

CAPITALISM AND SOCIAL DISCONTENT

BY J. LAURENCE LAUGHLIN

IN these days when capital is being destroyed on an enormous scale in the European War, some fundamental ideas are gaining recognition by the mere logic of events which in the piping times of peace would have taken great pedagogical effort and much time to enforce. Unconsciously, the upheaval of industry in the belligerent countries is tied up in every one's mind with speculations as to the diminution in the supply of capital now and in the immediate future after the end of the war.

The fundamental problems for the laboring men, however, will not only remain, but their pressing importance will be intensified by all that is happening in the war.

In some way the belief has won a wide support that the empty-handed young workman is, and must remain, outside the sacred precincts of industrial success because he is denied the hope and possession of capital. Or, as it was expressed by an intelligent student: "What hope is there, under the present industrial system, for the disfranchised classes?" No doubt, the supposition that the laboring force is practically cut off from the possession and advantages of capital is the basis for the fundamental tenet of Socialism that the State should control all capitalistic instruments of production in the common interest.

The evolution of capitalistic forms has gone on since early times almost in geometrical progression until we have reached the amazing variety and efficiency of those of the present day. In a time of only rude forms of primitive capital the surplus left for savings was but small; and, in addition, the prevailing violence of the times gave little security to what was saved. But capital grew more rapidly as capitalistic forms increased. It is sometimes asserted

that those of small incomes have no margin from which capital can be saved. The mere fact of the steady and marvelous growth of capital as the race has developed out of meagre, primitive resources is the final answer to any such claim. Capital has become an essential and powerful agent in production, separable from labor, exchangeable among men by loans, practically unlimited in supply, except as it may be limited by the saving propensities of mankind and by the materials (*e.g.*, wood and iron) out of which the concrete forms of capital may be made. Indeed, modern civilization, the everyday present well-being of the race, would be wholly impossible without the efficient aids which man has already created in the multifarious forms of capital.

Capital serves to discount long-continued processes of production. Since we can obtain more goods by the aid of capital than without, we move forward, by inventions touching specialized processes, to adopt methods absolutely impossible without more or less durable forms of capital. Thus satisfactions which meet varied wants become more abundant and cheaper only as industry is able to use more and more capital,—that is, only as production becomes more capitalistic. The only limit to this development, as has been said, is the self-control and ingenuity of the human mind. Hence, not only does capital change the relation of man to his environment and to his ability to satisfy increasing wants, but it enables him to create a system of industry involving an extensive quality of coöperation and division of labor (as against primitive individualism), which would be wholly impossible without it. This is the outcome of capitalism.

We thus come to see capitalism as a highly beneficent influence in the economic world. It has enlarged the comfort and range of consumption of the poorest toiler on the earth. That truth is unmistakable. Then why is it that in the labor literature of our day “capitalism” is used as a term of reproach, or objurgation? What really resides in the hopeless lament that the laboring classes are, in respect of capital, “disfranchised”?

Capitalism probably has the connotation in the minds of those who thus express themselves that it is responsible for the separation of mankind into employers and employees, into masters and servants. Why is it that in the world of industry some men are employers and some are employed?

To some of those who have lately come from nations having privileged classes, where many are born to wealth without effort of their own, it may seem that all capital is unjustly owned by its possessors. But apart from inheritance, gifts by privilege, and robbery, the enormous mass of modern industrial capital has come into existence by a personal process of saving, by abstention from personal consumption in order to get it for productive uses. The origin of capital has both a psychic and a physical element. Given a strong desire to save, the amount of capital accumulated will vary with the margin from which savings can be made; or, given the margin, large or small, the amount saved will vary with the ability to realize the future. Anything, therefore, which will increase the power of the future over the present will, other things being equal, increase the amount of capital.

The creation and legitimate possession of capital, consequently, requires certain personal qualities,—willingness and imagination enough to weigh a future gain over against a present indulgence, self-control, patience, persistence, foresight, and prudence. Those who have these homely virtues become the possessors of capital, and hence employers of others; while those who have them not, and own no capital, must seek those who have capital; and hence are employed by others. The separation into the two great classes of the employers and the employed is thus due to differences in human qualities; differences, however, of a kind which can be removed by training, environment, and the development of character and civilization. Moreover, is it not a beneficent order of things by which material success—which appeals strongly to many who are deaf to ordinary moral and religious appeals—is set forth as a reward for the exercise of many of the simplest virtues? Indeed, one of the fundamental weaknesses of Socialism is that it promises to its votaries the possession of capital through the action of the State, without any personal sacrifice on their part and by removing the very stimulus to character and virtue laid upon them by the existing system of society—more or less faulty though that system may be in other ways.

We are logically forced to the conclusion, therefore, that there is no limit to the supply of this immensely powerful and necessary factor, capital, except the total increase of wealth over maintenance, and the willingness to save. There is, then, no possible monopoly in capital. By the spread of

intelligence and science the total wealth from which savings can be made is increasing, precisely because new forms of capital are being constantly devised which are ever enlarging the productive forces of mankind. To this process there is no end. There is, also, no monopoly of the powers of men to labor or to postpone consumption. It is a matter to be decided only by the individual himself. He is not restrained or "disfranchised" by any power outside himself. If a young man with limited skill and intelligence ignorantly marries without having saved anything and immediately begets a large family of children, of course he finds it hard to save on a very small income; and hence he may regard the man who has already accumulated capital as a monopolist to whom he must go for employment. The situation, however, is one of the laborer's own creating; the fault is not in the existing system of society, nor in any limitation to capital, which can be saved by any one who is willing to comply with the rules of the game set by the character of human nature and our external environment. In short, the improvement of the position of the poorer laborer is largely dependent on internal ethical growth and self-control. The remedy is, in the main, not social, but personal.

Such being the essential reasons why some men are employers and others are employed, why some men have capital and others not, the very natural ambition of those who have meagre incomes to enlarge them has created what we have come to describe as "social discontent." It would be very unfortunate if those having little did not wish to have more of this world's goods, in order that they might be freed from the deadening effects of monotonous labor without the hope of a decent and cheerful environment. Therefore, "social discontent" is not a thing to be decried; but a thing which, if it did not exist, we should wish to create and stimulate as a means of establishing the very motive for progress in those who sometimes have no ambition and think they are "disfranchised" (in the industrial sense). Thus given the motive, how may we state the means to the given end? We are all agreed in wishing for larger incomes for those in the harder walks of the unskilled; but the really difficult thing is to come to an agreement upon the means of reaching the end desired by us all.

Perhaps the one instrumentality for increasing the shares of workingmen which has become sacrosanct in the

labor world is the union. Is this a means likely to accomplish the desired end? Let us examine this means dispassionately, and solely with the aim of testing its probable efficacy for raising the standard of living, and for increasing the consumption, comfort, and enjoyment of the lower range of laborers.

The laborers are urged to regard "trade-unions as the means through which to work out their economic salvation."¹ Not only are unions to provide "just wages," but to bring about an equitable distribution of wealth:

Trade-unionism stands for the constructive development of society, it seeks the more equitable distribution of wealth in order that all our people may develop to the extent of their highest and best possibilities.²

To such an extent has this type of mind gone in insisting on the union as the one agent at hand for bringing about a rise of wages and the progress upwards of the laboring classes that its vision is obscured for any other means—and this mainly on the ground that the union is the only practical means by which to reform an inequitable system of distribution. Tremendous energy has been put into the cause of Unionism in this behalf. That unions have an important place in our economic life no one doubts; but to suppose that the union is the solution of the problem of equitable distribution no one, in his economic senses, believes.

Elsewhere I have tried to emphasize the point—not new by any means—that unions are characterized by the basic principle of monopoly of labor. Their whole economic purpose is to try to raise wages at a given time and place by limiting the supply of labor obtainable by employers. To this it has been replied that "a labor-union is not a combination or conspiracy in restraint of trade"; that no decision of the courts has declared that, under the anti-trust act, an organization of workmen "is an unlawful monopoly." Of course not; nor is any lawful organization. The real point at issue is: Does this or that particular combination of laborers commit acts in restraint of trade? If it does, it comes under the penalties of the act, as in the case of the Danbury Hatters.

¹John Mitchell: "The Economic Necessity of Trade-Unionism," *Atlantic Monthly*, February, 1914.

²*Ibid.*, p. 169.

Moreover, in reply to the truism that unions are based on the principle of monopoly, a somewhat irrelevant reply¹ is given that a distinction should be made between organizations formed to control the prices of commodities such as the necessities of life (referring, of course, to the so-called trusts), and those "formed for the purpose of defending and promoting the interests of the wage-earners" (meaning, of course, labor-unions). This is obviously an appeal to the feeling of humanity which should not regard human beings as if they were inanimate goods. Of course labor stands in a different category from goods, and the conditions affecting their supply are entirely different: on that we are all agreed. But that distinction is irrelevant to the point at issue. There are organizations of men known as producers "for the purpose of defending and promoting their interests," and there are organizations of men, known as laborers "for the purpose of defending and promoting their interests." Both are organizations of men; and both are subject to the same law regulating the actions of men, if either should attempt to restrain trade. It is sophistical to speak as if one group were affected by law, and the other not.

This sophistical reasoning goes farther. It is claimed that the Anti-trust Act was never intended to apply to organizations having no capital stock, not dealing in products of labor, and not organized for a profit. It can make no more difference whether an organization violating the law has capital stock or not than whether a violator of the peace has blue eyes or brown eyes. It can make no difference what a combination ostensibly deals in, or whether its profits are large or small; the real issue must always be, has it violated the law of the land? Why then should any one be pained to find unions included under the provisions of the Anti-trust Act? They could not be included merely as organizations, no matter what their purpose, if they did nothing objectionable under the law. If the members of a union are proved to have restrained trade there is no reason why they should not be regarded as violators of the law as well as any other persons or organizations.

Since the formative principle of a union is a restriction of employment to its own members, the attitude of labor leaders to it is highly important. It bears on the large

¹ John Mitchell, *supra*, p. 164.

question of the proper means by which the workmen may better their position. This attitude is briefly summed up as follows:¹

If it eventually should be held that labor-unions as such are monopolies in restraint of trade and thus subject to dissolution by order of the court, no greater disaster to the orderly, rational and constructive development and progress of the wage-earning masses will have occurred.

Obviously no union whose acts are lawful is in danger of dissolution. "Trade-unions," it is claimed, "strive for peace based upon industrial righteousness."² The inference is that whatever, in the eyes of the Unionists, is "industrial righteousness," whether forbidden by law or not, should be allowed to unions without danger of dissolution. Who is to decide what it is? The union is to remain peaceful, provided there is allowed to it what it itself interprets to be "industrial righteousness."

Quite apart from the abuses of union organization (which are separable from the legitimate services of unions), the economic function of the union is what most concerns us. Taking it at its best, can it produce the results claimed for it?

As has been said, the essential principle of it is the monopoly of labor. It can accomplish its aim of raising the wages of its members only by the limitation of competitors. If the whole supply of labor were under control, then the union could produce a complete monopoly and fix price; but since this is, humanly speaking, impracticable, there can be attempts at fixing price only by artificial monopoly. The reason of this failure to function as a perfect monopoly is obvious. The supply of labor through births cannot be controlled by unions, as now conducted. If the supply of workers is certain to come forward for physiological reasons quite irrespective of union policy, it is useless to assume any power by unions to fix prices of labor through control of supply. And yet that is the central theory of Unionism.

Are unions indeed the only means at hand to accomplish "the orderly, rational and constructive development and progress of the wage-earning masses"? The statement

¹ John Mitchell, *supra*, p. 163.

² *Ibid.*, p. 162.

made in John Stuart Mill's day still remains true, that the extraordinary progress made in industrial output and efficiency of production for many decades has not been accompanied by a corresponding enlargement in the income and consumption of the wage-receiving classes; because numbers have increased as production has advanced, and a larger total dividend has been spread over more divisors, giving to each laborer a not much larger quotient than before. If this be true, the future progress of the laboring population depends upon something more than fractional advances in their wages. Is it not beginning to dawn upon the real friends of labor that betterment cannot be permanently or even sensibly advanced so long as men are merely receivers of wages? The union, however, assumes that all depends upon the matter of wages. And yet, looking back, can any sympathetic friend of labor be satisfied with the gains which the workers of our race have won through the mere receipt of wages?

The central reason why the union is not a means competent to solve the problem of an inequitable system of distribution is that it confines its attempts to control the price of labor to a means of controlling supply which is really illusory. Moreover, the price of anything is also affected by whatever touches the demand for it. The thing to be acquired must have such qualities as will excite in the demander a belief that it will satisfy his need. Granting the need, and the ability to pay, the price will be affected by the utility of the thing to be marketed. Other things being equal, the greater the efficiency or utility of labor the greater the demand for it. This is one reason why skilled labor may command higher wages than unskilled. Does the union aim to develop efficiency and utility in labor, in order to obtain higher wages? Not usually.

Another economic difficulty has been blinked by those who rest their hopes alone on wages, and try to connect the wages to be paid with the value of the product turned out. Even some respectable authorities fail to see that two separate processes of valuation are going on, each independent of the other, both in time and in conditions of demand and supply. The bargaining for wages to workmen goes on at a time before the goods on which they are working have been produced; and labor leaders are right who insist that the supply of labor and the demand for it are affected by all that

characterizes human beings on the one hand as distinct from those that characterize inorganic matter on the other. The supply of labor comes forward as a result of the strongest instinct in human beings; and the demand for labor can come only from those who can pay for it (*i. e.*, with funds saved). On the other hand, the finished product is priced at a time after the bargaining for labor has been settled; and the supply of goods comes forward in answer to an offer of purchasing power, and under conditions influenced by efficiency of production, the condition of the arts, inventions, divisions of labor and the like. The price-making process, therefore, is clearly distinct in time and conditions for labor on the one hand, and goods on the other. The obvious conclusion from this admitted fact, then, is that methods of raising wages must be of a kind to affect the pricing of labor, and are more or less remote from those affecting the pricing of goods.

The upshot of the whole matter is clear in logic and in experience. Permanently to raise wages of any group of laborers, we must raise their productive power, or their utility, to the demander. To do that is to place them, by natural monopoly, in the class of the skilled, where their numbers are more or less limited relatively to the unskilled. In other words, supply is directly affected to the permanent advantage of those included. Thus the artificial monopoly of the union (which mistakenly aims at restriction of supply without an advance in quality) is avoided.

More than this, the mere receivers of wages, in bargaining for a definite wage before work is undertaken, thereby contract themselves out of risk. If the pricing of goods goes wrong and a loss to the employer results, the claim of the receiver of wages is unimpaired. But as the wage-getter is thus freed from all risk he is also cut off from all exceptional gains. The factor assuming industrial risk is the one that obtains all exceptional, or differential, gains or losses due to unexpected changes affecting the price of goods. In a young country like the United States a well-established business gains in volume by the mere growth of population and industry. Moreover, the resources and opportunities of such a country are but partly known, and are constantly opening to the enterprising man who can control capital. These new enterprises, since accompanied by more or less risk, if successful, bring in exceptional gains. In addition,

the land of the new country rises in value as it is more densely settled; in fact, most farmers of the last generation have gained less by raising crops than by the rise in the price of land.

Consequently we are obliged not only by experience but by economic analysis to face the fact that the improvement of the wage-earning masses can be gained only by a policy quite different from the one accepted in the past, and which forms the essence of Unionism. To rise to a higher level the laborer must get some of the advantages possessed by the employer and the risk-taker, and thus obtain some of the inevitable differential gains characteristic of a new and growing country. In short, the true remedy for a healthy "social discontent" is more capitalism. Heterodox as this advice may seem, the more it is pondered the more practical, effective and successful it will prove.

The differences marking off the possessors of capital from those who have none are due, as already pointed out, to differences in training and in human qualities. There is no monopoly in existence to prevent any person from acquiring the power to weigh a future gain over against a present indulgence, to get self-control, patience, foresight, prudence, thrift, and good judgment. No one has been thus "disfranchised." If a person has these qualities, he inevitably becomes a possessor of savings, and is thus a capitalist. The qualities which come with the saving of capital will also work to restrict imprudent marriages and the birth of more children than can be properly fed and educated. In short, by directing attention to the development in the laborers of certain essential qualities, and calling upon all the educative forces of philanthropy and organized society to aid in that purpose, we shall answer "social discontent" by some permanent gains to industrial efficiency and wages, and bring to the support of the wage-earning masses the wide-reaching influences of capitalism.

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IS PROHIBITION AMERICAN ?

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IN a speech at the dedication of the Imperial Naval Academy at Murvik, in 1910, the Emperor of Germany said:

The next war, the next naval encounter, will require of you sound nerves. These are undermined by alcohol, endangered from youth up by its use. . . . Then the word will be, strong nerves and cool heads. *The nation which drinks the least alcohol will be the winner.*

In August, 1915, after a year's devastation of the world war, "the next war," when America had learned of the Imperial ukase establishing prohibition in Russia, the prohibition of absinthe in France, and the stringent regulatory measures adopted in England, as means of increasing the efficiency of these nations, the German Imperial Chancellor, Dr. von Bethmann Hollweg, gave an interview to an American newspaper correspondent, from which I quote the following:

'Is prohibition of the sale of liquor an active issue in the United States?'

'Yes, your Excellency, we have many States in which the sale of intoxicants is forbidden. Recently the question of adopting a constitutional amendment was brought up in Congress and received very considerable support.'

'Most interesting,' said the Chancellor. 'A movement of that sort would make no headway in Germany. The people would regard it as an absolutely unwarranted interference with their personal liberty.'

In this connection, let it be noted that, so far as the outside world has been informed, the chief measure affecting the consumption of alcohol adopted by Germany since the outbreak of the war is an order limiting the quantity of hops which may be used in the manufacture of beer. Practically all the German regulatory measures are solely for economic reasons.