in these key industries are of oligopolistic size and are able to raise their prices in order to pave the way for further wage demands.

(2) The power of organized labor to raise the level of wages and to increase other economic benefits is frequently as effective in benefitting nonunionized labor as it is in the case of unionized labor. The employers of nonunionized labor often raise wages in order to prevent unionization. Who is not familiar with the automatic extension of "collectively bargained" wage increases for operating employees to clerical employees and other employee groups, in order to discourage the organization of the latter into unions? Who is not familiar with the employer who is determined to pay more than the union wage scale or to give greater benefits than those secured by unions, regardless of costs, in order to spare himself and his employees the "unpleasantness" of being organized? Who has not heard the complaint of union leaders that, because of the duress that unions exert on the employers of nonunion labor, the efforts of labor unions tend to confer equal benefits on unionized and nonunionized workers,

in spite of the fact that the latter make no contribution to the support of the union?

(3) In the 35 percent of nonagricultural labor that is organized, the excess of collectively bargained wages over their competitively determined levels has a distributive effect favorable to labor that goes far beyond the industries in which workers are organized. In laying the foundation for the use of pump-priming public expenditures to create employment, J. M. Keynes pointed out that such expenditures in capital goods industries create demand for several times the employment they directly stimulate.[109] This occurs through the successive spending of the additional income of the workers in the capital goods industries to purchase consumable goods, thus creating further employment and further income, etc., until the "propensity to save" on the part of successive income recipients dissipates the original stimulus.

An analogous "multiplier effect" results from diverting substantial quantities of the wealth produced by capital to organized labor through noncompetitive wage determinations. The additional income of the workers is spent over and over again, causing an increase in employment and an enlargement of the distributive share tat labor receives, which is out of all proportion to the ini-

[109] *The General Theory of Employment, Interest, and Money*, Ch. 10.

tial wage increase. Were it not for the two considerations mentioned on pp. 271-273, this "multiplier effect" might impartially benefit capital and labor, but under present conditions that is not the case.

(4) The tendency of the high-wage unionized industries to draw the best qualified labor and to give them first claim on the labor supply has the effect of eliciting wage increases from the employers of nonunionized labor, quite apart from the point made in (2) above.

(5) To the extent that union practices retard technological advances, unions further diminish the distributive share received by owners of capital and so increase the relative size of the share received by owners of labor power. Such retardation is far from negligible where unions impose heavy additional costs as a condition for allowing the technological displacement of workers by more efficient machinery.

(6) The effect of union pressure to raise wages and increase other benefits is one thing during a period of substantial unemployment, but it is quite another when superimposed on an effective governmental policy of full employment. The consensus of the testimony of labor leaders before the Temporary National Economic Committee in 1940 was that the best that unions had been able to do up to that time—and they had organized an average of about one million new members a year from 1934 to 1941—was to offset, by collectively bargained wage increases, the loss of income to labor that resulted from the displacement of workers by machines. This testimony related to a period during which unemployment ranged between ten and fourteen million.[110]

Since the Employment Act of 1946 and the effective implementation of its policies,[111] labor unions, even though they repre-

110 Hearings, Part 30: *Technology and Concentration of Economic Power*.

111 The implementation referred to includes, in addition to the determination of wages, the following: (a) easy credit subsidization of the construction industry and hard goods manufacturing industries; (b) the subsidization of farm employment through the purchase of agricultural surpluses and the fixing of agricultural

sent only 35 percent of the nonagricultural labor force, have been able to do much more than offset the losses resulting from technological displacement. The superimposition of collective bargaining by a third of the industrial labor force upon a full employment economy has approximately the same effect as a corner on 35 percent of the steel or wheat market would have on the price of steel or wheat in a year in which demand at current prices, without the effect of the monopolistic corner, would fully take the supply off the market. There is, in fact, no way to estimate how much the distributive share of the national wealth received by labor, unorganized as well as organized, is distorted by these practices and conditions.

Yet one thing is sufficiently clear. The effect of all these practices and conditions has been to raise wages far above what they would be if the economic productivity of labor were evaluated by free competition in an economy not controlled by a government policy of full employment.

There are good reasons for believing that, even under freely competitive conditions and in an economy not governed by a policy of full employment, the economic productivity of labor would be represented by wage levels higher than those labor would receive if its relatively declining economic productivity were strictly proportionate to its relatively declining inherent productiveness in an advanced industrial economy. For one thing, there is an absolute point beyond which wages cannot fall without being totally inadequate for subsistence. Another reason is the fact that a considerable amount of mechanical labor remains indispensable at any

prices; (c) the massive expenditures on war materials through which we have, in the economic sense, normalized war; (d) the employment-supporting foreign aid program; (e) interest-free government loans to industry for the construction of plant and equipment through the accelerated tax amortization program; and (f) the statutory or administrative fixing of prices in thousands of instances in such a manner as to promote increased employment. These efforts have succeeded in providing full employment in the sense that everyone seeking employment can be satisfied, including those who seek two or more employments in areas where shortened hours permit this to occur. Only temporary or frictional unemployment remains.

stage of technological advance, no matter how far that amount may fall below the level of full employment. Still another reason is the general belief, shared by labor and capital alike, that the existence of widespread poverty in a society which is able to produce enough wealth for a generally high standard of living indicates social mismanagement and calls for drastic political remedies.

All these reasons may operate to keep the economic productivity of labor, as reflected in labor's share of the wealth produced, from declining, relative to the economic productivity of capital, as far as its inherent productiveness has relatively declined. But they do not alter the fact that the inherent productiveness of labor, relative to that of capital, has now reached the point where it produces less than 10 percent of our economy's total wealth. Nor can they do more than conceal the fact that the economic productivity of labor is but a fraction of what it appears to be.

Dust Jacket Text

A revolutionary plan for a CAPITALISTIC distribution of wealth – to preserve our free society

The Capitalist Manifesto

by

LOUIS O. KELSO

and

MORTIMER J. ADLER

When you read this book, you must be prepared for a shock –

particularly if you are among the millions of Americans who feel complacent about the material well-being that now prevails in this country. THE CAPITALIST MANIFESTO will compel you to examine, reconsider and question many dangerous economic factors and political tendencies you have accepted as inevitable – and will show you how you can do something about them.

THE CAPITALIST MANIFESTO sets the alarm for *all* American citizens – not simply one group or class. It is for stockholders, workers, labor leaders, corporation executives, investment bankers, taxpayers, small businessmen and industrialists, statesmen, legislators, judges and educators. Its purpose is to arouse us to the real and present dangers we now face, from inflation and from the progressive socialization of our economy. What is the difference between a well-heeled existence in a welfare state and the good life in a free society? THE CAPITALIST MANIFESTO will tell you what that difference is, and why you must be a man of property in order to be a free man. It will explain the meaning of your ever-expanding opportunities for leisure. It will tell you that the goal of an industrial society should not be full *employment* in the production of wealth, but full *enjoyment* of the wealth produced. It will tell you how you, as an individual, can best use wealth to further the happiness and well-being of yourself and your fellow men.

THE CAPITALIST MANIFESTO says that we cannot safeguard democracy in this country – or successfully fight communism abroad – unless we, as an industrial society, solve our economic problems by means of a *capitalistic* distribution of wealth instead of by the socialistic distribution which is becoming ever more prevalent in this country. THE CAPITALIST MANIFESTO calls for a capitalist revolution to complete the democratic revolution begun by the Declaration of Independence and implemented by our Constitution.

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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 Dzugan, Senior Fellow and Archivist

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