

7 THE ECONOMIC FUTURE

THE FOUR CAPITALISMS

In the preceding chapter, we distinguished four forms of capitalism. Of these, three belong to the past or present. One belongs to the future. It is the object of the capitalist revolution to bring that one into being.

We have so far identified the three forms of capitalism that belong to the past or present by referring to historic examples of them. For ease of reference, we would now like to substitute tag-names that will serve as shorthand devices for remembering their salient characteristics. We propose the following nomenclature.

(1) *The form of capitalism which existed in Great Britain during the nineteenth century and which persisted in a waning state until the end of the First World War.* In view of the fact that this was the original form taken by capitalism with the emergence of industrial production, we think it is fitting to call it “primitive capitalism.” It represents the least developed stage of industrial production as well as the first stage in the organization of an economy in which power-driven machinery and other capital instruments slowly became the chief productive force.

The distinguishing characteristics of primitive capitalism are: (a) private ownership of capital instruments; (b) no limitation on, and hence undue concentration of, such ownership; (c) a capitalistic form of distribution with full returns to the owners of capital of what their productive property earns; (d) a bare subsistence standard of living, or worse, for the laboring masses in the population.

(2) *The form of capitalism which exists in Soviet Russia today.* Two names suggest themselves as appropriate: “completely socialized capitalism” and “State capitalism.” The first points to the form of distribution, the second to the mode of ownership which prevails. We will use “State capitalism” because it is briefer.

The distinguishing characteristics of State capitalism are: (a) public ownership of capital instruments; (b) complete concentration of such ownership in the hands of the State, or in what for all practical purposes become the hands of the bureaucrats who wield the political power of the State; (c) a laboristic form of distribution, controlled and administered by the State for the economic welfare of the workers; (d) a much improved basic standard of living for the masses, with a scale of differential incomes added to provide incentives, not earned rewards, for the most highly productive types of labor.

(3) *The form of capitalism which exists in the United States and Great Britain today and which has been developing since the end of the First World War and the rise of labor unions to power with the help of the countervailing power of government.* This form of capitalism has been called “collective capitalism,” “managerial capitalism,” and “laboristic capitalism.”⁵² It can also be called “mixed capitalism,” “partly socialized

⁵² In a paper entitled “Administered Prices and All That,” delivered before the Western Economic Association on August 28, 1957, Professor Edwin G. Nourse employed such phrases as “corporate capitalism” and “managerial capitalism” in order to distinguish the present form of capitalism from what he called the “traditional” or “proprietary capitalism” of the nineteenth century. He attributed to Professor Sumner Schlichter the description of our present economic system as a “laboristic economy,” but felt that it was more accurate to describe it as a “laboristic capitalism,” because, as he said, “what we have is not

capitalism,” or “welfare capitalism.” All these names point to the fact that the form of distribution is partly capitalistic and partly laboristic. The last two, in addition, point to the controlling principle of the distribution insofar as it is laboristic—concern for the needs of those who participate in production through labor alone, not for what they are justly entitled to by such participation as measured by its contribution. We will use “mixed capitalism,” (and sometimes “the mixed economy”) as the tag-name for this form because it calls attention to the mixture of conflicting elements, some of which are vestiges of primitive capitalism and some of which are halfway measures whose tendency, if they continue unchecked, would push this economy further and further toward completely socialized or State capitalism.

The distinguishing characteristics of mixed capitalism are: (a) vestigial or nominal private ownership of capital instruments; (b) no limitation on, and hence still undue concentration of, such ownership, though that concentration is somewhat less than in primitive capitalism; (c) a form of distribution that is partly capitalistic and partly laboristic, according to which owners of capital receive some share of what their property produces but much less than they are entitled to as measured by its contribution, and according to which those who participate in production through mechanical labor alone receive a much larger share than such participation earns by its contribution; (d) a generally high standard of living for the laboring masses in the population.

(4) *The form of capitalism which will exist, probably in the United States first, after the capitalist revolution has brought into being the first justly organized capitalist economy.* This is the only one of the four forms for

fully laborism but merely modified capitalism.” See *Hearings before the Subcommittee on Antitrust and Monopoly of the Committee of the Judiciary, U. S. Senate*, July 9-16, 1957, Government Printing Office, Washington: pp. 188-190. The phrase “collective capitalism” was coined by Professor Gardiner C. Means and employed in a lecture entitled “Collective Capitalism and Economic Theory,” delivered at the Marshall Whythe Symposium, College of William and Mary, Williamsburg, Virginia, March, 1957. This lecture is also reprinted in the Senate Hearings cited above: see pp. 104-114.

which it is difficult to find a readily appropriate name. As contrasted with primitive capitalism, it might be called “mature capitalism” or “fully developed capitalism” to indicate its highly advanced stage of industrial production; but both State capitalism and mixed capitalism will also enjoy the advantages of the technological advances to be made in the next fifty years. As contrasted with State capitalism, it might be called “private property capitalism,” but that does not distinguish it from mixed capitalism in which capital instruments are, nominally at least, still privately owned. As contrasted with mixed capitalism, it might be called “pure capitalism” to indicate that its form of distribution is purely capitalistic, *i.e.*, without any admixture of a socialized laboristic form of distribution; but primitive capitalism can also be called “pure” in the same sense.

“Just capitalism” would be appropriate and distinctive because, of the four forms of capitalism, this is the only one that embodies all the relevant principles of economic justice. But the phrase “just capitalism” is open to misinterpretation, and it would be burdensome to be sure each time that “just” carried the connotation of “justice.” Hence we have decided to adopt the word “Capitalism,” with a capital “C” but without any qualifying adjectives, as the name for the capitalist economy to be created by the capitalist revolution.⁵³

The distinguishing characteristics of Capitalism are: (a) the private ownership of capital instruments, restored to full effect from its present nominal condition and attenuated rights; (b) the widest possible diffusion of such ownership to provide effective participa-

⁵³ The phrase “People’s Capitalism” is currently used in a sense that is vaguely suggestive of what we mean by Capitalism. But those who use it often fail to acknowledge explicitly that what they mean by “People’s Capitalism” does not yet exist in the United States; nor do they explicitly recognize all the changes that would have to take place in our present mixed capitalism in order to bring it into existence. The phrase is, therefore, almost as much an advertising slogan, and as empty of real content, as the one on which it is modeled—“People’s Democracy,” the term used by the Communist countries to claim for themselves a non-capitalistic form of democracy which does not exist and cannot.

tion in the production of wealth for all members of the economy; (c) a capitalistic form of distribution with fully paid out capital earnings to owners of capital, and with an ultimate reduction of the wages of labor to what labor's contribution earns, as measured by demand under freely competitive conditions; (d) a high standard of living for all, based on a minimum viable income for individuals or families, derived, in most cases, from participation in production as owners of capital or as owners of labor and capital.

A quick comparison of the four forms of capitalism will reveal that certain characteristics are common to two or more.

Calling all four "forms of capitalism" implies that all are alike in being capitalist as to mode of production. But primitive capitalism differs from all the rest in respect to industrial development. With the coming of the second industrial revolution, of which automation is only one harbinger, State capitalism and mixed capitalism, if they survive another half century, will exceed the productivity of the most advanced industrialism that exists today to a much greater extent than the productivity of the United States or Soviet Russia today exceeds that of primitive capitalism at the end of the nineteenth century. On this score we think that Capitalism, by its unchecked pursuit and promotion of technological advances, will be able to go further than either State capitalism or mixed capitalism. It will most fully realize the productive potentialities of capital instruments.

State capitalism, mixed capitalism and the Capitalism of the future are alike in another and related respect, in which they all differ from primitive capitalism; namely, with regard to the economic welfare of the whole population or the general standard of living. Though they achieve that desirable objective by different means and under the aegis of different controlling principles, they all are able to remove the economic hardships and widespread misery that existed under primitive capitalism. Given foreseeable advances in productivity, both State capitalism and mixed capitalism, continuing along their present lines, will be able to go much further in this direction; but here as before we think that Capitalism will be able

to go furthest by reason of its principles, precisely because they are principles of justice rather than of charity or welfare.

In one further respect, State capitalism, mixed capitalism and Capitalism have some affinity, and one that is not shared at all by primitive capitalism. Where primitive capitalism was doomed to self-destruction by a mode of ownership and a form of distribution that prevented mass consumption from supporting mass production in the open market, State capitalism is able to avoid the problem by controlling consumption as well as production; mixed capitalism has found that the operation of its welfare principle is also able to create effective mass purchasing power at the same time that it creates a generally high standard of living for the masses; and the Capitalism of the future will be able to avoid the orgy of overproduction and its resulting monetary inflation that are entailed by mixed capitalism's misguided pursuit of full employment. All three, by quite different means, can operate a capitalist economy for a time at least with the minimum efficiency that is necessary for its survival; but here, once again, we think that Capitalism can attain a higher level of efficiency, and stability as well, without the human waste and moral corruption that is involved in mixed capitalism's needless overproduction of wealth and without State capitalism's suppression of freedom. Once a decent standard of living is achieved for all, and as soon as military and defense expenditures can be kept from increasing or can perhaps even be reduced, an economic balance can be achieved under which our technology can advance and our standard of living can be raised to any reasonable limit without the simultaneous waste involved in the production of surpluses for the mere sake of providing full employment.

On the three points we have so far considered, Capitalism is more like State capitalism and mixed capitalism than like primitive capitalism. The only respect in which Capitalism resembles primitive capitalism is in giving full effect to the private ownership of capital through a capitalistic form of distribution which operates solely under the principle of apportioning distributive shares of the wealth produced on the basis of contributions to its production,

the value of which is measured by demand in a freely competitive market.

With regard to the institution of private property, mixed capitalism somewhat resembles primitive capitalism and the Capitalism of the future. On this score, it is unlike State capitalism. But in certain essentials mixed capitalism has a much deeper affinity with State capitalism; for, while it involves the nominal private ownership of capital instruments, it does not give full effect to the rights of such ownership under its partly capitalistic and partly laboristic form of distribution. As partly socialized or welfare capitalism, it has strong leanings toward the completely socialized welfare state of State capitalism. A serious economic crisis, which might be precipitated by uncontrollable technological advances, or by monetary inflation necessarily resulting from its policy of full employment, would unquestionably bend it further in that direction.

Finally, there is the one crucial respect in which Capitalism stands completely by itself. It is the only form of capitalism which is built on the diffused private ownership of capital instruments. And it is for that reason the only form of capitalism that is a justly organized economy.

THE THREE ALTERNATIVES

The industrial economy, *i.e.*, capitalism, in one form or another, is here to stay. Except for some major cataclysm that would reduce the world to rubble, destroy civilization as we know it, and condemn the scattered survivors to primitive modes of existence, there is little or no chance of a return to the laborist economies of the past. Nor would anyone in his right mind wish to give up the benefits of industrial production. Only those who are deluded by hallucinations of a golden age that once existed can be so blind to the potentialities of a civilization built on the utilization of machines and other capital instruments rather than on the enslavement of men as to think that the past can hold a candle to the future.

It is true that the pre-industrial class-divided societies of the past achieved for the few certain refinements and permitted those few to achieve certain excellences that seem to be threatened by the emergence of a mass, or one-class, society in the twentieth century.⁵⁴ But when we compare a mass society with civilizations built on the slavery of the submerged masses, we must remember that the ultimate measure of a society's worth is its potentiality for development. This applies to the capitalist economy as compared with the laborist and slave economies of the past.

If it was a great step forward in the history of man for the rise of civilization to permit a small class of free men to engage in the liberal pursuits of leisure and to advance civilization itself by their efforts, how much greater is the step that can be taken by our emergent mass society when it sees how to turn the twin institutions of democracy and capitalism into a school for the good use of the political and economic freedom they confer on all men alike.

Like the industrial production of wealth, the classless organization of society is here to stay—in one form or another. Our only choice is as to form. But we do have a choice. The totalitarian state with a regimented population of equal and uniform puppets is no more the inevitable crystallization of the mass society than State capitalism is—as Marx thought it was—the one form toward which an industrial economy inevitably tends.

With capitalism here to stay, we are confronted with three alternatives, and only three. For most of the English-speaking peo-

⁵⁴ With prophetic vision, Alexis de Tocqueville foresaw in 1835 most of the social, political, economic and cultural problems that would confront a mass society as it developed under what he called "conditions of equality." But de Tocqueville also faced the future with the faith that Providence, in decreeing the inexorable progress of society from conditions favorable for the few to conditions favorable for all, challenged man to solve the problems incidental to such progress, and thereby make it thoroughly benign. He closed *Democracy in America* with these words: "The nations of our time cannot prevent the conditions of men from becoming equal; but it depends upon themselves whether the principle of equality is to lead them to servitude or freedom, to knowledge or barbarism, to prosperity or wretchedness."

ples, who would not think for a moment of exchanging life in the United States or in the British Commonwealth for life in Soviet Russia, these quickly reduce to two.

We can choose to perpetuate the mixed capitalism we have created in the last quarter century, with the hope that we can keep it mixed, or we can undo the mixture by eliminating the laboristic and socialistic aspects of our economy, with their tendency toward State capitalism, and replace them with the principles of justice that would create Capitalism. Our choice, in short, is between the *status quo* and the capitalist revolution.⁵⁵

The case for the capitalist revolution may be sufficiently clear from what has already been said. It should be for those who understand the principles of economic justice and who see that the just organization of a capitalist economy is not only desirable in itself but, more than that, indispensable to economic freedom, to political democracy, and to the fulfillment of the promise of a good human life for all men. Thus persuaded, they may wish only for a summary statement of the theory of Capitalism as the ground plan of the revolution, and for a projection of the practical program by which it can be accomplished.

A brief summary of the theory will be given in Chapter Eight, and a feasible, though tentative, program of practical steps will be outlined in Part II, which follows Chapter Eight. In the rest of this chapter, we shall address ourselves to those who may not yet see that our choice is between a socialist revolution, on the one hand, and the capitalist revolution, on the other. They may not realize that mixed capitalism as well as State capitalism is a product of the socialization of an economy that is capitalist in its mode of produc-

⁵⁵ Though we have treated primitive capitalism as one of the four forms of capitalism, it does not present a real alternative in the twentieth century. The successive waves of the scientific-industrial revolution exclude it from sensible consideration, just as much as the development of our conscience excludes the slave economy. Furthermore, it is morally almost as repugnant to us as a slave economy, both on the grounds of justice and on a humanitarian concern for human welfare. If all this were not enough to eliminate it forever from our thought, its self-destructive tendencies would by now have removed it from the running.

tion. The same errors underlie both, and the same threats to freedom are present in both. What the completed socialist revolution has done to man and society, the creeping socialist revolution is in the process of doing.

THE TWO SOCIALIST REVOLUTIONS

(1) *The Completed Socialist Revolution.* We said that State capitalism is not a real alternative for us. Even if it could show itself to be the most productive, prosperous, and powerful of the forms of capitalism, and even if it could create the highest standard of living for all, we would have none of it. An American socialist like Norman Thomas, and an English socialist like John Strachey, reject it as vigorously as those among us who would not regard themselves as socialists.

The attitude all of us share springs from our devotion to democracy and from our wish to preserve and strengthen our individual freedoms and our free political institutions. We are all convinced that State capitalism cannot operate except in a totalitarian state. But the socialists among us, together with those who have leanings toward socialism whether they know it or not, do not see that an advanced capitalist economy without the private ownership of capital instruments and without full respect for the rights of such ownership cannot be operated without one or another type of bureaucratic management which inevitably concentrates economic and political power in the hands of a small clique.

Hence even though State capitalism, as exemplified in the completed socialist revolution, repels rather than attracts us, it is useful for us to look at it a moment longer. It does more than offer us the clearest example of what we are trying to avoid. If we are trying to avoid certain tendencies carried to the extreme by the completed social revolution, we should recoil from those same tendencies manifested in the process of the creeping socialist revo-

lution which our mixed capitalist economy has been quietly carrying on.

Orthodox defenders of the Marxist faith may argue that State capitalism as currently practiced in Soviet Russia does not represent the *completed* socialist revolution, but only the penultimate stage in the process that leads to the ultimate creation of the truly communist society. They believe that the “dictatorship of the proletariat,” administered by the Communist Party, is a necessary step in the process of expropriating private property in capital and putting it to social use; but that it is only a step in the revolutionary process, not its culmination. That will inevitably be reached when the State itself withers away and, in place of the oppression that any form of political government involves, the only government will consist in the people’s co-operative management of things rather than in the rule of men over men.

The Marxist thinks that the withering away of the State follows as inevitably from the dictatorship of the proletariat as that in turn follows from the forces at work in any capitalist economy. With the rise of capitalism, it is maintained, the class war reaches the point at which the owners of capital and the propertyless (or rather capital-less) owners of labor power are aligned against one another in a death struggle which can have only one outcome. According to Marxists, the resolution of the class war leads to the ideal classless society, but its route takes it through a temporary interregnum, which they call “the dictatorship of the proletariat,” and we call “the totalitarian State.”

Prophecies that do not give dates can never be refuted by facts. But they do become incredible in proportion as the things we know make what they predict look improbable. It is, to say the least, improbable that the leaders of the Communist Party, who administer the dictatorship of the proletariat and hold in their hands the greatest concentration of economic and political power ever consolidated on earth, will ever voluntarily divest themselves of such power in order to bring about the withering away of the State and to make way for the ideal classless society.

Even if they were dedicated and holy men before they became bureaucrats, the power they then acquired would corrupt them, and being almost absolute would corrupt them almost completely. The peaceful transformation of the State capitalism of the totalitarian state into the communist-capitalism of the whole community co-operatively managing its capital without any need of coercive regulation by political government is, therefore, highly improbable.

A violent uprising of the Russian people may overthrow the dictatorship of the Communist Party, but it will not, because it cannot, foment the withering away of the State or transform the totalitarian state into the communist classless society. A peaceful community without the institutions of government is impossible and will remain impossible, to paraphrase Hamilton, as long as men are not angels.

Marx was right in his abhorrence of all the class-divided societies of the past and of his own day. He was right in his condemnation of the bitter class war in all its phases. He was right in his hope, and we hope he was right in his prediction, that the ultimate outcome of this long struggle of class against class would be the classless society—not only politically classless but also economically classless. But he was wrong in his mythical or utopian dream of the form the classless society would or could take.

This is not the only point on which Marx finally went wrong after being partly right. He was right in his condemnation of the injustice of primitive capitalism. He was right in his moral indignation over the human misery that its injustice caused; and though he was not a lone voice in his outcry against it, he, perhaps more than any other man, so forcefully stated the case that no one thereafter could ever make light of it. He was right in his enthusiasm for the unqualified superiority of the new capitalist economy over all the laborist economies of the past so far as its sheer power of producing wealth is concerned. He was also right in his sense that the injustice of a system in which close to nine-tenths of the wealth produced went to about one-tenth of the population (*i.e.*, those who owned the capital instruments of production) somehow stemmed,

not from the capitalist mode of production, but from the mode of capital ownership together with a capitalistic form of distribution.

In all this he was right, but he was *wrong*—crucially wrong—when he finally put his finger on the root of the trouble. He thought the root cause of the injustice of primitive capitalism was the private ownership of capital. Private property in capital, he thought, operating under a capitalistic form of distribution, inevitably resulted in the maldistribution of wealth with all its consequences: human misery, almost slavery, for the submerged masses, and a concentration of economic and political power in the hands of a small class of capitalists.

Though he came very near to putting his finger on the right spot, he missed it. But for that fatal error, Marx might have advocated the capitalist revolution instead of the socialist revolution. The root of the trouble was not the private ownership of capital, but the *highly concentrated* private ownership of capital. That being the cause, the remedy lies not in abolishing private property in capital, as Marx recommended, but rather in diffusing the private ownership of capital by bringing into existence new capitalists at a rate commensurate with the shift in the burden of production from human toil to capital instruments. When that is accomplished under Capitalism, a capitalistic distribution of wealth will produce results the very opposite of those produced under primitive capitalism.

Marx's fatal error in diagnosing the cause of the injustice in primitive capitalism was intertwined with all the other errors he made, both in his theory of capitalism and in his revolutionary program. His labor theory of value, which is pivotal in his theory of capitalist production, served to rationalize or "justify" the expropriation of private property in capital; for if, as he claimed, labor and labor alone produces all wealth, even in a capitalist economy (machines, he said, represent nothing but accumulated or "congealed" labor), then all the wealth produced should in justice be distributed to those who produce it. Since, in his view, the owner of capital produces nothing, simply by owning machines

and raw materials and allowing them to be used by labor, any return to the capitalist, Marx argued, is unearned increment obtained by the exploitation of labor. He therefore concluded that the only way to prevent such exploitation and unearned increment is to have society as a whole, organized as a State, take over all capital instruments and control them for the benefit of the producers of wealth, to whom all the wealth should go. To accomplish a laboristic distribution of wealth, the State must not only control the capital instruments; it must also control the distribution of the wealth that a society of laboring men produces. Thus the labor theory of value, with its consequences, reaches the result at which Marx aimed from the beginning—from the moment he made his mistaken diagnosis that the private ownership of capital was the root cause of the trouble.⁵⁶

At this point, however, Marx departed from one concern with which he began. That he began with a concern about justice is plain in the light of such words as “exploitation” and “unearned increment.” But it is equally clear that he ended by substituting charity for justice. His famous formula—“from each [laborer] according to his ability, and to each according to his needs”—totally divorces distribution from contribution. It cannot, therefore, be a principle of distributive justice. Since it is determined by need rather than by earning, it is a principle of charity, more often referred to as a principle of “social welfare.”

⁵⁶ Since that diagnosis was wrong, there is no need here to expose all the fallacies in the labor theory of value. That is amply done in *Capitalism*, which will soon be published. A chapter of this book, entitled “Karl Marx: The Almost Capitalist,” was in *American Bar Association Journal*, March, 1957. It is important here, however, to point out that economists who claim to reject the labor theory of value nevertheless swallow its central error whenever they translate the increased productiveness of the capital of a capitalist economy into assertions about the increased productiveness of labor. They sometimes even talk as if the machines were not themselves active factors in production but passive instruments that derive all their productivity from labor. It is not surprising, therefore, that such economists should be exponents of the laboristic and socialistic forms of distribution adopted by our mixed economy or welfare capitalism.

Charitable distributions may be necessary in any economy. We know that the injustice of primitive capitalism made them necessary in the nineteenth century in order to relieve human beings in dire distress and to preserve those whose very existence was at stake. But it makes a considerable difference whether charity is accomplished by private gifts or by a public distribution of wealth, as under State capitalism; and whether charity is auxiliary to the economy's system of distribution or is its central principle, as it is under socialism.⁵⁷

The fact that under State capitalism the distribution of wealth, as well as the production and consumption of wealth, is controlled by the State illustrates the ancient truth that a little error in the beginning can lead to enormous ones in the end. The crucial error Marx made about the precise cause of the malfunctioning of primitive capitalism led him to recommend a system which is more unjust and more inimical to human freedom than the one it proposed to supplant. For if the cause of the injustice and the danger to freedom in primitive capitalism came from the concentration of economic and political power in the hands of a small group of private capitalists, how much more serious is the threat to freedom when all economic power is concentrated in the hands of the men who also hold all political power as representatives of the monolithic State. And how much more far-reaching is the injustice that results from the abolition of private property in capital in order to avoid the injustice that results from the concentration of its private ownership.⁵⁸

⁵⁷ It also makes a difference whether the charitable distribution, as in Robin Hood's case, is made from funds obtained unjustly. The partly laboristic distribution of wealth in our mixed economy comes to that, since it cannot be accomplished without cutting deeply into that portion of the wealth which should go to owners of capital as a just return for the wealth their capital produces.

⁵⁸ In an article in *Reader's Digest* in 1941, Max Eastman, who had been a socialist, offered his version of the Marxist paradox of good intentions leading by mistake to results the very opposite of those intended. He wrote: "It seems obvious to me now--though I have been slow, I must say, in coming to the conclusion--that the institution of private property is one of the main things that have given man that limited amount of free and equalness that Marx hoped to render infi-

However great was the political power that private capitalists wielded under primitive capitalism, the political power of the bureaucrats is far greater under State capitalism, because they control all capital property in the name of the State. Under such conditions, the society may be *nominally* classless in an economic sense, according to the fiction that all men are proletariat and none owns capital property. But, the fiction aside, the facts are clearly the very opposite. State capitalism creates a class-divided society, in which there is a ruling class (the bureaucrats or leaders of the Party) and a subject class (the mass of the workers). In addition to being the ruling class, the bureaucrats are in fact the owning class; for, by having complete control of the capital owned by the State, they are in effect its possessors.

As we are writing, Milovan Djilas, formerly vice-president of Yugoslavia and a top functionary in its Communist Party, has just been tried and sentenced to seven years' imprisonment for having the courage to publish a book in which he proclaimed that the *effective* ownership, *i.e.*, the *control*, of productive property under State capitalism is vested in the leading members of the ruling party—the *new class*. In that book, Djilas wrote:

As defined by Roman law, property constitutes the use, enjoyment, and disposition of material goods. The Communist political bureaucracy class obtains its power, privileges, ideology, and its customs from one specific form of ownership—collective ownership—which the class administers and distributes in the name of the nation and society.⁵⁹

nite by abolishing this institution. Strangely enough Marx was the first to see this. He is the one who informed us, looking backwards, that the evolution of private capitalism with its free market had been a precondition for the evolution of all our democratic freedoms. It never occurred to him, looking forward, that if this was so, these other freedoms might disappear with the abolition of the free market.”

⁵⁹ *The New Class*, New York, 1957: pp. 44-45. Immanuel Kant, John Adams, Alexander Hamilton, and even John Stuart Mill doubted that a man was in a position to exercise political freedom unless he had a minimum degree of eco-

The tragic consequences of the fatal flaw of Marx's initial error have not yet been fully stated. The deepest reversal of all lies in the fact that Marx, recognizing that a capitalist mode of production had the power to emancipate men from toil, nevertheless made "the equal liability of all to labor" a cardinal tenet of the socialist revolution. He should have insisted instead upon the participation of all in the production of wealth by means of capital property, so that all could enjoy a decent standard of living with as little labor as possible.

Marx recognized this when, comparing the condition of capitalists and workers under primitive capitalism, he claimed that the capitalists had all the advantages and privileges that made life worth living. Yet under State capitalism the State is, nominally at least, the only capitalist, and so all men are, in theory, *forced to be laborers*. Even were State capitalism to create a classless society, it would be the wrong kind of classless society, for the ideal that is indicated by capitalist production is a classless society of capitalists.⁶⁰

The Marxist error here is flagrant. If we recognize that a republic in which only a few men are citizens is politically unjust, we can also see that the remedy is to make all men citizens, not to abolish

conomic independence, *i.e.*, unless he did not depend for his subsistence on the arbitrary will of others. The laboring classes during the first century of capitalism, before they secured the protection of unions and of government, were frequently thought not to deserve suffrage because they did not have the requisite economic independence to use the political freedom it conferred. Clearly, under State capitalism, those who depend for their very existence, not to mention their livelihood, on the arbitrary will of the State or its bureaucrats have as little or less freedom than those who, under primitive capitalism, depended for their subsistence on the arbitrary will of the factory owners.

⁶⁰ The goal of capitalism first appeared in the life of leisure that was built on slavery in the laborist economies of civilized antiquity. It was previsioned in occult fashion in Aristotle's dream of complete automation, which suggested the picture of a society in which all men would have the leisure of slave owners because all would own the inanimate automatic slaves that produce the society's wealth.

citizenship. Hence when we recognize that an industrial economy in which only a few men are capitalists is economically unjust, we should be able to see that the obvious remedy is to enable all men to become capitalists, not to make it impossible for anyone to be a capitalist.

(2) *The Creeping Socialist Revolution*. The transformation of the American and British economies during the last half century, and especially in the last thirty years, has frequently been celebrated by its apologists as revolutionary. To quote the titles of some of their books on the subject, this revolution has been called “the managerial revolution” (by James Burnham) and “the twentieth-century capitalist revolution” (by Adolph Berle). The product of the revolution has been called “modern capitalism,” or “American capitalism,” by John Kenneth Galbraith and other American economists.

In our view the most accurate description of the changes now in progress in the United States and Great Britain is that suggested by the English socialist, John Strachey. He shows that the changes in our economy, which the theories of R. H. Tawney and John Maynard Keynes gave direction to, have progressively socialized it by introducing a form of distribution that is more and more laboristic and less and less capitalistic. Such progressive socialization, accomplished with little violence, mainly by law, and still going on, is aptly called a “creeping socialist revolution” in contrast to the completed one that has produced State capitalism in Soviet Russia. And the present product of this incomplete or partial socialist revolution is the partly socialized economy of mixed capitalism.

This is not the place to show by detailed analysis how the economic theories of Keynes, Tawney, Berle, and Galbraith rest on an unwitting acceptance of Marx’s labor theory of value in spite of explicit protestations to the contrary.⁶¹ Our interest here is not in the theories on the basis of which these economists have recom-

⁶¹ Such analysis is given in *Capitalism* in a series of chapters devoted to exposing the Marxism that is implicit in the economic theories of the most eminent advocates of the revolution which has produced mixed or partly socialized capitalism.

mended the erosion of property rights in capital, the policy of full employment, administered wages and prices, the welfare principle in distribution, and the laboristic form of distribution. Our interest is in comparing the mixed capitalism that has put these recommendations into effect, with the State capitalism that has put into effect Marx's more radical recommendations—recommendations, let it be said, that are more rigorously consistent with the labor theory of value.

First of all, let us compare the motivation of the two socialist revolutions. Both tried to correct the deplorable consequences which followed, in primitive capitalism, from a capitalistic form of distribution, operating under conditions of highly concentrated private ownership of capital. Both were instigated by a deep sense of the injustice that must somehow be responsible for so grievous a maldistribution of wealth as existed in the first century of capitalist production. But they differ in their diagnosis of the cause.

As we have seen, the program of the completed socialist revolution took its departure from the error that private property in capital itself was the root cause of the injustice; and so it proceeded to abolish private capitalists and to make the State the only capitalist. In contrast, the program of the creeping socialist revolution took its departure from the error that a purely capitalistic form of distribution was the root cause of the injustice; and so, while perpetuating private capitalists, it proceeded to invade and erode their property rights by mixing an increasingly attenuated capitalistic distribution of wealth with an ever enlarging laboristic distribution of it.

Neither revolutionary program proceeded from the right premise—that the root cause of the injustice was the *highly concentrated* private ownership of capital. The completed socialist revolution does not remedy this by creating a public ownership of capital that is even more highly concentrated. On the contrary, it multiplies the injustice by violating all three of the principles on which a capitalist economy, to be just, must be organized.

So, too, the creeping socialist revolution does an injustice in order to correct the results of an injustice. It tries to offset the consequences of the concentrated private ownership of capital, which still exists in our mixed economy, by introducing an injustice which has the opposite effect. It introduces a laboristic form of distribution which is unjust in an economy that is capitalist in its mode of production, but which has the effect of raising the general standard of living. It does this as a countermeasure to the concentrated ownership of capital which violates the principles of participation and which, until counteracted, has the further effect of imposing serious economic hardships on the mass of the population.

So far as their effects are concerned, one injustice can thus act as a countermeasure to another. But it is one thing to remedy the deplorable consequences of an injustice by any means—just or unjust—and quite another to get at the root of the trouble and correct the injustice itself.

That primitive capitalism needed to be reformed, no one can doubt. Nor can anyone criticize the two revolutions which, in trying to reform it, were soundly motivated by considerations of justice and welfare. But the trouble with the two socialist revolutions—the one in Russia and the other in Britain and the United States—is that they achieved welfare but did not establish justice; or worse, that they achieved economic welfare (to a higher degree in the United States than in Russia) by countermeasures that were themselves unjust (to a lesser degree in the United States than in Russia). Neither was the right revolution. The capitalist revolution seeks to rectify the injustices of primitive capitalism and is calculated to achieve economic welfare to a high degree. It does both without committing the injustices of State capitalism and mixed capitalism.

In both State capitalism and mixed capitalism, the general economic welfare of the population is achieved by a laboristic distribution of wealth. Though in one case the distribution is purely laboristic and in the other only partly so, both quite obviously must accomplish the distribution in some way other than by giving to la-

bor the declining proportion of the total wealth of the economy which it produces.

The laboristic distribution of wealth in our mixed economy therefore takes on the charitable aspect that it has in State capitalism. True, the apologists for mixed capitalism talk *as if* labor were justly entitled to all the wage increases it has received. But this soon becomes double talk, for they acknowledge, on the one hand, that technological improvements in machinery are mainly responsible for the increased productiveness of our economy but, on the other hand, continue to assert that labor itself becomes more and more productive as the capital instruments with which it co-operates become more powerful productively and have more built-in skill for their own self-control.

Having introduced a laboristic and charitable form of distribution, while preserving some of the rights of private property in capital by partly retaining a capitalistic distribution of wealth, our mixed economy is a halfway house on the road to complete socialism. In State capitalism, the distribution, as well as the production and consumption of wealth, is controlled by the State. In mixed capitalism, it is mainly the distribution of wealth that is controlled by the State. Whereas in Russia that control is exerted by direct political action, in the United States it is accomplished only in part by the State—directly through taxation, subsidies, full employment schemes, welfare programs, and public works—and, in part, indirectly through legislation and administrative procedures that support the demands of organized labor for a larger distributive share than labor actually earns.

For the most part, the value of labor is not determined by bargaining in the United States any more than it is in Russia, although all our talk about “collective bargaining” sometimes deceives us into thinking so. Bargaining implies a freely competitive market of sellers and buyers. It implies the right to buy elsewhere if better terms can be found. The laboristic distribution which organized labor, with the help of government, has managed to effect has been achieved by the exercise of political and economic power, not

by bargaining. In Russia, the governing bureaucracy is exclusively vested with such consolidated economic and political power. In the United States, the countervailing power of government is in varying degrees wielded in support of the demands of labor, of farmers, and even of industries where it will promote "full employment," even though that results in unneeded surpluses.

Hence while the actual operation of State capitalism entails an almost total loss of economic and political liberty, the actual operation of mixed capitalism has so far resulted in much less drastic reductions in our fundamental freedoms. Since mixed capitalism involves a combination of principles that tend in opposite directions, it can be said, of course, that in proportion as mixed capitalism tends to become more laboristic in the form of its distribution and more socialistic in the method of effecting such distribution, it also tends to cause encroachments on economic and political liberty.

The whole story is not told, however, unless we remember that the creeping socialist revolution and the mixed capitalism it has produced are now congratulated for having "saved capitalism," even by many who once opposed the policies that initiated this revolution in the early thirties.

We have pointed out in an earlier chapter that, quite apart from considerations of either justice or charity, the measures which reformed primitive capitalism were necessary to prevent the collapse that Marx had predicted it would suffer. His prediction, it will be recalled, was made on the assumption that an economy based on private property in capital, and with highly concentrated ownership of capital, would persist in maintaining a purely capitalistic form of distribution. On that assumption, his prediction would have come true.

The mass of the population would be forced to live at a bare subsistence level, and so would be unable to pay for the goods and services that a progressively industrialized economy is able to produce in ever increasing quantities. For a while the exploitation of colonial markets might offset the inadequacy of purchasing power

in the domestic market. But this, too, would eventually be exhausted, and then the periodically recurrent crises of overproduction and underconsumption would reach the point where the cycle of boom-and-bust would end in one last bust.

All the modifications of primitive capitalism that have occurred gradually in England and the United States between 1850 and 1950 have tended to prevent the predicted collapse of capitalism, understood as a system of industrial production based on private property in capital. These reforms were effected by the growth of trade unions; by legislation in support of "collective bargaining"; by governmental regulation of wages and hours and of the prices of many goods and services; by government spending for welfare, public works programs and the promotion of full employment; by policies of taxation which facilitated a laboristic distribution of wealth; by all sorts of protection for society itself and its members, against the excesses of *laissez-faire*—a system which operated, for a short while, to the immense benefit of the owners of capital property.

It is probably the case that these reforms could not have been effected by due process of law, had not the political battle, *i.e.*, the battle for the extension of the franchise, first been won. It was the gradual emergence of political democracy during the last half of the nineteenth century and the first decades of the twentieth that made it possible for primitive capitalism to be overthrown without widespread violence; as the absence of political democracy made recourse to violent revolution almost a necessity in Russia.

The chief human effect of all these reforms was to raise the standard of living of the masses; and, at first, that was the only, or at least the chief, purpose of the effort. But when the cycle of recurrent economic depressions began to give urgent credibility to Marx's prediction of the inevitable collapse of private-property capitalism, another motive for adopting, extending, and accelerating these reforms came into the picture. It was the motive underlying Henry Ford's voluntary recommendation of the five-dollar day, which other capitalists gradually came to see as eminently expedient.

One way of preventing the threatening collapse, and of correcting the imbalance between mass production and individual consumption, was to build up mass purchasing power by raising real wages. Henry Ford did this in his “revolutionary proposal” to his fellow capitalists, which subsequently became, in the “revolutionary policies” of Franklin Roosevelt, a concerted effort on the part of the government to “save capitalism” (*i.e.*, capitalism based on private property in capital) by closing the circuit of production and consumption.

Capitalism, as a system of industrial production, could not help becoming more and more productive. If private capitalists could not bring themselves *quickly enough* to adopt a laboristic distribution of wealth, then direct governmental action and the action of trade unions with governmental support had to be resorted to, in order to assure consumer demand of such a magnitude as to exert continual pressure on production in the interest of obtaining a rising standard of living. As between Henry Ford’s “revolutionary proposal” and Franklin Roosevelt’s “revolutionary policies,” there was no difference so far as the adoption of a laboristic principle of distribution is concerned. The difference—and it is a crucial one—lies rather in the fact that the intervention of government in the distributive process makes the distribution socialistic in method as well as laboristic in form; and so, in the process of trying to “save” a capitalism that is based on private property in capital, it may have introduced the germ of its destruction.

There is a better and surer way of “saving capitalism” that has not yet been tried. The general standard of living can be raised to the point where mass purchasing power, widely diffused among individuals and families, supports whatever level of production of goods and services we may desire within the limits of our resources. This can be done without recourse to a laboristic distribution of wealth. It can be done by a capitalistic distribution of wealth, if that is based on a widely diffused ownership of capital instruments.

Some may suppose that the difference between these two ways of “making capitalism work” is of no significance, because all that matters is avoiding the collapse that Marx predicted or assuring all men of a decent standard of living. They will not understand the seriousness of the choice we face.

That choice, we repeat, is between the creeping socialist revolution we have been carrying on and the capitalist revolution which remains to be tried. We must not allow our acceptance of the immediate and surface benefits of mixed capitalism to blur our sense of the radically different directions in which these alternatives take us. The distance which our partly socialized economy has traveled along the road to the completely socialized economy of State capitalism may not be great enough yet to frighten us. But we should remember that it is difficult to stand still, especially in an economy that is subject to constantly accelerated technological improvements, *i.e.*, one in which the contribution to production by capital is constantly growing as that of labor is diminishing.

If we try to perpetuate our mixed capitalism, but cannot keep it stabilized in its present state by keeping the conflicting elements in the mixture in their present proportions, in which direction will we move?

Forward to a more and more socialized economy with the specter of State capitalism at the end of the line? As soon as that prospect becomes real for them, most Americans will recoil from it.

Backward, then, to a less and less socialized economy but without any positive solution of all the problems of primitive capitalism? That way lies self-destruction.

The only way out is not to try to perpetuate our mixed economy but to transform it into the unmixed one of Capitalism by extirpating the socialist elements in the mixture. To do this without falling back into primitive capitalism, we must go forward along another path—the path of the capitalist, rather than the socialist, revolution.

We said earlier that our choice lay between perpetuating mixed capitalism and establishing Capitalism—that these were the only real alternatives for Britain and America. But it may be that we do not really have a choice at all.

If mixed capitalism cannot check the inflationary process of the last thirty years, if it cannot resolve the conflict between its policy of full employment and the technological advances that lie ahead, if by the very nature of the elements in the mixture the laboristic aspect of the distribution tends to expand and the capitalistic aspect to contract (just as in primitive capitalism the accumulation of capital tended to expand in the hands of its owners), then, perhaps, mixed capitalism, like primitive capitalism, contains the seeds of its own destruction.

In that case, our only choice is the capitalist revolution. Before we try to show that in that direction lies our salvation as a free society, we will advance some reasons for thinking that our mixed economy cannot solve its problem of inflation and full employment.

MIXED CAPITALISM'S INSOLUBLE PROBLEM: INFLATION

Inflation is a natural and necessary process in an economy that is capitalist in its mode of production and laboristic in its form of distribution. Over 70 percent of the wealth produced is distributed to labor, but over 90 percent of that wealth is produced, not by labor, but by capital instruments. Quite apart from the manifest injustice of this imbalance, it is in this ulcerous gap that the spiral of inflation breeds.

The ulcer cannot be healed without reversing the policies of full employment and laboristic distribution, upon which any attempt to perpetuate our mixed economy must rely. Upon them depends the widely diffused purchasing power that produces a balance between mass production and mass consumption. They are the shot in the arm that keeps our mixed economy functioning. It

is precisely that shot in the arm which also produces the disease of inflation—a chronic and progressive disease which cannot be prevented without endangering the health of mixed capitalism.

When our fixed national policy of full employment collides with the irresistible moving force of technological progress, something must give. That something is the virtue of the monetary system—its stable value. The result is inflation. The relation between inflation, as it occurs in our mixed economy, and the policy of full employment can be concretely illustrated in the following manner.

The civilian labor force at the present time is approximately 66,000,000 workers. There are various estimates of the current rate of “productivity increase,” *i.e.*, the rate of increase in output in terms of man-hours of input. The most conservative is about 3 percent per year for the economy as a whole. Assuming for the economy an overall productivity increase of 3 percent per year, 1,980,000 workers each year become technologically disemployed (at any given level of production). Estimates of the number of new entrants into the labor market each year also vary, mainly because of the relatively incalculable factor of the increasing number of young and middle-age wives, even mothers of school-age children, who are entering the labor market. A median of the various estimates would be a net increase of 800,000 workers in the labor force each year, with the tendency to increase rather than decrease.

To comply with its policy of full employment, which, under a laboristic form of distribution, is essential to widely diffused purchasing power, our mixed economy must employ each year, under conditions of higher output with progressively less labor input needed, an additional 2,780,000 workers. The best thinking about the present state of the “increasing productiveness of capital” (as it should be called) holds that the newest developments in automation in the years immediately ahead will technologically disemploy workers at a rate substantially exceeding 3 percent a year.⁶² For pre-

⁶² See, for example, *The Scientific-Industrial Revolution*, a study published in 1957 by the New York investment banking house of Model, Roland & Stone; and also the report of the hearings before the Subcommittee on Economic Stabilization

sent purposes, however, let us face the problem of how our mixed economy can provide full employment for an additional 2,780,000 workers a year in an industrial system that turns out an ever increasing amount of wealth with a constantly diminishing use of labor.

One solution of this problem would be for the government to assign a quota of increased employment to each business firm each year, and to order each firm to employ fully, at prevailing or increased rates of pay, the additional number of workers through increasing their output, and at the same time to make all reasonable efforts to utilize the most productive machinery available. *Only a totalitarian state could enforce such measures.* In addition, if they were carried out by coercion, their effect would be extremely deflationary; for they would result in staggering increases in output without regard to the effect on business costs.

Absurd as the solution just proposed may be as a theoretically possible means of implementing a policy of full employment, since it is totally impracticable in a free society, it nevertheless helps to illustrate why the methods we must use to implement our policy of full employment are necessarily inflationary.

In order to maintain as much freedom as possible in our economy and still bring about full employment, it is necessary for us continuously to raise output in a constantly accelerating orgy of production, yet without rigid government control of wages, prices or methods of production. But in the face of the increasing productiveness of our capital, there is no way of constantly raising output to a level commensurate with full employment, while leaving the economic participants relatively free, except by constantly increasing our artificial stimulation of purchasing power.

We have ceased to think of many of these stimulants in connection with the problem of providing full employment, but that is one of the principal ways they function. A mere enumeration of some of the devices now in use to overstimulate purchasing power

of the Joint Economic Committee, on *Automation and Technological Change* (1955) and on *Instrumentation and Automation* (1956).

will indicate how far we have gone in this direction. It will also show how radical our future steps must become to keep pace with the relentless advance in the increasing productivity of capital. The following are some of our more potent stimulants to purchasing power.

1. *Constant union pressure upon wage levels, supported by extensive grants of the countervailing power of government.* Largely as a result of these forces, wages are raised well above their competitive levels.
2. *Defense spending, which now amounts to about 40 billion dollars a year.* While spending on defense increases production—and therefore employment—it satisfies no consumer desires. The defense products, therefore, do not absorb any of the purchasing power arising out of their production, thus leaving this purchasing power to be used in the further stimulation of production, and therefore of employment in other industries.
3. *A governmentally encouraged system of easy construction mortgage credit, giving a vast stimulation to the high-employment building trades.* At the present time there is outstanding some 103 billion dollars in housing mortgage credit, 36 billion dollars in multi-family and commercial mortgage credit, and around 10 billion dollars in farm mortgage credit.
4. *A governmentally encouraged system of easy consumer credit for durable goods, of which some 42 billion dollars is now outstanding.*
5. *Governmental subsidization of farm production, and therefore of farm employment, with about 8 billion dollars of farm surpluses in government hands today, notwithstanding gifts or sales below cost of vast quantities of these stores in recent years.*
6. *Defense stock-piling of minerals and strategic materials, with the effect of stimulating production and employment in the mining and processing industries.* About 8 billion dollars of such materials are now on hand and, notwithstanding the passing of the stra-

tegic goals, great pressure is building up to continue these programs.

7. *Foreign aid subsidies, frequently taking the form of credits for purchase of goods in the United States.* Over 40 billion dollars of such subsidies have been granted since 1948.
8. *The "emergency facility" rapid amortization program, heavily used during World War II and initiated again after the outbreak of hostilities in Korea in 1950.* Between November, 1950, and June, 1957, 21,946 certificates of necessity have been granted by the Office of Defense Mobilization upon 38.3 billion dollars of new construction, of which 23.1 billion dollars has been certified for rapid write-off against corporate income taxes. This is, in its economic effect, an aggregate of 23.1 billion dollars of governmental interest-free loans for the purpose of stimulating the construction of over 38 billion dollars of new plants and equipment.
9. *The steady expansion in the number of civilian employees of federal, state, and local governments.* From 1949 to 1957, the aggregate number of governmental employees rose from 5,856,000 to 7,388,000. Of these, nearly 2,400,000 were civilian employees of the federal government.
10. *Social Security payments in excess of those actuarially supportable by the social security fund.* There are many actuaries who believe that the social security fund is but a fraction of liabilities already accrued against it. If so, current social security payments may be considered as partly, if not largely, overstimulation of consumer demand in excess of the payments which would be actuarially proper on the basis of the reserves against such liabilities. In effect, this would be simply a rapidly increasing but unrecorded national debt currently incurred to support mass purchasing power.
11. *The very persistence of the federal government's debt in the face of unprecedented economic prosperity.* This represents nothing but the overstimulation of consumer purchasing power. Rather than reduce our debt during an era of prosperity, the best

we have been able to do is to prevent it from increasing beyond 275 billion dollars. The failure of the government to reduce its debt during the decade since the end of World War II without question reflects an unwillingness to incur the shrinkage in consumer purchasing power which such debt retirement would cause.

Each year, as it becomes more and more difficult to maintain full employment in an economy in which the output of wealth is expanded by the constantly higher productiveness of capital, the orgy of production must be stimulated to ever higher peaks. The pace of technological advance itself accelerates the process.

The stimulation of production by the creation—through credit, wage raises, etc.—of sufficient purchasing power in excess of that generated through the normal distribution of wealth is now the accepted policy of both political parties in the United States. Both have espoused the national policy of full employment as formulated by the Full Employment Act of 1946.

Under this policy, progressive and increasing inflation is a normal and necessary result of the overstimulation of production through constantly increasing mass purchasing power.⁶³ The productive system is capable of expanding its output to untold limits—to levels not now contemplated in our wildest dreams—provided the purchasing power, the fuel of this mighty engine, is

⁶³ Lord Beveridge, who, through his book *Full Employment in a Free Society*, New York, 1945, was one of the intellectual pioneers of laboristic distribution, in a speech on October 20, 1956, in London, noted that one of the disastrous results of simultaneous attempts to have both *full employment* and *a free society* is inflation. Lord Beveridge said: "Most of my working life was spent in University service. When I left that service to become a politician in 1945, I was able to take with me for superannuation enough thousand pounds to feel fairly happy for my future. Now each of those pounds is worth about 6s. 8d. Like many other healthy people in the seventies I am in danger of living longer than I can afford to live. Our plans for useful old age are all going hay-wire. The underlying reason for that is the claim of each industry to fix its own money wages by sovereign action. Under full employment, that is leading to destruction of the value of money, and is spreading wide-spread poverty among all who are trying to live on savings or fixed pensions."

applied in ever increasing quantities. But the system needs a constantly diminishing proportion of labor, through whose ranks the mass purchasing power must be diffused by full employment. Out of these conflicting tendencies is born the paradox that our economy, characterized by the greatest assembly of labor-eliminating machines and devices on earth, has the highest proportion ever reached of both men and women engaged in paid employments. A constantly increasing proportion of the population must enter the labor market if the laboristic distribution of wealth is to keep pace with the increasing productiveness of capital.

Another solution of the problem has been proposed. It is offered as a means of providing full employment through the pressure of generating excessive quantities of purchasing power, *while at the same time preventing inflation*. It is strongly advocated by some of our most prominent labor leaders and by many political exponents of the theory of “full employment without inflation.”

This theory proposes the observance by business—voluntarily, if possible; otherwise involuntarily, under government coercion—of two policies. One is a policy of limiting wage increases to so-called productivity increases. The other is a policy, to be pursued by business, of abstaining from raising prices in response to increases in wages where such increases are limited to “productivity increases.”⁶⁴

With regard to the second of these policies, we should note first that it calls upon business to abandon the competitive setting of prices, just as our mixed economy has long since abandoned, or suppressed, the competitive setting of wages. Regardless of the competitive forces at work in the market, the application of the second policy would arrest the prices of products and services, while the application of the first would automatically increase the

⁶⁴ For a clear statement of these two policies, see Philip Murray’s Annual Report for 1952, reprinted in the Supplement to *The People Shall Judge*, Chicago, 1956: 278-294. For what closely resembles an affirmation of them, see President Eisenhower’s State of the Union message delivered to Congress, January, 1957.

wages of labor at a rate commensurate with the increasing productivity of capital instruments.

We must look deeper, however, to see the ultimate significance of the theory of full employment without inflation.

As we have already noted, one essential right of private property in an instrument of production is the right to receive the wealth produced by that instrument, *i.e.*, a return proportionate to the value of the contribution it makes to the production of wealth. The only impartial determination of the value of that contribution is one made through the operation of supply and demand under conditions of free competition. We estimate that the productive power of capital instruments accounts for over 90 percent of the wealth produced, but that over 70 percent of that wealth is distributed to labor in accordance with our mixed economy's partly laboristic and partly capitalistic form of distribution.⁶⁵ This means that one of the most essential rights of private property in capital has already been greatly attenuated. It also means that effective and highly concentrated ownership of capital in about 5 percent of the households of our economy is incompatible with the production of some 90 percent of the wealth by capital instruments.

Now the proposal by advocates of "full employment without inflation," translated into language which recognizes that increased "productivity" is the increased economic productivity of capital, comes to this: that wages should be allowed to increase in proportion to the increase in the wealth produced by capital. In point of fact, these "productivity increases" are increases in output that result from additional investment in capital instruments. Hence the essence of the proposal is that a large portion, if not all, of the increased wealth produced by the new or improved capital instruments should be passed on to the workers employed in industry.

The ultimate meaning of the theory of full employment without inflation is, therefore, that future capital formation should be subject to a process of socialization; for it is only through govern-

⁶⁵ See pp. 40-43, *supra*, and also the Appendix, pp. 256-264, *infra*.

ment regulation or through the countervailing power of government in support of organized labor that such an unjust distribution of wealth can be effected. If technological advance is not arrested, and if labor should continue to receive a larger and larger portion of the wealth produced by newly formed capital, then the rate of socialization—or, what is the same, the degree of attenuation of the right of private property in capital to receive a full return on what such property earns—will conform to the rate of technological progress.

Here, then, is the perilous dilemma that confronts our mixed capitalist economy.

On the one hand, to continue to carry out the policy of full employment without controlling prices or otherwise rigidly regulating the economy would be to allow inflation to reach the point where public confidence in the monetary system is gravely weakened. When that happens, controls equivalent to full public ownership of capital by the state will most certainly ensue.

On the other hand, to adopt the theory of full employment without inflation is to initiate at once a process of further socialization and to project it at a rate which will be governed by the rate of technological progress. This, too, can only end in the complete socialization of our economy.

In either case, our mixed economy seems to be sowing the seeds of its own destruction. Even if we wished to perpetuate our system of mixed capitalism instead of dissolving its mixture in favor of Capitalism, we almost certainly would not be able to do so. When its inherent and incurable weakness becomes fully apparent to us, we may realize that, if we wish to avoid the complete socialist revolution of State capitalism, a capitalist counterrevolution is our only choice.

OUR ONLY CHOICE -- CAPITALISM

It is one thing to have no choice because of inexorable necessities, and quite another to have only one choice when one thing is clearly seen to be the best means to the end we have in view.

We are under no necessity to choose the path of the capitalist revolution. Nothing compels us to make every feasible effort to establish a capitalist economy based on a widely diffused private ownership of capital, instead of allowing the creeping socialist revolution to push us further and further in the direction of a capitalist economy based on the public ownership of capital and the complete control by the State of the production, distribution, and consumption of wealth.

Only when the organization of an economy is seen by us as something which by its justice or injustice either serves or defeats the ends of a free society and a good human life for all men, does Capitalism, as opposed to State capitalism, become our only choice. If we were not devoted to the institutions of political democracy, because through their intrinsic justice they afford all men the freedom and dignity essential to the pursuit of happiness, if we were not deeply imbued with the democratic faith in human equality, if we did not firmly believe that equality of opportunity in a truly classless as well as free society held out the promise of the fullest development of the potentialities of the human spirit—if these things did not constitute the ideal goal of our aspirations, we would be under no necessity to undertake the capitalist revolution. But given these ends, we have no other choice.

That being the case, we should not look upon the capitalist revolution as something forced upon us by the instability of our mixed economy and by the grave risks we would incur of ultimate consequences that we abhor, should we try to perpetuate it. Even if it were possible to perpetuate mixed capitalism in its present condition, with no more socialization and no greater concentration of political and economic power in the hands of government than now exists, we ought still elect to undo the mixture and try to create Capitalism. The obligation expressed in that word “ought” is

both one of justice and one of prudence—one of justice insofar as Capitalism represents a justly organized economy as mixed capitalism does not, one of prudence insofar as Capitalism is clearly the better economic means to the political and human goods that constitute our ideal goal.

We need not argue the case for Capitalism on the basis of economic justice. That has already been sufficiently done in Chapter Five. What must be done is to show that Capitalism, of the various forms that an industrial economy can take, is the economic counterpart of political democracy and that, together with political democracy, it is the best means to the ideal of a classless society of free and equal men whose freedom and equality gives them all the opportunity for a truly human life.

However, a brief summary of the intrinsic justice of Capitalism is necessary for the purpose of showing how such justice creates an economic democracy that is the counterpart of political democracy, and how together they serve the cause of freedom and human happiness.

Of all forms of government, democracy is the most just or the only perfectly just constitution of a political society. Tyranny enslaves men. Despotism, even when benevolent, degrades them to the level of children; for though it paternalistically takes care of them, it allows them no voice in their own government. Only constitutional or republican government grants men the political status of citizenship through which, with suffrage, they can participate in self-government. But some republics are constituted as oligarchies. These violate the natural right of all men to be citizens by conferring on the few, and refusing to the rest, the political liberty to which they are all equally entitled. Only the democratic constitution of a republic, with its basic principle of universal equal suffrage, grants all men citizenship, and so gives all of them the political liberty that comes from having a share in the sovereignty and from being able thereby to participate in self-government. Hence democracy is the only perfectly just form of government.

In like manner, Capitalism is the only perfectly just form of an industrial economy. By its preservation of private property in capital as the chief means whereby men can, in an industrial economy, participate in the production and distribution of wealth; by its principle of proportioning distributive shares of the wealth produced on the basis of the contributions made to its production, as measured impartially by supply and demand in a freely competitive market; by its limitation of undue concentrations in the ownership of capital; and by its correlative effort to diffuse that ownership as widely as possible among the persons or families in the economy, Capitalism embodies all the principles of justice with regard to the distribution of wealth and protects the right of every man to subsistence, and its inseparable right to private property as a means of earning that subsistence. A purely capitalistic distribution of wealth in a highly productive capitalist economy gives full effect to these basic rights.

Thus it is clear that Capitalism will produce economic democracy or the counterpart in the economic order of democracy in the political order. As democracy is a polity in which it is possible for all men to participate as citizens, so Capitalism is an economy in which it is possible for all men to participate as capitalists. As their participation in government through the suffrage of citizenship gives them political liberty, so their participation in the production of wealth through the ownership of capital will give them economic freedom.

Furthermore, it is in respect of their all being citizens alike that men enjoy political equality. They are not divided into a ruling and a subject class. So it is in respect of all having alike the opportunity to participate in production as capitalists that men will enjoy economic equality. They will not be divided into an owning and a laboring class (*i.e.*, capitalists and proletariat). Hence the establishment of Capitalism as the economic substructure of democracy will produce for the first time in history the ideal classless society in

which the whole mass of humankind will constitute a single class—one that is truly privileged and justly so.⁶⁶

We just referred to Capitalism as providing the requisite economic substructure for democracy. That statement is intended to convey not only the subordination of the economic to the political order as a whole, but also the necessity of economic freedom for the protection and vitality of political liberty.

The second point needs further comment. We have pointed out several times the reluctance or refusal of our ancestors to extend the franchise to workingmen, or to grant equal suffrage to propertied men of leisure and to those who were dependent for their subsistence on toil and had to work twelve hours a day or more from childhood to the grave. One reason they gave for this, as expressed by John Adams and Alexander Hamilton, was that no man who was dependent for his subsistence on the arbitrary will of others (as propertyless laborers were in those days) had the economic independence requisite for citizenship and the use of political liberty.

There were other reasons, too. It was felt that since the propertied and the propertyless did not belong to the same economic class, neither should they belong to the same political class. Furthermore, it was thought that the owners of property, by reason of their property, had more at stake than the propertyless workers; and in a sense they did. This led to the maxim that the country should be run by those who owned it. Finally, John Stuart Mill

⁶⁶ It is often said that the institution of private property provides the economic basis for democracy. That is not the case; or rather, it is a misleading half-truth. The institution of private property may be necessary for economic freedom, but by itself it is hardly sufficient for the diffusion of such freedom among all who should be citizens in a democracy. In primitive capitalism, the small capitalist class, in whose hands the private ownership of capital was concentrated, were among the most strenuous and obstinate opponents of all efforts to move toward political democracy by extensions of the franchise to the nonpropertied working masses. Hence it is Capitalism—the diffused ownership of capital, not just the private ownership of it—that creates the economic substructure appropriate to democracy.

pointed out, as Aristotle had before him, that the trouble with making workingmen citizens is that they had neither the education to fit them for the duties of citizenship nor the leisure in which to exercise citizenship by an active participation in government. As a simple matter of fact, this was as true when Mill wrote his essay on *Representative Government* in 1863 as it was when Aristotle wrote the *Politics* in the fourth century B.C.

The good sense in all of this would seem to point to the conclusion that the universal ownership by individuals of wealth-producing and income-bearing property, which is capital in an industrial economy, is needed as the economic basis for the universal possession of political rights and privileges which come with citizenship in a republic. Nevertheless, it may be argued that it is not necessary for all men to be capitalists in order for them to be made citizens, to be trusted with political liberty, or to be relied on to take an active and responsible interest in public affairs because they have a serious stake in the results of self-government.

In support of such objection, it may be argued that we have universal suffrage now and that it is working reasonably well even though under our mixed capitalism only a relatively small number of citizens are also capitalists in any significant sense of that term. It is working well, it may be contended, because the spread of universal public schooling with the extension of the franchise until one has become as universal as the other, has provided the education prerequisite for citizenship. That, together with the steady reduction in the hours of work which industrial production has made possible and which organized labor and government regulations have made actual for the working masses, provides them not only with the training for political life but with ample opportunity, in the time that has been freed for leisure, to participate actively in the affairs of government.

All this has been done in support of democracy by our mixed capitalist economy and without making all men capitalists in order to enable them to be good citizens. Why, then, is Capitalism required as the economic substructure for democracy?

The answer is to be found in two considerations. Neither has to do with education or time for leisure; for it must be admitted that these prerequisites of citizenship can be provided without making all men capitalists. But these are not the only prerequisites.

One of the additional considerations is the kind of economic independence which can be had in a capitalist economy only by being a capitalist. In our mixed economy, those who are neither capitalists nor members of labor unions do not gain their subsistence without dependence on the arbitrary will of other men. And those who enjoy such economic security and independence as they have through the power of organized labor, together with the power of government in support of organized labor, do not have their economic security and independence in function of their own property, but only by a struggle for power in the war of class against class.

Even if every labor union were organized and operated in the image of democracy, its members would still not be as economically free as men who had a grasp on their livelihood as independent individuals rather than as members of a group, and had it as a matter of personal right rather than as a matter of organized might. Since the power of labor unions depends upon the countervailing power of government, to have a grasp on one's livelihood through organized might is to be dependent for it on the power of government. This is the second of the additional considerations mentioned above.

Both of these considerations entered into Thomas Jefferson's argument that an agrarian, as opposed to an industrial, economy provided the economic basis for republican government. He pictured an agrarian economy as one in which the great majority of families obtained their subsistence from farms they owned and worked, instead of being dependent on wages and employers as were the families of the workers in the manufacturing cities that were just beginning to arise. The land-owning farmer had the kind of economic independence which, according to Jefferson, was the

ideal basis for citizenship and for a vigorous as well as virtuous use of political liberty.

Such men were not beholden to government for their subsistence or their independence. Their hold on both was integral to their ownership of income-bearing property. Consequently, they were in a position to participate in government as independent persons. They did not seek to endow government with extraordinary powers in order to give them freedom. On the contrary, because they had their freedom in their own property and in their citizenship, they sought to limit the powers of government to such as were necessary to protect their property and safeguard their rights as citizens.

What Jefferson said in terms of a laborist agrarian economy, what Aristotle had said before him in terms of a similar economy, holds true of a capitalist industrial economy. We need only transpose the terms. In place of the slave-owning aristocrat who was the ideal citizen in Aristotle's day, or in place of the land-owning farmer who was the ideal citizen in Jefferson's day, we need only substitute the capital-owning *common* man as the ideal citizen in our own day. In all three cases, such men have the kind of independence that is needed for self-government; and since they have their economic and political freedom by right, not by might, they will try to limit the powers of government to those necessary for the protection of their rights.

But while Capitalism will thus serve democracy, and while together they will create an economically and politically classless society, that is not the ultimate contribution which Capitalism can make to human life. Under Capitalism, as the participation of men in the production of wealth through the employment of their labor diminishes, their participation through their ownership of capital will increase. Under Capitalism, men will be saved the waste involved in all the unnecessary forms of toil that our present mixed economy imposes.

It requires no special insight to see that labor spent in the production of agricultural and industrial surpluses is wasted toil; nor to

understand the mystery of why, as hours are shortened under the pressure of organized labor, increasing numbers of workers hold two and three jobs and an increasing number of married women with growing children enter the labor market. A laboristic distribution of wealth requires labor, whether or not it is needed for the production of desired wealth. Only Capitalism invites all men to go beyond the production of wealth to what is essential to their happiness once their subsistence is assured—engagement in the liberal pursuits of leisure which produce the goods of civilization and of the human spirit.

In this respect Capitalism, as a justly organized industrial economy, has a marked advantage over the most justly organized laborist economy of which the past can boast. In a just laborist economy, where no man was a slave, all men had to spend most of their life and energy in toil for subsistence. No man enjoyed the leisure of purely liberal work.

In the laborist economy that was built on the grievous injustice of chattel slavery, some men—the members of the leisure class—were able “to live well by engaging,” as Aristotle said, “in philosophy and politics,” or, in other words, by spending most of their life and energy in purely liberal work productive of the goods of civilization: the liberal arts and sciences, the institutions of the state and of religion.

Any capitalist economy, by its very nature as a system of industrial production, can be the most potent source of time for leisure work that the world has ever seen. The *possibility* of leisure for all men is equally present in a State capitalist economy, such as that of Soviet Russia, and in a mixed capitalist economy, such as ours. But both State capitalism and mixed capitalism involve a laboristic distribution of wealth which makes both of them erect false ideals about human work for subsistence. The liability of all to labor is one of the tenets of State capitalism. The goal of full employment is a central objective in the scheme of mixed capitalism. Neither of these is a sound ideal according to the principles of Capitalism.

The ultimate goal of Capitalism is not full employment on the level of subsistence work but rather the fullest employment of one's time in leisure work. Far from its being morally sound for all men to be liable to labor, the moral truth is rather that all men are obligated to spend as much time as they can in liberal pursuits. And if it is possible for them to spend most of their time in liberal activities, because they obtain a viable income from the productive use of their property in capital, there is nothing immoral about their not spending any time or energy in doing subsistence work, especially that which is mechanical in quality. Capitalists, of course, must devote time and effort in the management and husbanding of their property, but this is an activity that is at least liberal in quality.

When we refer to liberal pursuits, we have two things in mind. One is purely liberal work of the sort that is exemplified in the activities of statesmen, philosophers, scientists, artists, teachers, etc. The other is the kind of work that is done by technicians and managers who, even though they are engaged in producing wealth rather than the goods of civilization, are nevertheless performing activities which are liberal in quality though employed in the production of subsistence.

Men who enjoy such activity, as compared with philosophy, pure science, the fine arts, and teaching, may have a lower aim so far as an absolute order of goods is concerned. But so far as the human quality of the work is concerned, they are engaged in creative activity that has all the essential characteristics of leisure.

In addition, those who are engaged in the management of large-scale industrial enterprises are, within their own corporations, performing the quasi-political functions of legislation, adjudication, and administration. And in the relation of private corporations to one another and to the agencies of government, the managers of business and industry, like the heads of private universities, hospitals, and foundations, should function as statesmen.

With this important qualification in mind, it should now be possible to say, without misunderstanding, that the ultimate aim of Capitalism, beyond the establishment of economic justice and

freedom, is the enjoyment of leisure by all men in the major portion of their life's time. Thus it aims to do for all men what a primitive laborist economy could do for none, and what a civilized laborist economy based on slavery succeeded in doing only for the few. By substituting machines for slaves, under conditions of advanced industrial production, both State capitalism and mixed capitalism are in a position to do for all men what the slave societies of the past did for the few. But because of their fundamental errors and confusions about the disposition of capital and labor in the production and distribution of wealth, they do not clearly and consistently aim at this result. On the contrary, they often tend in the opposite direction. Only Capitalism, by the soundness and consistency of its principles, aims at the right human result--the good life for all men.