

CHAPTER XI

THE SOCIALIST SCHEME OF INDUSTRY

“NEVER has our party told the workingman about a ‘State of the future,’ never in any way than as a mere utopia. If anybody says: ‘I picture to myself society after our program has been realized, after wage labor has been abolished, and the exploitation of men has ceased, in such and such a manner,—’ well and good; ideas are free, and everybody may conceive the Socialist State as he pleases. Whoever believes in it may do so; whoever does not, need not. These pictures are but dreams, and Social Democracy has never understood them otherwise.”¹

Such is the official attitude of Socialism toward descriptions of its contemplated industrial organization. The party has never drawn up nor approved any of the various outlines of this sort which have been defended by individual Socialists. It maintains that it cannot anticipate even the essential factors in the operation of a social and industrial system which will differ so widely from the one that we have to-day, and which will be so profoundly determined by events that are impossible to prognosticate.

Socialist Inconsistency

From the viewpoint of all but convinced Socialists, this position is indefensible. We are asked to believe that the collective ownership and operation of the means of production would be more just and beneficial than the present

¹ Wilhelm Liebknecht, cited in Hillquit’s “Socialism in Theory and Practice,” p. 107.

plan of private ownership and operation. Yet the Socialist party refuses to tell us how the scheme would bring about these results; refuses to give us, even in outline, a picture of the machine at work. As reasonably might we be expected to turn the direction of industry over to a Rockefeller or a Morgan, making an act of faith in their efficiency and fairness. We are in the position of a man who should be advised to demolish an unsatisfactory house, without receiving any solid assurance that the proposed new one would be as good. To our requests for specific information about the working of the new industrial order the Socialists, as a rule, answer in terms of prophesied results. They leave us in the dark concerning the causes by which these wonderful results are to be produced. They hope that our credulity will equal theirs.

From the viewpoint of the confirmed Socialist, however, this failure to be specific is not at all unreasonable. He can have faith in the Socialist system without knowing beforehand how it will work. He believes in its efficacy because he believes that it is inevitable. In the words of Kautsky, "what is proved to be inevitable is proved not only to be possible, but to be the only possible outcome."¹ The Socialist believes that his scheme is inevitable because he thinks that it is necessarily included in the outcome of economic and social evolution.

Neither the premises nor the conclusion of this reasoning is valid. The doctrines of economic determinism, the class struggle, the concentration of capital, the disappearance of the middle classes, the progressive pauperization of the working classes, and all the other tenets of the Socialist philosophy, have been thoroughly discredited by the facts of psychology, the experience of the last half century, and the present trend of industrial and social forces.² Even

¹ "Das Erfurter Program," cited by Skelton, *op. cit.*, p. 178.

² Cf. Skelton, *op. cit.*, ch. vii; Bernstein, "Evolutionary Socialism," pp. 1-94; Simkhovitch, "Marxism vs. Socialism," *passim*; Walling, "Progressivism and After," *passim*; Hillquit-Ryan, *op. cit.*, ch. iv.

if the Socialist outcome were inevitable, it would not necessarily be an improvement on the present system. It might illustrate the principle of retrogression.

Since we cannot make an act of faith in either the inevitableness or the efficacy of the Socialist industrial scheme, we are compelled to submit it to the ordinary tests of examination and criticism. We must try to see what would be the essential structure, elements, and operation of a system in which the means of production were owned and managed collectively, and the product socially distributed. In attempting to describe the system, we shall be guided by what seems to be inherently necessary to it, and by the prevalent conception of it among present day Socialists. In this connection we have to observe that some of the criticisms of the Socialist order attribute to it elements that are not essential, nor any longer demanded by the authoritative spokesmen of the movement; for example, complete confiscation of capital, compulsory assignment of men to the different industrial tasks, equality of remuneration, the use of labor checks instead of money, the socialization of all capital down to the smallest tool, and collective ownership of homes.

Expropriating the Capitalists

The total income of the people of the United States, in the year 1923, is estimated by the Federal Trade Commission at a little under \$70,000,000,000.¹ According to the best available estimate—it is only an estimate,—about 30 per cent of the national income of the United States goes to the owners of land and capital in the form of rent, interest, and dividends.² In 1923 this would have amounted to \$21,000,000,000. Not all of it, however, could have been diverted to labor. Even a Socialist government would have been compelled to use a large portion of it for the renewal and increase of the instruments of production. In

¹ "National Wealth and Income," p. 221.

² Edie, "Principles of the New Economics," p. 182.

1916 the national savings amounted to about \$12,500,000,000.¹ Inasmuch as that seems to have been an exceptional year, we shall estimate the total current additions to capital at \$10,000,000,000, leaving \$11,000,000,000 for distribution among the workers. This would have meant \$262 per capita for the 42,000,000 persons gainfully employed, or about \$500 for each family in the United States.

Desirable as would be such an addition to the remuneration of labor, it could never be realized through the process of confiscation. The owners of land and capital would be sufficiently powerful to defeat any such simple scheme of setting up the collectivist commonwealth. They constitute probably a majority of the adults of our population, and their economic power would make them much stronger relatively than their numbers.² Ethically the policy of confiscation would be sheer robbery. To be sure, not all owners of land and capital have a valid claim to all their possessions, but practically all of them hold the greater part of their wealth by some kind of just title. Much land and capital that was originally acquired by unjust means has become morally legitimized by the title of prescription.

The majority of present day Socialists seem to advocate at least partial compensation.³ But this plan does not seem to offer any considerable advantage over complete confiscation. As regards morality, it would differ only in the degree of its injustice; as regards expediency, it would be at best of doubtful efficacy. If the capitalists were given only a small fraction of the value of their holdings they would oppose the change with quite as much determination as though they were offered nothing; if they were paid almost the full value of their possessions there would be no substantial gain to the community from the transfer; if they were compensated at a figure somewhere between

¹ King, "Journal of the American Statistical Association," Dec., 1922.

² Cf. Hillquit-Ryan, *op. cit.* pp. 107, 136.

³ Cf. Hillquit-Ryan, *op. cit.*, pp. 73-77; Skelton, *op. cit.*, p. 183; Walling, "Socialism as It Is," p. 429.

these two extremes their resistance would still be more costly to the State than the extra amount required to make full compensation.

Finally, if full compensation were offered it would have to take the form of government obligations, securities, or bonds. If these did not bear interest the great majority of capital owners would regard the scheme as partial and considerable confiscation, and would fight it with determination and effectiveness. If the State bound itself to pay interest on the bonds it would probably find itself giving the dispossessed capitalists as high a rate of return on their capital, as large a share of the national product, as they receive under the present system. Consequently, the expropriation of the capitalists would bring no direct and pecuniary gain to the laboring classes. Indeed, the latter would suffer positive loss by the change, owing to the fact that the State would be required to withdraw from the national product a considerable amount for the maintenance, renewal, and expansion of the instruments of production. At present the capitalist class performs the greater part of this function through the reinvestment of the incomes that it receives in the form of interest and rent. The average Socialist entirely ignores this capitalistic service, when he draws his pessimistic picture of the vast share of the national product which now goes to "idle capitalists." So far as the larger capitalist incomes are concerned; that is, those in excess of twenty-five thousand dollars annually, it is probable that the greater part is not consumed by the receivers, but is converted into socially necessary capital instruments. Since this would not be permitted in a Socialist order, the capitalists would strive to consume the whole of the incomes received from the public securities, and the State would be compelled to provide the required new capital out of the current national product. In a word, society would have to give the capitalists about as much as it does at present, and to withhold

from the laborers for new capital an immense sum which is now furnished by the capitalists.

One reply to this difficulty is that the total product of industry would be much increased under Socialism. Undoubtedly an *efficient* organization of industry on collectivist lines would be able to effect economies by combining manufacturing plants, distributive concerns, and transportation systems, and by reducing unemployment to a minimum; but it could not possibly make the enormous economies that are promised by the Socialists. The assertion that under Socialism men would be able to provide abundantly for all their wants on a basis of a working day of four, or even two, hours is seductive and interesting, but it has no support in the ascertainable facts of industrial resources. Even if the Socialist organization were operating with a fair degree of efficiency, the gains that it could effect over the present system would probably not more than offset the social losses resulting from increased consumption by the compensated capitalists.

But the proposed industrial organization would not operate with a fair degree of efficiency. According to present Socialist thought, industries that are national in scope, such as the manufacture of petroleum, steel, and tobacco, would be carried on under national direction, while those that supplied only a local market, such as laundries, bakeries, and retail stores, would be managed by the municipalities. This division of control would be undoubtedly wise and necessary. Moreover, the majority of Socialists no longer demand that *all* tools and all industries should be brought under collective or governmental direction. Very small concerns which employed no hired labor, or at most one or two persons, could remain under private ownership and operation, while even larger enterprises might be carried on by coöperative associations.¹

¹ Cf. Kautsky, "The Social Revolution," pp. 166, 167; Hillquit-Ryan, *op. cit.*, p. 72.

Nevertheless the attempt to organize and operate collectively the industries of the country, even with these limitations, would encounter certain insuperable obstacles. These will be considered under the general heads of inefficient industrial leadership, inefficient labor, and interference with individual liberty.

Inefficient Leadership

Under Socialism the boards of directors or commissions which exercised supreme control in the various industries would have to be chosen either by the general popular vote, by the government, or by the workers in each particular industry. The first method may be at once excluded from consideration. Even now the number of officials chosen directly by the people is far too large; hence the widespread agitation for the "short ballot." Public opinion is coming to realize that the voters should be required to select only a few important officials, whose qualifications should be general rather than technical, and therefore easily recognized by the masses. These supreme functionaries should have the power of filling all administrative offices, and all positions demanding expert or technical ability. If the task of choosing administrative experts cannot be safely left to the mass of the voters at present, it certainly ought not to be assigned to them under Socialism, when the number and qualifications of these functionaries would be indefinitely increased.

If the boards of industrial directors were selected by the government, that is, by the national and municipal authorities, the result would be industrial inefficiency and an intolerable bureaucracy. No body of officials, whether legislative or executive, would possess the varied, extensive, and specific knowledge required to pick out efficient administrative commissions for all the industries of the country or the city. And no group of political persons could safely be entrusted with such tremendous power. It would enable them to dominate the industrial as well as

the political life of the nation or the municipality, to establish a bureaucracy that would be impregnable for a long period of years, and to revive all the conceivable evils of governmental absolutism.

The third method is apparently the one now favored by most Socialists. "The workers in each industry may periodically select the managing authority," says Morris Hillquit.¹ Even if the workers were as able as the stockholders of a corporation to select an efficient governing board, they would be much less likely to choose men who would insist on hard and efficient work from all subordinates. The members of a private corporation have a strong pecuniary interest in selecting directors who will secure the maximum of product at the minimum of cost, while the employees in a Socialist industry would want managing authorities who were willing to make working conditions as easy as possible.

The dependence of the boards of directors upon the mass of the workers, and the lack of adequate pecuniary motives, would render their management much less efficient and progressive than that of private enterprises. In the rules that they would make for the administration of the industry and the government of the labor force, in their selection of subordinate officers, such as superintendents, general managers, and foremen, and in all the other details of management, they would have always before them the abiding fact that their authority was derived from and dependent upon the votes of the majority of the employees. Their supreme consideration would be to conduct the industry in such a way as to satisfy the men who elected them. Hence they would strive to maintain an administration which would permit the mass of the labor force to work leisurely, to be provided with the most expensive conditions of employment, and to be immune from discharge except in rare and flagrant cases. Even if the members of the directing boards were sufficiently courageous

¹ Hillquit-Ryan, *op. cit.*, p. 80; cf. Spargo, "Socialism," pp. 225-227.

or sufficiently conscientious to exact a reasonable and efficient service from all their subordinates and all the workers, they would not have the necessary pecuniary motives. Their salaries would be fixed by the government, and in the nature of things could not be promptly adjusted to reward efficient and to punish inefficient management. So long as their administration of industry maintained a certain routine level of mediocrity, they would have no fear of being removed; since they would be supervised and paid by public officials who would have neither the extraordinary capacity nor the necessary incentive to recognize and reward efficient management, they would lack the powerful stimulus which is provided by the hope of gain.

All the subordinate officers, such as department managers, superintendents, foremen, etc., would exemplify the same absence of efficiency. Knowing that they must carry out the prudent policy of the board of directors, they would be slow to punish shirking or to discharge incompetents. Realizing that the board of directors lacked the incentive to make promotions promptly for efficient service, or to discharge promptly for inefficient service, they would devote their main energies to the task of holding their positions through a policy of indifferent and routine administration.

Invention and progress would likewise suffer. Men who were capable of devising new machines, new processes, new methods of combining capital and labor, would be slow to convert their potencies into action. They would be painfully aware that the spirit of inertia and routine prevailing throughout the industrial and political organization would prevent their efforts from receiving quick recognition and adequate rewards. Inventors of mechanical devices particularly would be deprived of the stimulus which they now find in the hope of indefinitely large gains. Boards of directors, general managers, and other persons exercising industrial authority would be very slow to introduce new and more efficient financial or technical methods when they had no certainty that they would

receive adequate reward in the form of either promotion or money compensation. They would see no sufficient reason for abandoning the established and pleasant policy of routine methods and unprogressive management.

Inefficient Labor

The same spirit of inefficiency and mediocrity would permeate the rank and file of the workers. Indeed, it would operate even more strongly among them than among the officers and superiors; for their intellectual limitations and the nature of their tasks would make them less responsive to other than material and pecuniary motives. They would desire to follow the line of least resistance, to labor in the most pleasant conditions, to reduce irksome toil to a minimum. Since the great bulk of their tasks would necessarily be mechanical and monotonous, they would demand the shortest possible working day, and the most leisurely rate of working speed. And because of their numerical strength they would have the power to enforce this policy throughout the field of industry. They would have the necessary and sufficient votes. In a general way they might, indeed, realize that the practice of universal shirking and laziness must sooner or later result in such a diminution of the national product as to cause them great hardship, but the workers in each industry would hope that those in all the others would be more efficient; or doubt that a better example set by themselves would be imitated by the workers in other industries. They would not be keen to give up the certainty of easy working conditions for the remote possibility of a larger national product.

Attempted Replies to Objections

All the attempts made by Socialists to answer or explain away the foregoing difficulties may be reduced to two: the achievements of government enterprises in our present system; and the assumed efficacy of altruism and public honor in a régime of Socialism.

Under the first head appeal is made to such publicly owned and managed concerns as the post office, railroads, telegraphs, telephones, street railways, waterworks, and lighting plants. It is probably true that all these enterprises are on the whole carried on with better results to the public than if they were in private hands. It is likewise probable that these and all other public utility monopolies will sooner or later be taken over by the State in all advanced countries. Even if this should prove in all cases to be a better arrangement from the viewpoint of the general public welfare than private ownership and management, the fact would constitute no argument for a Socialist organization of all industry. In the first place, the efficiency of labor, management, and technical organization is generally lower in public than in private enterprises, and the cost of operation higher. Despite these defects, government ownership of public utilities, such as street railways and lighting concerns, may be socially preferable because these industries are monopolies. Inasmuch as their charges and services cannot be regulated by the automatic action of competition, the only alternative to public ownership is public supervision. Inasmuch as the latter is often incapable of securing satisfactory service at fair prices, public ownership and management becomes on the whole more conducive to social welfare. In other words, the losses through inefficient operation are more than offset by the gains from better service and lower charges. Five cent fares and adequate service on an inefficiently managed municipal street railway are preferable to eight cent fares on a privately owned street railway whose management is superior. On the other hand, all those industries which are not natural monopolies can be prevented from practicing extortion upon the public through regulated competition. In them, therefore, the advantages of private operation, of which competition itself is not the least, should be retained.

In the second place, practically all the public service monopolies are simpler in structure, more routine in opera-

tion, and more mature in organization and efficiency than the other industries. The degree of managerial ability required, the necessity of experimenting with new methods and processes, and the opportunity of introducing further improvements in organization are relatively less. Now, it is precisely in these respects that private has shown itself superior to public operation. Initiative, inventiveness, and eagerness to effect economies and increase profits are the qualities in which private management excels. When the nature and maturity of the concern have rendered these qualities relatively unimportant, public management can exemplify a fair degree of efficiency.

In the third place, the ability of the State to operate a few enterprises, does not prove that it could repeat the performance with an equal degree of success in all industries. I can drive two horses, but I could not drive twenty-two. No matter how scientific the organization and departmentalization of industries under Socialism, the final control of and responsibility for all of them would rest with one organ, one authority, namely, the city in municipal industries, and the nation in industries having national scope. This would prove too great a task, too heavy a burden, for any body of officials, for any group of human beings.

Finally, it must be kept in mind that the publicly operated utilities are subject continuously to the indirect competition of private management. By far the greater part of industry is now under private control, which sets the pace for efficient operation in a hundred particulars. As a consequence, comparisons are steadily provoked between public and private management, and the former is subject to constant criticism. The managers of the State concerns are stimulated and practically compelled to emulate the success of private management. This factor is probably more effective in securing efficiency in public industries than all other causes put together. In the words of Professor Skelton: "A limited degree of public ownership

succeeds simply because it is a limited degree, succeeds because private industry, in individual forms or in the socialized joint stock form, dominates the field as a whole. It is private industry that provides the capital, private industry that trains the men and tries out the methods, private industry that sets the pace, and—not the least of its services—private industry that provides the ever-possible outlet of escape.”¹

The Socialist expectation that altruistic sentiments and public honor would induce all industrial leaders and all ordinary workers to exert themselves as effectively as they now do for the sake of money, is based upon the very shallow fallacy that what is true of a few men may very readily become true of all men. There are, indeed, persons in every walk of life who work faithfully under the influence of the higher motives, but they are and always have been the exceptions in their respective classes. The great majority have been affected only feebly, intermittently, and on the whole ineffectively by either love of their kind or the hope of public approval.

A Socialist order could generate no forces which would be as productive of unselfish conduct as the motives that are drawn from religion. History shows nothing comparable either in extent or intensity to the record of self-surrender and service to the neighbor which are due to the latter influence. Yet religion has never been able, even in the periods and places most thoroughly dominated by Christianity, to induce more than a small minority of the population to adopt that life of altruism which would be required of the great majority under Socialism.

Moreover, the efficacy of the higher motives is much greater among men devoted to scientific, intellectual and religious pursuits than in either the leaders or the rank and file engaged in industrial occupations. The cause of this difference is to be sought in the varying nature of the two classes of activity: the first necessarily develops an appre-

¹ “Socialism: A Critical Analysis,” p. 219.

ciation of the higher goods, the things of the mind and the soul; the second compels the attention of men to rest upon matter, upon the things that appeal to the senses, upon the things that are measurable in terms of money.

There is a special fallacy underlying the emphasis placed by Socialists on the power of public honor. It consists in the failure to perceive that this good declines in efficacy according as the number of its recipients increases. Even if all the industrial population were willing to work as hard for public approval as they now do for money, the results expected by Socialists would not be forthcoming. Public recognition of unselfish service is now available in relatively great measure because the persons qualifying for it are relatively few. They easily stand out conspicuous among their fellows. Let their numbers vastly increase, and unselfishness would become commonplace. It would no longer command popular recognition, save in those who displayed it in exceptional or heroic measure. The public would not have the time nor take the trouble to notice and honor adequately every floor walker, retail clerk, factory operative, street cleaner, agricultural laborer, ditch digger, etc., who might become a candidate for such recognition.

When the Socialists point to such examples of disinterested public service as that of Colonel Goethals in building the Panama Canal, they confound the exceptional with the average. They assume that, since an exceptional man performs an exceptional task from high motives, all men can be got to act likewise in all kinds of operations. They forget that the Panama Canal presented opportunities of self-satisfying achievement and fame which do not occur once in one hundred years; that the traditions and training of the army have during many centuries deliberately and consistently aimed and tended to produce an exceptionally high standard of honor and disinterestedness; that, even so, the majority of army officers have not in their civil assignments shown the same degree of faithfulness to the public welfare as Colonel Goethals; that the Canal was

built under a régime of "benevolent despotism," which placed no reliance upon the "social mindedness" of the subordinate workers; and that the latter, far from showing any desire to qualify as altruists or public benefactors, demanded and received material recognition in the form of wages, perquisites, and gratuities which greatly surpassed the remuneration received by any other labor force in history.¹ In a word, wherever in the construction of the Canal notable disinterestedness or appreciation of public honor was shown, the circumstances were exceptional; where the situation was ordinary, the Canal builders were unable to rise above the ordinary motives of selfish advantage.

Beneath all the Socialist argument on this subject lies the assumption that the attitude of the *average man* toward the higher motives can by some mysterious process be completely *revolutionized*. This is contrary to all experience, and to all reasonable probability. Only a small minority of men have ever, in any society or environment, been dominated mainly by altruism or the desire of public honor. What reason is there to expect that men will act differently in the future? Neither legislation nor education can make men love their neighbors more than themselves, or love the applause of their neighbors more than their own material welfare.

Restricting Individual Liberty

Even though human nature should undergo the degree of miraculous transformation necessary to maintain an efficient industrial system on Socialist lines, such a social organization must soon collapse because of its injurious effect upon individual liberty. Freedom of choice would be abolished in the most vital economic transactions; for there would be but one buyer of labor, and one seller of commodities. And these two would be identical, namely, the State. With the exception of the small minority that

¹ "The Panama Gateway," by Joseph Bucklin Bishop, p. 263.

might be engaged in purely individual vocations, and in coöperative enterprises, men would be compelled to sell their labor to either the municipality or the national government. As competition between these two political agencies in the matter of wages and other conditions of labor could not be permitted, there would be virtually only one employer. Practically all material goods would have to be purchased from either the municipal or the national shops and stores. Since the city and the nation would produce different kinds of goods, the purchaser of any given article would be compelled to deal with one seller. His freedom of choice would be further restricted by the fact that he would have to be content with those kinds and grades of commodities which the seller saw fit to produce. He could not create an effective demand for new forms and varieties of goods, as he now does, by stimulating the ingenuity and acquisitiveness of competing producers and dealers.

Prices and wages would, of course, be fixed beforehand by the government. The supposition that this function might be left to the workers in each industry is utterly impracticable. Such an arrangement would involve a grand scramble among the different industries to see which could pay its own members the highest wages, and charge its neighbors' members the highest prices. The final result would be a level of prices so high that only an alert and vigorous section of the workers in each industry could find employment. Not only wages and prices but hours, safety requirements, and all the other general conditions of employment, would be regulated by the government. The individuals in each industry could not be permitted to determine these matters any more than they could be permitted to determine wages. Moreover, all these regulations would from the nature of the case continue unchanged for a considerable period of time.

The restriction of choice enforced upon the sellers of labor and the buyers of goods, the utter dependence of

the population upon one agency in all the affairs of their economic as well as their political life, the tremendous social power concentrated in the State, would produce a diminution of individual liberty and a political despotism surpassing anything that the world has ever seen. It would not long be tolerated by any self-respecting people.

To reply that the Socialist order would be a democracy, and that the people could vote out of existence any distasteful regulation, is to play with words. No matter how responsive the governing and managing authorities might be to the popular will, the dependence of the individual would prove intolerable. Not the manner in which this tremendous social power is constituted, nor the personnel of those exercising it, but the fact that so much power is lodged in one agency, and so little immediate control of his affairs left to the individual, is the heart of the evil situation. In a word, it is a question of the liberty of the individual versus the all-pervading control of his actions by an agency other than himself. Moreover, the people in a democracy means a majority, or a compact minority. Under Socialism the controlling section of the voting population would possess so much power, political and economic, that it could impose whatever conditions it pleased upon the non-controlling section for an almost indefinite period of time. The members of the latter part of the population would not only be deprived of that immediate liberty which consists in the power to determine the details of their economic life, but of that remote liberty which consists in the power to affect general conditions by their votes.

In the last chapter we saw that the claim to the full product of industry, made on behalf of labor by the Socialists, cannot be established on intrinsic grounds. Like all other claims to material goods, it is valid only if it can be realized consistently with human welfare. Its validity depends upon its feasibility, upon the possibility of constructing some social system that will enable it to work.

The present chapter has shown that the requirements of such a system are not met by Socialism. A Socialist organization of industry would make all sections of the population, including the wage earning class, worse off than they are in the existing industrial order. Consequently, neither the private ownership of capital nor the individual receipt of interest can be proved to be immoral by the Socialist argument.

Since private ownership and management of capital are superior to Socialism, the State is obliged to maintain, protect, and improve the existing industrial system. This is precisely the conclusion that we reached in chapter iv with reference to private ownership of land. In chapter v we found, moreover, that individual ownership of land is a natural right. The fundamental considerations there examined lead to the parallel conclusion that the individual has a natural right to own capital. But we could not immediately deduce from the right to own land the right to take rent. Neither can we immediately deduce from the right to own capital the right to take interest. The positive establishment of the latter right will occupy us in the two following chapters.