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THE SOCIAL QUESTION—IV

Nature of Capitalism

By

Dom Virgil Michel, O.S.B., Ph.D.

St. John's Abbey, Collegeville, Minn.

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THE SOCIAL QUESTION

Series Four

Nature of Capitalism

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St. John's Abbey, Collegeville, Minn.

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1. HISTORICAL KINDS

THE term *capital*, from which capitalism gets its name, has various meanings. It was first used in the domain of commerce and then meant an interest-bearing sum of money. As used in accounting today it means "the amount of property owned by an individual or corporation at a specified time, as distinct from the income received during a given period." But its most general meaning today is the one it has in the general field of economics.

In that sense the word *capital* refers to all economic goods that are used in the production of other goods over against goods that are used for personal needs or enjoyment. In this latter sense, which is by far the more usual one today, it would be mere repetition or tautology to speak of productive capital, unless a person wished to distinguish between capital that is actually producing an income and other capital that is intended to produce income but actually does not happen to be doing so by reason of the failure of one or several of the conditions under which capital can actually produce economic values.

In the loose talk that is necessarily floating about very abundantly in times of depression like ours, the term *capitalism* is often identified with the present system of industrial manufac-

ture, that is, with the system of economic life that has been developing with increasing pace from the beginnings of the industrial revolution down to our own day, or at least to the year 1929. Capitalism is then identified with large-scale industry, or with the hiring of labor as a commodity on the market, or some other characteristic factor that is considered peculiar to our own day.

The proper term to use for our present system of economic manufacture is not *capitalism* but rather *industrialism*, or better still, technological industrialism over against the older home-factory type of industry. But this statement does not mean to imply that we cannot use the term *capitalism* for our present economic system. For our whole life of today is not only colored but wholly permeated and dominated by what can only be rightly termed by that name.

All this may sound very confusing at first blush. But the confusion will disappear when we remember that while our present industrialism is little more than a century old, the capitalism of our times has had a continued though changing existence that goes back to the twelfth or thirteenth century, and has had its predecessors in ancient Rome and Greece and God only knows where else. In comparison with capitalism, modern industrialism is but a very recent development of *homo oeconomicus*.

“Both capitalism and wage employment are much older than industrialism in the sense in which the term is used in this article,” writes

G. D. H. Cole, "and there were many factories before there was a factory system based on mechanical power. But industrialism can be said to have begun when machinery driven by a central supply of mechanical power became the typical method of manufacturing production. For from that point industry replaced commerce as the directing force of economic life, and the scale of production and the forms of business organization came to be determined by the growth and character of mechanical power" ("Industrialism" in the *Encyclopedia of the Social Sciences*.)

Insofar as capitalism is a dominant characteristic of the entire period of modern history, with the latter part of the Middle Ages included, it might be defined as a system that invests money for the sake of gain or profit. Historically there are three kinds of capitalism: commercial, industrial, and financial; and the order in which they are here mentioned is the order of their appearance as well as the order of the successive dominance of each new type over its predecessor.

1) *Commercial Capitalism*. In the days of Thomas Aquinas (the thirteenth century) this type of capitalism was in full swing. To it various towns on the Mediterranean or the Adriatic owed their importance; and it received considerable impetus from the Crusades. Thomas Aquinas condemned the taking of interest on any loan of money that was to be used for purposes of consumption. But he enunciated and ap-

proved the primary principle of commercial capitalism:

“He who loans out money transfers the ownership of the money to him who borrows. Hence he who has borrowed the money holds it at his own risk, and is obliged to restore it fully. Whence the one loaning out the money may not demand more. But he who commits his money to a merchant or a craftsman after the manner of an association, does not transfer the ownership of his money to the other; it remains his. Whence it is at this man’s risk that the merchant negotiates with the money or the craftsman works. Hence the man may lawfully demand part of the gain accruing from it as from something belonging to him.”

What commercial capitalism meant historically is evidenced from the shipping activities of the fifteenth and sixteenth centuries and after, when America was discovered, southern Africa rounded, and the whole world encircled by intrepid navigators.

Another development at this time, especially in England, can be called Agrarian Capitalism, in which large owners of the best farming land closed the land to their tenants and entered upon commercial sheep-grazing for greater profits out of the sale of wool.

2) *Industrial Capitalism*. This arose with the industrial revolution and the advances of technology. While it gave increased impetus to world commerce, the latter became but an ex-

tension of industrialism and was considerably under its dominating influence.

3) *Financial Capitalism*. This is a contemporary phenomenon that developed fully only in the twentieth century. The captain of industry is replaced by the money baron, and industry has by force of circumstance come under the dominance of those who control our money.

Later articles will be touching upon some of the aspects here sketched in brief.

2. FREEDOM FROM RESTRICTIONS

IT would be wrong to claim that modern capitalism arose out of a reaction against the fossilized restrictions of the guild-system, as has been done. The truth of the matter is rather that modern capitalism is just as old as the guilds, whose last vestiges disappeared in the eighteenth century. In fact the medieval guilds arose rather in conjunction with the commercial capitalism of the day.

Trade in the eleventh century was chiefly built up on foreign commerce; however, it took only a small distance at that time to make one place "foreign" to another. The local traders soon formed associations or guilds, and by the twelfth century these merchant guilds began to acquire a monopoly in commercial trading. Individual unorganized merchants could not compete with the guild merchants, who prevented them from access to the foreign markets. Gradually the merchant guilds also began to exert influence on governments in their own favor.

Craft guilds appeared about 1100 and by the thirteenth century were organized everywhere. They established regulations regarding the material or qualities of the objects to be made and sold by the craftsmen, and regarding weights and measures, just prices, wages and hours, and

qualifications of the craftsmen. Members of the craft guilds began to assume the exclusive right to exercise the respective crafts and to receive more and more protection for themselves and their trades from governments.

The local craft guilds enforced a boycott on foreign competitors as well as on non-members. They first gained recognition and protection from governments, gradually attained autonomy from local political authority, and by the middle of the fourteenth century had acquired great political power in many towns. While there was considerable individual freedom within the limits set by the guilds, the whole situation was quite different from that of the industrial liberty of a later day.

“From an economic point of view the guild system was clearly anti-capitalistic. With no place for individual initiative or the entrepreneurial spirit, it was incompatible with the capitalist idea of profit making. It made it impossible for the artisan to reinvest his savings or his profits in business, since its volume was prescribed by the guild regulations” (Henri Pirenne).

But as the guild system grew, even the handicraft guilds were in some ways dependent on foreign commerce, both for raw materials and for marketing of their goods. As a result, on the one hand, domination over the guilds by the large merchants grew, and, on the other hand, guilds that tried to retain their independence made ever minuter regulations regarding their

membership and their activities. They even appointed supervisors who look much like the walking delegates of our labor unions. Fraud was thus prevented to a great degree, but personal initiative was also annihilated, and the guilds became increasingly the exclusive privilege of the few. By the sixteenth century their economic importance had been reduced more and more by the progress of capitalist industry and enterprise.

In the meantime the power of the capitalists had grown by leaps and bounds. The example of the great Fugger family illustrates this strikingly. The elder Fugger, a master weaver in Suabia, south Germany, moved to Augsburg in 1380 and became a merchant. He prospered, and his grandson Jacob (1459-1525) shows the full results thereof. His activities were far-reaching and successful, yet he was constantly urged by the one purpose of making profit as long as he could. He perfected the vast organization of the Fuggers, which was truly international, saw that it remained in the hands of only male members of the family, and combined admirably the activities of international merchant, banker, and industrial entrepreneur. He had loaned vast sums to governments, so that in a sense rulers were his subjects. When he died in 1525, his firm was the wealthiest in existence.

In the sixteenth and seventeenth centuries high state officials became partners in capitalistic enterprises, and governmental power was used to further their economic advantage. Here we

already have the principle of government protection of the rights of vested interests—a principle later openly declared by the *laissez-faire* theory. Some commercial companies, like the English East India Company, were in fact governments of their own, with territories, armies and fortifications under their direct authority. The legalized piracy of English and Spanish freebooters in the reign of Elizabeth completes the picture. Murder and theft in the interests of commerce were no longer deemed sinful.

Capitalism thereby attained full freedom from the restrictions that characterized the guild system, from government control and regulation, and finally from ethical considerations. The ground was well prepared for the doctrine of *laissez-faire*, according to which the general public good was best attained if each individual was most bent on looking out for himself, and in which the government had no further duty than to protect the individuals in the pursuit of their own best economic advantage.

The freedom from these various restrictions opened the way to the positive liberties of individual initiative and competition, to complete freedom of contract and bargaining power for all human individuals. But there was still the restriction set by competition between successful rivals, with which much economic expense was connected. For a long time, this competition continued to the benefit of the consumer. However, the natural restriction to gain and profit set by such competition was overcome gradually

as the period of financial capitalism advanced, under which the control of capital and of markets was made almost complete by combines and by mutual understandings, and the competitive economic rivalries, so injurious to the ultimate goal of business because often very expensive, were reduced to a minimum. The restriction set by competition thus yielded more and more to the unrestricted power of monopoly.

3: CAPITALISM TODAY

THERE is much confusion evident today in regard to the nature of capitalism almost every time a group of persons begins to discuss its pros and cons. Generally such a discussion emphasizes the so-called evils of capitalism, and the group often divides into those who consider capitalism so abominable that nothing but its abolition will satisfy them, and those who acknowledge some evils in present-day capitalism but maintain that these evils do not arise out of the nature of the thing but rather out of the perverseness of some men who are engaged in capitalistic enterprise. Usually the discussions get nowhere for the reason that the term around which the discussion centers has not been defined satisfactorily in advance.

To do that, however, is not so easy. *Webster's International* defines capitalism in its economic sense as a "system in which capital or capitalists play the principal part; the concentration of capital; the power or influence of capital, as when in the hands of a few." Obviously these definitions are not adequate for debate. What is the "principal part" that is played by capital or capitalists? How does the "concentration of capital" operate? Or "the power of influence of capital . . . in the hands of a few"? There is need of a more detailed explanation of

what is meant by capitalism before the notion can be used as a working basis for discussion as to its merits in our life.

For such an explanation recourse must be had to something more than dictionaries; at the very least, to encyclopedias, or books and articles that make it their point to explain the nature of capitalism. In these there is a fairly unanimous opinion as to what goes to make up capitalism.

Capitalism is by no means merely a system of private property, nor merely a system of mammonism as practiced by a few unethical individuals. It is specifically an economic system that rests on the priority of production over consumption for the purpose of rationalized profit in a free market and free money system. It uses the large-scale machine production of today as its method of manufacture and is characterized by the almost total separation of the means of production from the labor-energy used in connection with the machinery, and it stands professedly for fullest freedom of contract and bargain on the part of all human agents connected with the productive enterprise. Far from being merely a system of material activity, it includes an intellectual or spiritual attitude, a philosophy of life and a scale of values. The following paragraphs will elaborate on this concept of capitalism.

Most important in any definition of capitalism is the spirit that acknowledgedly pervades

it. This spirit, it has been properly said, is dominated by three ideas: acquisition, competition, and rationalization.

The avowed purpose of capitalism is the acquisition of wealth, which in our own day, means chiefly the accumulation of money. The dominant objective of all capitalistic enterprise is profit, and ever increasing profit. This aim is quite different from that of gaining a livelihood, which was the dominant motive in pre-capitalistic systems, particularly in the handicraft economy of feudal times. In the latter all thought and action were centered about human beings and their needs, in particular the right of all to a decent livelihood. In capitalism all these considerations are subordinated to the aim of indefinite profit for those who survive in the competition.

The system is based on the idea of freedom of all parties concerned, and of a universal competition between them, in which the best men will win out. Each industrial enterprise is in itself a small arena of competitive factors in which the different groups attain success one over the other by superior abilities or powers of survival. The machinery bought for the erection of a plant, the materials needed, the labor hired—all are sought on the open market where competition is the rule and where all contracts, whether of purchase of materials or of hiring of labor, are the result of the bargaining action of free individuals pitted one against the other.

Theoretically, production thus occurs only through the willing cooperation, regulated by free contract, of all groups, especially of the two major groups of capital and labor, one of which is in possession of all the tools and materials necessary for production, while the other is in possession of the necessary human energies, both brain and brawn. Practically, however, the willing cooperation becomes a bitter struggle by each group to attain its own maximum interests, with the scales weighted heavily in favor of those who own or control the materials and machinery. In a similar way the capitalistic ideal of individual ownership by all men remains in the sphere of theoretical possibilities, while practically the entire system moves ever more towards ownership and control by the few.

The idea of rationalization is entirely dominated by the motive of profit. Everything connected with capitalistic enterprise is rationally calculated in detail as to its being a contributory factor to profits and earnings. Whatever does not fit in with the objective of increased profits is excluded, whatever works towards such increase is fitted into the system.

“The economic nature of capitalism is historically bound up with the development of technology,” it has been well said. Capitalism has enjoyed its high esteem in our civilization because of the enormous increase in production that was made possible by the technological advances of methods and machinery that have

marked our times since the beginning of the industrial revolution. Capitalism depends not only on a high degree of productivity for success, but also on constant improvement and perfection. Unless the productive curve goes constantly upwards, it is in danger of losing out if not of collapsing altogether. Why this is so, will be touched upon in a later article.

4. GREAT CHANGES WROUGHT

IN the present series I am not concerned with what is such a fashionable pastime today: criticism of capitalism. That is being reserved for the next series on the social question. No evaluation of capitalism can be justifiably attempted before one has made a complete survey of what capitalism stands for and has accomplished.

This is an almost impossible task within the limits of a few short articles. It is moreover more than difficult because of the impossibility of separating out from our life of today those elements that are due to capitalism as such from those that are due to general scientific and technical progress, or are due to the general developments of industrialism. These various aspects of our civilization are linked into an organic whole, together with the phenomenon of democracy, to form what might be called the capitalistic-industrial civilization of the past century.

It is this "thing" I shall be referring to as "capitalism" in the next few articles; and I shall refer to it as it developed in our own country, since we acknowledgedly represent modern capitalism at its best or in its truest nature. Even here, however, its achievement has also depended on a factor that now no longer exists, our receding frontier of unoccupied land and resources.

This factor was somewhat paralleled for the rest of the capitalistic countries by the so-called backward nations of Africa and Asia, which for European countries took the place of our undeveloped frontier.

The dominant force in capitalistic development has undoubtedly been the incentive given to its leading men by the profit motive. This does not mean that profit was sought for its own sake only, but very often rather for the sake of that which was made possible by wealth: increased power and wider control.

The attitude of production for profit is anything but static or fossilizing in its effects. It is highly inspirational and dynamic. Profit cannot all be used by those who make the profit for satisfying their human needs, much of it is left over for further investment. Consequently the capitalistic system has grown up with the ideal of constantly greater expansion of business and greater profits, with further investment of these, and so on. The impetus thus given to economic life has been so much part of our mentality until recent years that it was hard to imagine the kind of life led before the fuller development of capitalism had arrived.

Whether the dynamic nature of capitalism was instrumental in the vast advances made in technology, the harnessing of mechanical power unto the service of machinery, or whether the technical progress made the dynamic developments of modern capitalism possible, it would be hard to decide. The two went hand in hand

and are two outstanding characteristics of capitalism. Invention of new mechanical devices and perfection of older ones progressed with their use in industry, and industry grew and expanded with their application.

It is this combination that gave us our vast industrial machinery with its productive possibilities exceeding the fondest dreams of the men of an earlier age. It has given us all the development that has gone with the use of coal-steam power and later with hydro-electric power. To it we owe all our means of rapid transportation by land, water and air, and the means of almost instantaneous communication by telephone, telegraph, and wireless. It has made the world a single vast market, and has, so to say, placed all the world at the feet of all men both in regard to news and happenings and in regard to the products of nature and of man, raw as well as finished materials.

Such world-wide expansion and large-scale production necessarily meant great advances in systematization and organization. These have resulted in a high degree of efficiency, unknown to other times, which despite its many scorning critics today has untold possibilities for good. One effect of this is the extreme division of labor and functions in our modern plants; which allows a man to become a productive factor with almost no previous experience.

Another phenomenon is that of concentration in its various forms. There has been progressive merging of smaller business with the larger cor-

porations, increasing combines, chain stores, and the like; concentration of industrial energies as well as of financial capital. Another form of concentration has been the enormous growth of cities, the rapid transfer, of the bulk of population from the countryside to the city.

In the financial realm the growth and expansion of industry has given great impetus to the credit system of business transactions. This credit system has in turn been very influential towards increasing industrial and commercial activities. The entire system of financial credit connected with our banking system and the relative ease with which individual and corporation could avail themselves of its advantages was also something unheard of on such a vast scale in days gone by.

The individual, moreover, used the credit system in purchasing for consumption and for family use. Not the least development and characteristic of our day is the system of instalment buying. With this we must close our enumeration without having by any means exhausted the characteristic changes wrought by modern capitalism. In two further articles we shall mention some of the general effects of these in individual and social life.

5. EFFECTS ON INDIVIDUAL LIFE

IN an exposition of the effects of capitalism on individual life over against its effects on social life, no strict line of demarcation can be traced. Whatever affects the life of the individual must have its repercussion sooner or later on the social weal, and what effects the social life of a community must necessarily have its effects on the individuals making up that community. Hence the general scope of this article and that of the next will necessarily overlap. The distinction between the two will be one of emphasis rather than anything else.

Especially in times of depression like the present, we are prone to forget what the developments of our capitalistic civilization have meant for the individual. But any picture of capitalism would be false if it were to be drawn from conditions that have historically been abnormal rather than the rule.

There is no disputing the fact that the standard of living of the average man, both in city and in country, was improved greatly in the last century over that of earlier periods in human history. Millions of persons in our day are in possession of ordinary implements of domestic life that were undreamed of luxuries before. The sewing machine, washing machine, bathroom accommodations, the radio, kitchen ranges,

heating plants, electricity, then farm machinery, the automobile, the telephone, are but a very few of the modern devices that have entered into the average home, so that the total absence of all of these has become, not an exception merely, but almost unheard of.

While new devices do create new needs instead of satisfying all wants, the possibilities of an enrichment of life and a lifting of the individual out of much of former drudgery are only in their infancy. No matter what turn our form of civilization may take, the immense increase in the comforts of life that the future may bring to man will always have had their origin in the capitalistic industrialism of which we are speaking, and in which we are still living.

Machine manufacture of books together with the exigencies of modern life has made the literacy of the ordinary man almost a necessity. It has well been said that "Charlemagne might be illiterate but the humblest factory manager cannot enjoy that luxury" and the statement must be extended to those beneath the factory manager. Literacy, whether resulting actually for weal or for woe, is in itself an undoubtable blessing, and only the progress of the past century has brought it within the reach of every man. One of the many results of the new possibilities opened by technology has been the wholesale multiplication of public libraries, both through public funds and through private endowments.

Modern industrialism has given many opportunities to individuals to improve their position in life. Before its arrival the fixity of social strata had begun to disappear. Industrialism furnished the opportunity for the liberated individual to rise in accordance with his abilities and his zeal. Not only did the multiplication of machinery greatly increase the productivity of human labor; it also gave the average unskilled laborer an opportunity he never before enjoyed. The skilled laborer of the past was indeed to a great extent displaced or deposed from his former privileged position, but machinery has also given rise to a new class of skilled workmen. Then it has been in the spirit of modern industry to employ talent wherever it could be found, and a lowly social origin was no hindrance to recognition and reward of ability.

Moreover with industrial capitalism the possibility arose for the first time of small investments of savings by the common people. The rise and multiplication of corporations made it possible for the small saver to invest bit by bit in stocks and bonds, or to purchase government bonds, instead of having to store away his savings in some corner and leave them lie there idle, since the only use to which they could formerly be put also meant their being used up. Similarly the way was opened to provision for the future by the vast increase of insurance policies of all kinds, insurance to forestall accidents, sickness, or death, or to provide a legacy for children at their maturity, etc., etc.

The standardization of products, also, was not without its advantages. Mass production not only put many new articles into the hands of millions, but also established the practice of fixed prices, of buying and selling at the same price for all, regardless of person or rank. It definitely put an end to the haggling and bidding that still is the ordinary way of making a sale in great sections of the Orient.

Another lasting benefit to mankind that has resulted from the technical and scientific progress of our day is the improvement in medical care and treatment. The untold medical advantages and benefits of our day have moreover been spread far and wide by the erection of public and private hospitals, by research centers like the Carnegie Institute and the Mayo Foundation. There is no part of the world in which people have not received the benefits and blessings of this research and progress, which would not have been possible without the material and scientific progress that characterized the capitalistic civilization of our day.

I am only too well aware that for many the term capitalism today is like a red rag to a Spanish bull. And our depression has brought it about, that for every advantage one can mention as resulting from it, people are ready with a hundred answers of "Yes, but . . ." or "On the other hand." Just for that reason it is necessary for us not to forget that side of the picture which by reason of present conditions is likely to be either ignored or minimized.

6. SOCIAL EFFECTS

NOT everything that may be considered an advantage from the individual's standpoint, is also a benefit to the social weal. For the latter must take into account not only one or a few individuals but all that make up the community in question. In the same way not everything that may be considered a disadvantage from the individualistic point of view is really detrimental to the social weal.

The social good must include the satisfaction of the basic needs and wants of all the individuals, yet it must always strike a golden mean between the unlimited advantages of some individuals and the harm of others, at least such harm as arises out of a lack of supplying the fundamental needs of human nature in their regard. Especially in the matter of judging of the social effects of anything, regard must be had to what is happening to the average number of individuals after the basic needs of all have been supplied.

Among the outstanding social effects of present-day civilization are the undreamed of facilities for intercommunication between men: the means of rapid transportation, covering huge distances in relatively short periods of time, and the almost instantaneous flashing of news from one end of the world to the other. Although

these facilities may be abused by men of power and of no scruple, they are in themselves of peculiar social advantage. In fact they form, for many a man of today, the outstanding argument that our boasted platform of rugged individualism is no longer workable.

Certainly the jungle law of "each man for himself and may the strongest win," is made impossible by its necessary self-destruction in a society that is willy-nilly knit together all over the world into a single large economic family. Men may not like the new situation, but it is in full harmony with the Christian viewpoint, and it can be changed only by scrapping the material progress made in the means of modern transportation and communication.

To these means must be added the fact that capitalism has taught us high ability in exact methods of planning and equipment, with application of all the exactness of mathematics and science, and first-class power of organizing and planning for long-time activities, which when used for social purposes should be productive of untold good.

There are also shadows in regard to the social effects of modern civilization, shadows even of darkest hue. Their occurrence has often called forth the bitterest attacks upon our "entire system." No one can deny their existence, although the question remains whether these shadows were a necessary accompaniment of that system.

It seems to have been inevitable, in our industrial capitalism as it developed historically,

that the separation of the workman from his tools and his workshop and the separation of his work from his home should develop to the utmost. Labor thus becomes merely a commodity on the market to be sold or left to stagnate like any other marketable goods. This condition has undoubtedly redounded to the benefit of the employing class and to the exploitation of the laboring class. In fact, it has given rise to an ever greater distinction of classes ending in the extremes of the capitalist and the proletariat.

As a result of this condition, together with the concentration necessary to large-scale production, we have had a vast migration of men from farm to city in the past generations, the heaping up of human beings in congested cities with all the evils, moral as well as physical, of the slum.

In a similar way the small shopkeeper has been increasingly displaced by the ever expanding larger corporations. The small owners in ever greater numbers have joined the independent craftsmen of an earlier day to swell the ranks of those who hire out their abilities for wages or salaries. At least while adjustments are being made from one condition to the other, a good deal of human misery is often entailed and seems inevitable.

The laborer's condition of dependency upon others for making a living is aggravated by the periodical disemployment that seems to be a part of our system. Karl Marx had pointed out long ago that in the capitalistic scheme there

must be chronic periods of disemployment, which he attributed to the constant displacement of human labor by improved machinery.

Besides this technical disemployment there seems to be another that is economic in origin and which gives us our cyclic depressions with an ever-increasing unemployment on a large scale. This, too, critics point out is a necessary effect of our present system of capitalistic industrialism. It lies in the dynamic nature of capitalism, they say, to overshoot its mark. Since production is for profit, concentration and expansion and monopoly continue, until a stage is arrived where profit can no longer increase. Size then becomes inefficient and unwieldy. The period of rising profits and of price inflation having broken down gives place to deflation, to closing down of plants and laying off of wage-earners as well as of salaried men. Once the ball starts rolling down hill it gathers momentum and the depression cycle is upon us, maybe until death do us part.

Any mention today of the advantages or disadvantages of capitalism is highly controversial. Do the "injustices" of it lie in the very nature of capitalism or industrialism? Could we have all the undoubted advantages of it without its accompanying evils? Or does the separation of the former from the latter mean the extinction of capitalism? That is a question of critique, into which we may venture in another series. For the present we shall continue in further articles to examine the nature of capitalism in more detail.

7. CONCEPTS OF OWNERSHIP

ONE of the many changes that took place with the historical development of capitalism concerns the notion of ownership and the position property holds in the social scheme of life. It may not be an exaggeration at all to call this the most far-reaching change of all in its consequences, and to consider the privileged position of property in our life as the most fundamental aspect of our civilization and its basic structure.

In the Middle Ages, it will be remembered, ownership was trusteeship. Properties were held as possessions entrusted to the owners by God, to be administered in accordance with the purposes of God. Hence the manner in which the duty of wealth, especially of superfluous wealth, was at all times stressed both by the Fathers of the Church and by their successors in the Middle Ages, in particular by Thomas Aquinas. That some change in these ideas had to take place in a civilization that was successively giving up its belief in Christ and then in God goes without saying.

Again, the conception of ownership in the Middle Ages was connected up with human labor or personal expenditure of energies, in spite of the fact that ownership of properties was to a great extent a matter of inherited status in life. The basic argument of Aquinas, for instance, for

private possessions over against common ownership by all was, that private ownership alone provided an adequate incentive for man to put forth his best efforts. Private ownership was thus justified because it alone furnished an adequate safeguard against personal idleness and social indifference.

It is interesting to note that the title to ownership based on human labor has been neglected or minimized to an astounding extent in modern textbooks of ethics, even among many writers who avowedly follow the traditions of Christian thought and consider the Christian thinkers of the Middle Ages as their direct forerunners. How did this change take place?

The answer is given in one word, *individualism*—the growing individualism of the modern period of human history, in which it has been the dominant keynote for several centuries. It is this same individualism that was such a powerful factor in the development of industrial capitalism, as of practically every "ism" of our times until the swing of the pendulum in the other direction became noticeable in terms of Socialism and Communism.

As the structure of medieval society gradually broke down there disappeared with it the inherited status of fixed strata of social life and the relatively fixed division of occupations. The outstanding characteristics of these fixed strata had been their respective duties and privileges. In the rising new order, more prominence was

accorded to those whose power lay in their wealth, above all the merchant capitalists. The privilege of inherited status was beginning to yield to the privilege of material wealth.

John Locke (1632-1704) was a prominent sponsor of the fundamental human rights of life, liberty, and property. His basic defense of property was still labor, the fact that an owner had put his own labor into the things he called his own. David Hume (1711-1776), the philosophical successor of Locke in some ways, said that property existed "to bestow stability of possessions and to insure the peaceable enjoyment of what one may acquire by his fortune and possessions."

In this statement we should note the reference of property, not to the stability of social welfare as such, but rather to the enjoyment and permanent possession of one's own fortune. Here we have a clear statement of the privilege of ownership in terms of individualism, and the purpose of ownership as that of individual enjoyment of what is possessed. No wonder that with the increase of individualism property began more and more to captivate men's minds and hearts. "Nothing," said the English jurist, William Blackstone (1723-1780) "so generally strikes the imagination, and engages the affections of mankind, as the right of property."

In mentioning these instances and commenting on the trend of events, the article on "Property" in the *Encyclopedia of the Social Sciences*

says: "Property was made the cause of prosperity, the advance of culture and the progress of mankind." Still Adam Smith (1723-1790), the founder of the classical school of economics, with which *laissez-faire* is inseparably connected, continued to hold that "the property which every man has in his own labor" is "the original foundation of all other property."

Yet, other property there was, and as it increased the imperceptible change reached its culmination. With the final supersession of handicraft industry by the factory system, ownership was divorced from labor, and the supremacy of absentee ownership was ushered in. Property now existed in its own right, and governments existed for the sake of protecting property. "Any government is good if it respects private property and the liberties bound up with it."

In the growth of our own country the Declaration of Independence, which emphasized personal human rights, was in a sense superseded by the Constitution of 1789. It is interesting to note that the latter was framed by the capitalists of the time, *i.e.*, the merchants and large land owners over against the small land owners and the non-owning workers. They thought principally of regulating commerce, coining money, and governmental protection of property against foreign and domestic attack. And it was only in the Bill of Rights appended to the Constitution upon pressure that further personal rights such as freedom of religion, speech, assembly, press, etc., were added.

There is no doubt that *de facto* the supreme right in our civilization is the right of property, or private ownership; and that the supremacy of the right of ownership is the outstanding feature of industrial capitalism, so much so that all privilege is made dependent on it. The trend of development in capitalism during the past century or two is definitely correlated with the rising supremacy or absoluteness of the right of property.

8. CORPORATION OWNERSHIP

ONE of the outstanding characteristics of modern capitalism is the immense growth and importance of corporations in our economic life. In the manner in which this growth has developed, it is one of the chief forms of concentration pointed out in a previous article of this series.

A corporation can be defined as any group of individuals transacting business under a common name, *i.e.*, owning property, distributing profits among the members, etc. The existence of a corporation is independent of the life of the individuals making it up, since new members can always join and old ones drop out without changing the nature of the corporation. The debts of the corporation generally do not create any indebtedness in the individuals as such.

A number of the American colonies started as associations or as governmental corporations which gradually changed into political entities. There were about fifteen to eighteen business corporations in existence before the adoption of the Constitution in 1789.

It was the growing industrial revolution that gave great impetus to the development of corporations insofar as the expansion of economic activities demanded ever larger units of operation. The growth has been especially rapid since

the Civil War. At first there were many legal hindrances to it, but these were abolished or sidetracked as the demand for the larger corporation form of business organization made itself felt more and more.

One of the chief developments of corporation life as it exists today is the formation and prominence of holding companies. A holding company may be defined as "any company having share capital which owns securities of one or more other companies." In conjunction with the turn of events that shall be dealt with in the next article, the pivotal point in holding companies has switched from ownership of one company by another to control.

For a long time there were no general laws in any of our States permitting the owning of stocks of any one corporation by another. Specific exceptions, however, existed by special legal permit, even while the general prohibition lasted. But in the late eighties a sudden relaxing of law set in, and the example set by some States was soon followed by others. By 1929 there were thirty-nine States in the Union that authorized the formation and existence of holding companies. "Thus in a period of forty years the holding company, which has been regarded as undesirable and contrary to public policy except under unusual conditions, was made by most States an acceptable and legal practice" (Bonbright and Means, article "Holding Companies" in the *Encyclopedia of the Social Sciences*).

The holding company has rightly been called the most successful device invented in the field of economics for combining the property of several corporations under one center of control and management. It is especially through this means that many corporations, which were at first entirely independent of each other economically, have been formed into one unit or "combine."

When a holding company owns a portion of stock in another corporation, its control over that corporation is usually out of proportion to the amount of stock it owns, since it will always vote as a solid bloc while the other stockholders, some of them usually widely scattered and out of touch with one another, will not have the same agreement and common action.

Control and ownership of a holding company is greatly increased by so-called pyramiding of holding companies. That is, holding company A owns a bare majority of stock in company B—just enough stock to give it controlling ownership over B. Company B in turn owns just such a minimum controlling stock in company C, and company C similarly in company D. By this pyramiding, company D is entirely under the control of Company A, although the latter may own but a smallest share of stock in company D.

"A pyramid involving three holding companies will allow, say, a one-million dollar investment in a top holding company to control a billion-dollar operating company. The investment necessary for control may be made even

smaller by issuing non-voting common stock or stock with limited voting power" (Bonbright and Means).

The holding company as a means of industrial organization is but a recent phenomenon of the development of industrial capitalism. It has all the power for good or for evil that is inherent in all concentration. The experience of a generation or two has already indicated some of the uses that can be made of concentrated power, though the many possibilities inherent in the holding company device are still in the domain of mental speculation.

Many persons are not aware of the extent to which the development of corporations has meant the concentration and combination of vast properties under a single legal personality. For instance, the American Telephone and Telegraph Company is said "to control more wealth than is contained within the borders of twenty-one of the States in the country" (Berle & Means, *The Modern Corporation and Private Property*). Again, it is said of the two hundred largest non-banking corporations that "their combined assets amounted to eighty-one billions of dollars, or, as we shall see, nearly half of all corporate wealth of the United States" according to statistics of Jan. 1, 1930 (*Ibid.*).

There is another side of this development that has been stressed and greatly publicized; namely, the fact that with the growth of corporations there has also been an increasing ownership of

stock by more and more of the rank and file of the people. This movement has been heralded as a great boon because it means increasing democracy of ownership. But with this constant dispersing of ownership of stock, the final development of capitalism has also grown apace: the increasing separation of control from ownership, or the increasing concentration of economic power in the hands of a few. Of this we shall treat in our next and last article of the present series.

9. CONCENTRATION OF POWER

THE last development of our day in capitalism is that of the concentration of all economic power into ever fewer and fewer persons. This development goes hand in hand with the almost imperceptible change that constitutes the transition from industrial to financial capitalism.

We have seen how with the advent of the industrial revolution the notion of absentee ownership gained prominence. But the absentee owner for a long time retained all the power of final management and control that went with ownership in general, just as he received the major profits of the industrial enterprise. Now when popular investment in stocks began to take place, which was a way of scattering ownership far and wide among the people, the power of control and management should ordinarily also have scattered in the same way. Such a scattering of controlling power, however, might have been very detrimental to the proper functioning of a highly organized enterprise. This outcome was forestalled by a change that gradually took place which can only be called the separation of central control from general ownership.

“As early as 1865,” says a writer, “we find the germ of the modern conception of corporate power—the belief that the rights of the partici-

pants as well as the technical conduct of the business must be subject to managerial discretion." This "germ of the modern conception of corporate power," the subjection of ownership rights to managerial control, has developed into a full-grown tree that has spread its branches from the Atlantic to the Pacific. Even where the power of control is still nominally in the hands of share owners, the actual wielding of this power is in the hands of a small minority, in fact of a select few. "In other words," say Berle and Means, "ownership continually becomes more dispersed; the power formerly joined to it becomes increasingly concentrated; and the corporate system is thereby securely established. This system bids fair to be as all-embracing as was the feudal system in its time" (*The Modern Corporation and Private Property*. New York, 1933).

"It is evident," writes Pope Pius XI in *Quadragesimo Anno*, "that in our days not alone is wealth accumulated, but immense power and despotic economic domination is concentrated in the hands of a few, and that those few are frequently not the owners, but only the trustees and directors of invested funds, who administer them at their good pleasure. This power becomes particularly irresistible when exercised by those who, because they hold and control money, are able also to govern credit and determine its allotment, for that reason supplying so to speak the lifeblood to the entire economic body, and grasping, as it were, in their hands the very

soul of production, so that no one dare breathe against their will."

One of the chief means that brought about such great concentration of control is the pyramiding of holding companies described in the previous article. Another potent means of this same effect is the interlocking directorate, which has become increasingly widespread with the growth of our ever more complex corporation system.

An interlocking directorate is established when one or more members of a board of directors, managers, or trustees of one corporation hold the same position in another corporation or in many others. Once started, interlocking directorates grew by leaps and bounds. They increased to such an extent that in 1929, *e.g.*, "the partners and directors in one investment banking house, two trust companies, and three national banks, all in New York City, held over 2,400 directorships in corporations with combined assets of \$74,000,000,000, which is equal to twenty per cent of the assets of all American corporations" (Means, article "Interlocking Directorate," *Encyclopedia of the Social Sciences*).

It was the establishing of such relations between industrial corporations and large banks that put industry under the control of our financial barons, and helped to produce the giant mergers that characterize our financial capitalism of today.

Under the circumstances it was still abstractly possible for those in control to manage a cor-

poration for the best interests of all stockholders, but a director interested in many and varied corporations could hardly feel for each one the same personal interest that the shareholders had in their own corporation. The resulting division of interest between those who owned and those who controlled was greatly helped by legalized devices that put ever more controlling power into the hands of directors.

Thus, *e.g.*, the control of managers or directors is today often almost absolute over all stock. They have power to change or amend the corporate charter, the original scope of the enterprise, the contributions exacted from shareholders, or the relative risks between participants. They can disfranchise existing stock, at least in effect and indirectly by issuance of new stock of double voting power. They may not sell poor stock to their own corporation, but they may use their inside knowledge of the trend of events to sell their own stock or buy more shares for their own profit, regardless of the interests of the general shareholders.

In the eyes of the law they have a trust to fulfil to the corporation and they are legally amenable for any default in this trust. But their trust extends only to the corporation as such and not to its stockholders who may be left out in the cold at any time by various devices without legal redress.

“The usual security holder in America,” write Berle and Means, “is thus slowly being

reduced by these devices and interpretations to a point where he becomes a petitioner for the wages of capital . . . the corporate system has done to capital what the factory system did to labor. As the factory system separated control from labor, so the corporate system has separated control from ownership.”

No wonder that it has been said time and again that the concentration of power in modern financial capitalism knows only one parallel or rather one outstripping rival—the economic absolutism of Soviet Russia. No wonder, again, that this rival has sometimes been dubbed State capitalism.

Of the Middle Ages it has been said that the Church was dominant over all life with her spiritual power, and that political power later overcame the dominance of the Church. Today economic power is dominant in our civilization perhaps as no power has been dominant in any other civilization. That is the final outcome of the development of historical capitalism for us of today.

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