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*The Stockbridge Booklets on Socialism.*

NO. 11.

# Capital and Profits

*Containing*

*A Criticism of Marx*

*and*

*The Next Step in our Industrial Evolution*

**By David C. Reid**

*Author of "Effective Industrial Reform" and editor of  
The Stockbridge Booklets on Socialism*

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NO. 1

# Capital and Profits

By DAVID C. REID

*Author of "Effective Industrial Reform" and editor of  
The Stockbridge Booklets on Socialism.*

- Chapter I. Capital and Profits—A Criticism of Marx.  
Chapter II. The Next Step in our Industrial Evolution  
—or The Stockbridge Plan.

Profits are the indirect wages paid to labor.

Democracy advances in its control of the social order by acquiring control, step by step, of the several organizations, of which the social order is composed.

*The author issues a friendly challenge to any person to prove the conclusions contained in this booklet to be untrue.*

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## INTRODUCTION.

Socialism is itself in process of evolution. It has already passed through two stages of development. In the first stage, the so-called "Utopian," it caught sight of its chief aim, which is—to secure universal economic justice. In the second stage, the Marxist, it caught sight of the evil principle which socialism must overthrow, namely, that feudalistic capitalism or financial despotism which is the fundamental cause of economic injustice and wrong.

But socialism must now enter upon a third stage of development and unfold *the concrete plan* of industrial reconstruction by which to overthrow industrial autocracy and secure justice and fair-play in the struggle for bread.

But we cannot unfold the true method of industrial reconstruction, until we obtain the right conception of the nature and function of Capital and Profits. It is the purpose, therefore, of this booklet to unfold the true view of Capital and Profits and point out that plan of industrial reconstruction which grows therefrom.

The plan of reconstruction, which I have unfolded, was first adopted by the socialists of Stockbridge, and, hence, it may, very appropriately, be called *the Stockbridge plan*.\*

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\*Note:—In the foot notes in most cases I have referred to Deville's "The People's Marx" (done into English by La Monte), rather than to Marx's Capital for the former is more available than the latter.

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## CHAPTER I.

### CAPITAL AND PROFITS—A CRITICISM OF MARX.

The time is rapidly approaching when socialism must work out a definite concrete plan of industrial reconstruction that will command the support of thoughtful minds.

But before socialism can do this it must obtain a correct view of the nature and function of Capital and Profits. For an incorrect conception of these factors will be as fatal as an incorrect conception of labor and wages.

Two contradictory views are entertained today concerning Capital and Profits. The first originated with Karl Marx, the father of modern socialism, and may be called *the Marxist view*. The second is the view taught in our schools today and may be called *the modern scientific view*.

**The Marxist view**, briefly stated, affirms *that labor produces everything; that capital produces nothing; and that, therefore, all profits,—including rents, interest, and dividends,—are the plunder which capital exacts from labor, and, therefore, should be abolished.*

How Marx arrived at this conclusion concerning capital and profits is easily understood.

Marx made, we may say, a great discovery. He saw for the first time, in all its clearness, that the chief cause of the poverty and degradation of the laboring classes, lay in the fact that they were systematically oppressed and plundered by the capitalist class, which, under the plea of profits, robbed the worker of the larger part of the product of his labor. Marx's whole career consisted in one long effort to expose the injustice which modern capitalism commits against labor and to arouse the workers for its overthrow.

His great work—**Capital**—contains the most powerful and yet the most just arraignment of modern capitalism that can be conceived. It was, indeed, an epoch-making book. It called the attention of the worker and the world for the first time in human history, to the existence of an all-powerful system of oppression and plunder, which the people had not been aware of before. And he made the workers see that though the modern capitalist class had no armies immediately behind its back, yet in its control of the economic necessities of life, it possessed a power to oppress greater than that of the ancient Caesars, and through its control of all the wealth and capital of the country, it was able to control also even governments and armies.

For this work of exposing capitalist oppression and arousing the workers against it, Marx deserves all praise.

But in the intensity of Marx's arraignment of modern capitalism, he failed to distinguish between what we may call a just and an unjust capitalism, and he failed to see the place which a just capitalism must occupy in our economic life. To him, capital was always the instrument of plunder. I have read and re-read his books and abridgements of them and he gives the impression on every page that to him capital is always predaceous. And the fundamental assumption which underlies every argument is, that labor produces everything, that capital produces nothing and that, therefore, all profits including rents, interest, and dividends, are but the plunder which capital exacts from labor.

And this is the fundamental assumption underlying all Marxist literature. It falls from the lips of every Marxist orator. And this assumption is quietly taken for granted as if it were a self-evident truth to be accepted without argument. And all thorough-going Marxists explicitly affirm that in our reconstructed industries under socialism,

all investment of capital for profits or dividends shall be abolished.\*

**The position of modern economic science** concerning the nature and function of capital is just the opposite of Marx and his disciples. Modern economics affirms that capital, though it is the product of labor, is nevertheless, itself productive; that it earns a real profit or increase, over and above the labor employed in its use, and that this profit should justly go to the man whose labor created it or justly acquired it. In short, modern economics, distinguishes between a *just* and an *unjust* capitalism. It admits that modern capital robs labor. Nevertheless, it affirms that there is such a thing as a just profit which should go to capital. And it affirms not only that capital is productive, but that it occupies an essential place in our economic life.

Now the problem which confronts us is—*Which of these directly antagonistic views is true?*

Now I affirm that while Marx was right in his arraignment of modern capitalism and in his teaching regarding the class struggle, yet he was wrong in his conception of the nature and use of a legitimate capital. And we simply must distinguish between these two elements of his teaching. I ask, therefore, of all my socialist comrades, a careful consideration of the following criticism of Marx's whole teaching concerning Capital and Profits.

## 2.

In the first place, I affirm that Marx's *definition of capital and its use is one-sided and misleading*; and here is the beginning of his error.

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\*Note:—*The Appeal to Reason*, a strong Marxist journal, says in the issue of Aug. 9th, 1910, in the column headed—"Asking About Socialism,"—that under socialism "there will be no taking of interest" and "no profit-taking." And because of this, therefore, there will be no investments" under socialism. And it clearly implies that if under socialism a man should invest the sum of \$100,000 in the industries of the country, he would receive nothing for its use.

Marx identified capital with mere money, and with money employed to make an unjust profit.

In the Fourth and Fifth Chapters of "*Capital*," he defines "commercial capital" as money used in buying and selling for a profit; and he implies that the profit thus made, is always unjust\*,—a proposition that is not strictly true. In the Chapters following Chapter V, he defines "industrial capital" as money used to hire labor for the purpose of making a profit out of the worker by paying him less than his labor is worth. In short, capital, according to Marx, is always money employed for the making of an unjust profit. And he defines the capitalist as one who employs money for this purpose. †

Now while we must admit that this extortion of unjust profits is the characteristic of modern capitalism and that this is the crime of the age which socialism is to abolish, nevertheless, I affirm that in this definition, Marx has given a one-sided and, therefore, incorrect and misleading definition of capital and overlooked its true use and function.

*What, then, is capital?* Two agents are employed by man in the supply of human needs. The first is man's own power to work; the second is the productive power of agents outside of man, which man uses, such as land, horses and machinery.

Now the name which economic science applies to man's power to work is labor or labor power. The name which it applies to all those agents which man uses, outside of man, is capital. And these two agents must be carefully distinguished, if we are to do any correct economic thinking.

Capital may, therefore, be defined as embracing all those agents external to man which can be appropriated

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\*See Deville's *The People's Marx* p 63.

†*Ibid* p 59.



and employed by man in human service. Hence, land, horses and hens, when appropriated by man, are forms of capital, because they are external to man and can be employed in useful service. Land produces wheat, horses draw loads, and hens lay eggs. For the same reason, locomotives, factories and human homes are all forms of capital. And capital is nothing but *nature's forces harnessed* for the use of man.\*

Assuming that this definition of capital is correct, we see that Marx's definition is one-sided and misleading. For first, capital is something more than mere money as Marx implies. For money, (including stocks and bonds), is, strictly speaking, not capital at all. It is, in reality, only a title to capital. When a man holds a one-thousand dollar bill in his hand, that bill signifies, not that he owns a small colored piece of paper, but one-thousand dollars worth of the productive capital of this country. This great truth Marx has entirely overlooked. And here is the beginning of his error.

Farthermore, we see that while capital especially in the form of money, is sometimes used for the purpose of plunder, yet this is not, as Marx implies, its only use, nor is this its primary use. For, as all can see, the primary and fundamental use of capital, as embodied in land, horses, machinery and human homes, is to contribute to human service. And we see that capital, as thus defined, is an essential factor in human life and civilization.

### 3.

*Second.* I affirm, contrary to Marx, that capital, when correctly defined, is productive and performs an essential service for man. *It earns a real profit for the owner.*

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\*Marx refers to these things incidentally under the title of "tools" or "means or instruments of production," employed by labor. It never seemed to occur to him that these things have, in themselves, productive power; nor does he ever ask, consequently, *to whom* the earnings of these things should go. (See Deville's *The People's Marx* p 71 ff.)

Here is a young man who begins adult life with two hands and two horses. His hands represent his power to work, his horses are his capital. Will any one say that those horses can produce nothing and perform no service for the owner? Suppose that the young man hires himself and team to plow a field. Will anyone be so hardy as to say that the horses do nothing toward the plowing of the field?

The capital now invested in American industries and homes amounts to 120 billions of dollars in gold. It embraces farms, cattle and horses, factories, railroads, telephones and telegraphs, coal-mines and oil-wells, and human homes. Will any one say that all this capital produces nothing and performs no useful service for man?

If all this capital were suddenly annihilated today, it would require 25 years of toil on the part of the combined adult male population of the country to reproduce it. Now if all capital were unproductive, if it performed no useful service for man, why should men spend these many years of the severest toil of hand and brain in creating it?

The fact is that capital is enormously productive, and the use of capital marked the very beginning of civilization. The primitive man who first caught a cow and, instead of killing and eating her on the spot, corralled her and made her work for him was a capitalist. The cow was his capital and he coralled her because she was productive.—She furnished him with milk, butter and veal; and *these were his profits from the cow*. When man thus learned the use of capital, he acquired one of the most fundamental factors of civilization and without capital civilization would perish. Indeed, in the future, capital will play an ever increasing importance in human life. And if the time shall come when, as some socialists aver, four hours work per day will supply all our material necessities, it will be only because we shall have acquired so much

capital and made it so productive that we can, so to speak, sit still a good part of the time while our capital,—that is, our farms, horses and machinery are working for us.

*Third.* But if capital is productive, then the profits which are earned by capital, however great they may be, should go, in every case, to the man who rightly owns the capital, that is, to the man individually whose labor created it or justly purchased it. And if two or more men go into business together, then, these profits should be divided justly according to the amount of capital invested by each.

For, as I have said, the production of capital costs labor; and it often costs many years of the severest toil. Hence, the man who undergoes self-denial and toil in the creation of capital and the harnessing of nature's forces, has the right to receive all that this capital or these forces really produce.

For take again the illustration of the young man with the two horses. Those horses, we will suppose, are the product or purchase of his own toil. Who will say, therefore, that the earnings of those horses, say \$2.50 a day, should not rightly go to him?

And I maintain that the earnings of the horses should go to him whether he drives the team himself or hires some one else. I affirm this because Marxists everywhere say that the products of capital should go to the owner only *when he uses it himself*. I have repeatedly asked of Marxists, individually and when met together in local meetings, this question,—“If one man borrows another man's horse should not the borrower pay something for its use?—and the unanimous reply has been—“No.” “If one man lives in another man's house should not he pay the owner a rental for the use of the house?” “No.” “If one man borrows another man's money should not the borrower pay interest for the use of the money?” “No.” And I have heard Marxist speakers say or imply on the platform that

if two or more men put capital into a business and hire men to work for them, the owners of the capital should receive no profit or dividend on their capital. On the contrary, all, absolutely all, the products of both the labor and the capital should go to the hired men, the men who do the work.

Hence, Marxists say that when the owner of the horses, in the case cited before, hires another man to drive the team, the hired man should receive the combined earnings of himself and team, or \$5.00 a day. Now in this affirmation, I maintain that Marxism is wrong. For the plowing of the field is the product of the combined labor of the hired man and the team. The hired man should receive the full earnings of his labor, say \$2.50 a day. But the earnings of the team should go to the owner.

Again, suppose that a man puts several years of hard labor of hand and brain in the building of a saw-mill, and owing to illness, must hire a man to run the mill for him. Will not every intelligent man say that while the hired man should receive the full earnings of his labor, yet the owner should receive the full earnings of the mill? For the mill is productive. It earns an income in addition to the work of the hired man who runs it. And this should go to the owner. Not to allow this, will rob the owner of all the years of toil put into the creation of the mill and deprive him of all means of support. And yet all Marxist literature with which I am acquainted implies that since the owner does none of the work in the running the mill, he should receive nothing. The hired man, on the contrary, should receive all,—absolutely all,—the combined earnings of himself and the mill!

How men can come to such an unjust conclusion is easily understood when we read Marx's *Capital* and attend to Marxist speeches generally. For the word "profit" in all Marxist literature and speeches is made to be

synonymous with "plunder." Holding fast to the dogma that labor produces everything and capital nothing, the Marxist conclusion is inevitable that the hired man should receive all the combined product of himself and the mill. But such a position is sheer robbery—a robbery as outrageous as that ever perpetrated by capital against labor.

Some Marxists say that the man who built the mill, should receive back the *equivalent of the labor* which he expended in the creation of the mill, *and no more*. But this also would be grossly unjust. For the capital which we employ, as a rule, produces *far more* than the mere equivalent of the labor expended in its creation and use. A team of horses will do far more work than the mere equivalent of the labor expended in their production and care. A steam locomotive will do a hundredfold more work in the aggregate than the equivalent of the labor put into its creation and employment.

Hence, the man or men who have expended labor and self-denial in the creation of a utility or in the harnessing of nature's forces,—have a right to receive back far more than the mere equivalent of the labor which they expended in the creation of the utility and the harnessing of the forces.

Hence, for a group of men, *who have done nothing toward the creation of the sawmill*, to say to the owner,—“we will pay you “in dividends” the equivalent of your past labor expended in the creation of the mill, and after that all further payments to you will cease, is again sheer robbery.

For the man created the mill in order *to earn an income from it*, and he has the right to hold it for that purpose and earn an income from it as long as it lasts.

*Fourth.* Assuming then that profits, when correctly defined, are just and should go to the man who owns the capital, another proposition is true, namely.—Rents paid

for the use of capital are legitimate when not in excess of the actual earnings of the capital used.

In human society, men must frequently exchange not only their labor but also the use of each other's property or capital. Now, suppose that a neighbor desires the use for a week or a month, of the young man's horses, cited above. Should not the neighbor pay something for their use? For with their help not only is his own work made more valuable, but the horses perform a service for him besides. Should he not, therefore, pay to the owner what their labor is worth? But such payment for the use of another person's property or capital, is rent. And it is perfectly just. Not to pay rent is robbery.

But if rents are right, then interest on money is right. For money represents productive capital,—such as land, horses, cows, machinery, locomotives and so forth. Interest, therefore, is but the rental demanded for the use of those things which money represents.

Finally, if profits, rents and interest, are right, then dividends are right, for they are but the profits *divided* between two or more men who put their capital into a common business and divide the legitimate earnings of their capital according to justice.

I maintain, therefore, that capital when correctly defined is productive and in every case the profits or increase earned by capital, should go to the man who rightly owns it.

It may be difficult to determine, off-hand, what capital should rightly receive; and, certainly, labor should receive, as Marx affirms, its due share of the products of past inventions and the increase arising from the proper division and cooperation of labor. Nevertheless, it is still true, that when a man puts labor into the creation of capital, he should receive the earnings of that capital. And until Marxists see and admit this, they cannot arrive at any just method of reconstructing the industrial world.

## 4.

Again Marxism is wrong in implying that the only legitimate source of income for any man is the immediate fruit of labor.

Marxism, beginning with the fundamental proposition that labor produces everything and capital nothing, has been led by the inevitable logic of its position to imply that the only legitimate source of income for any man is the immediate fruit of labor. All income, in the form of rents, interest and dividends, being the robbery exacted by capital from labor, must be cut off. Hence, in the reconstruction of our industrial system, Marxism avows its purpose to allow no man to invest any capital in the public industries for profit.\* Consequently, it will cut off all possibility of earning an income from any source except from the wages paid for labor.

Now, I hold that, in this, Marxism is unscientific, impracticable and can never win the support even of the intelligent working class, which socialists chiefly aim to win. For I maintain that there are two legitimate sources of income for every man. The first is his ability to work, the second is the earning power of his capital.

Take the young man who begins life with two hands and two horses. He certainly commands, as I have shown, two sources of income; first, his hands or ability to work, and, second, his horses or capital. Each of these sources earns for him \$2.50 a day. He therefore, possesses two distinct sources of income. And both are legitimate.

But let us carry the illustration a little farther, let us suppose that by honest labor he produces or buys two other horses, and these he rents to his neighbors netting him say \$50 a year. What now are the sources of his income? The first source is his two hands, just as before.

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\*See foot note on page 5.

This source has not increased. But his second source is now four horses instead of two and his income from this source is now \$100 a year, just double what it was before. And this additional income from his capital is perfectly legitimate. In receiving it, he robs no one. For the whole additional income is earned by the two additional horses which he owns.

## 5.

This fact that capital is productive and is a legitimate source of income, has given birth to one of the most important factors in our economic life. It provides the way by which to free one's self from the slavery of toil.

For a man's ability to work does not materially increase after he reaches twenty years of age. Each man begins life with two hands and ends life with two hands. He cannot increase their number; on the contrary, he may lose their use by injury or sickness or old age. Hence, if a man is dependent on his two hands alone for support, his life of necessity will be limited and uncertain and he must always be tied like a slave to his work.

But though a man cannot increase the number of his hands, he can, nevertheless, increase while young, the amount of his capital. The young man with two horses can increase them to four, six, eight, ten, and, thereby increase his earnings from this source a hundredfold. If, therefore, a young man desires to increase his earning power and free himself from the slavery of toil,—if he desires to prepare for a larger life and provide for sickness and old age, it is imperative that while young, *he shall acquire and increase his capital* and its earnings.

Now, it is this fact that has given birth to a most important factor in our industrial life, namely, the effort on the part of the thrifty to acquire and increase their capital while young so as to free themselves from the slavery of toil while old. And this ambition is one of the most fun-



damental factors of human life. It lies at the foundation of all civilization and must in no case be cut out. Indeed, every thrifty person makes three imperative demands of our industrial system. The first is the demand for work at a just wage, the second is the demand for needed utilities at a fair price, and the third is the demand for opportunity to invest his savings with safety, profit and permanency, in the industries of his country so as to free himself from the slavery of toil.

And here we see the necessity of keeping a distinct account of the earnings of a man's work on the one hand, and the earnings of his capital on the other. Marxists have asked—"What difference does it make whether we pay the earnings of our industries to the workers in the form of wages, or partly in the form of wages and partly in the form of dividends? Discerning economists reply that it makes all the difference in the world. For all men do not save and invest the same amount of capital, at the same time, nor do they do the same amount of work.

Here is a young man of 21 years, who has only \$500 invested in his country's industries, but, being young, he is willing to work every day in the year so as to earn and invest more. But here is another man of 40, who has \$10,000 invested, but desires to take a week's vacation occasionally. And here is still another man of 50, who has his full quota of \$15,000 invested, and desires to stop work entirely. Now it is evident that to pay the whole earnings of the industry to these three men in the form of wages would be most unjust. For in that case the young man, though having the least savings invested, would receive more than either of the other two; and the man at fifty, when he stops work, would, though having \$15,000 invested, receive nothing at all. In short, he would be robbed of the entire earnings of his capital and would have no means of support in his old age.

In order to get justice, therefore, it is imperative that we keep a strict account of each man's work and pay him for all the work he performs; keep a strict account of what each buys and make him pay for all that he buys; and keep a strict account of the capital that each invests, and pay him a just dividend on all that he has invested. If, then, a man desires to stop work when, at 50 years of age, he has \$15,000 invested in his country's industries, he can do so and yet not be robbed of his dividends which are the just fruits of previous years of toil.

We see, then, that profits and dividends not only are just, when not in excess of the actual earnings of capital, but they are also an essential factor in our economic life and must be kept distinct from the earnings of labor. And we see that the service which our industrial system, even under socialism, must perform for every man is threefold. First, it must provide him with work at a just wage; second, it must supply him with utilities at a fair price; and, third, it must provide him with a place where he can invest his savings, earn a dividend from them, and so free himself from the slavery of toil. A system that fails to perform this three-fold service is defective and cannot meet the needs of the community.

Now the third and chief defect of Marxism is that it repudiates this third factor on the fallacious plea that all investment of capital for profit is wrong. When Marxism comes into power, it will turn our industries over to the government to be run on the same basis as the United States mail. No man will be allowed to invest any capital in any socialized industry. The whole income accruing to each man, therefore, will be in the form of wages paid to labor. Hence, as soon as a man stops work, his income will cease. And it will be impossible for any man to make adequate provision for leisure, for travel or extended sickness or old age.

To remedy this evil fruit of their teaching, some Marxists propose to pension every man when a certain age is reached. But this will result only in paying dividends to everybody in a disguised form, and in rewarding the shiftless classes equally with the thrifty and industrious. Worse than this, it will cut the knot of individual responsibility and enable the idle and thriftless classes to forcibly load themselves onto the backs of the industrious. It will in fact, result in "the equal division of unequal earnings."

Marxism is, therefore, seriously defective and unscientific in its teaching concerning capital and profits. A little reflection will show that, in relation to capital, it is not strictly socialistic, but communistic. It is communistic capitalism. It does not embody, therefore, a true industrial democracy; it is not, in this one item, strict socialism.

## 6.

Marx and his disciples commit a serious error in attributing the evils of our present system to capitalism as such, that is, to the mere process of investing capital for profits. For they not only give a wrong diagnosis of the case, but lead their followers to repudiate the crowning factor in our economic life.

All Marxist speakers and writers imply that the one cause of present industrial wrongs is the seeking of profits and that if we would only abolish the taking of profits all evil would disappear. But I maintain that the mere fact that men seek for profits has no more to do with the origin of present wrongs than the fact that all men eat food and wear clothes. And the abolition of all profits, in the form of rents, interest and dividends, would not lessen present evils by a single hair's breadth.

The source of present wrongs is twofold. First, in the *anarchistic* policy which underlies our present system and makes the struggle for wealth to be a free-fight-for-all in

which all justice, either in relation to wages and salaries, or prices or dividends, is simply impossible; and second, in the *seizure and control* of the whole business world by the all-powerful, and *irresponsible business corporation or Trust* to which our anarchistic policy of necessity has given birth. For, through this seizure and control of the business world, the Trust is able to appropriate the whole product of both labor and capital, whether in the form of wages and salaries or prices or dividends or graft unspeakable.

*The thing*, therefore, which socialism should attack is not the taking of profits nor the investing of private savings for an income, but the anarchistic basis of our present industrial system, on the one hand, and the seizure and control of the whole business world by the despotic corporation or Trust, on the other.

In short, we must demand the abolition of both anarchism and despotic power from the industrial world, and establish a true industrial democracy in their place.\* We must make *the people collectively to be the business corporation* and then turn the whole industrial world over to their sovereign control. For, then, we will have justice in relation to wages and salaries, prices and dividends, and there will be no spoliation.

But Marxism, instead of doing this, *opposes the taking of profits and the investing of one's savings for gain*, which, as we have shown, is a legitimate and necessary factor in our economic life.

Farthermore, in thus discrediting all profits, Marx has lead the people to repudiate the most important factor of civilization. For I maintain that to save and invest one's savings for a just income is not only right, but it is the foundation of material prosperity. Through the just ac-

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\*President Taft's seeking to cure industrial despotism by forcing business back to that industrial anarchism out of which despotism sprang, is sheer folly.

quisition of capital, the young man acquires independence, and protects his wife and children from want. To acquire capital is not necessarily, as Marx implies, a scheme to rob labor. Neither is it, therefore, something necessarily ignoble and base.\* Indeed, the young man who not only works but also saves and invests for a future income, is nobler than the man who merely works and devours all as he goes along.

Hence, I affirm that instead of crying—"Down with capital"—we should say—"Up with the right of every man to be a capitalist." And our motto should be not only—"Every man to receive the full earnings of his labor,"—but also—"Every man to be a capitalist and receive the full earnings of his capital."

## 7.

In conclusion, I would say that Marxism by its abolition of all investment of individual savings for gain and the consequent putting of all alike on the pension system creates the chief obstacle today in the way of socialist victory.

Socialist leaders frequently ask,—“Why, when socialist sentiment is so wide-spread, are votes for the socialist party so few?” “Why especially do not the intelligent working people come into the socialist party?”

Have these leaders ever thought that the cause might lie, in large part, in the defective economics of Marxism,—economics which sensible people cannot accept?

In the year 1909, I listened to an address in Schenectady, by one of the most eloquent socialist speakers. An indiscriminating listener might wonder how any person

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\*Note:—It is a fact that Marx condemns the teaching of what he terms “bourgeois political economy” that “the first of civic duties is to accumulate capital.” And Marx condemns such accumulation on the quiet yet false assumption that all such accumulation is always employed for the robbery of labor. See Deville’s *The People’s Marx* pp. 227-232.

could resist the speaker's appeal. But at the close of the address, a gentleman in the hall asked,—“If socialism should come into power tomorrow, what would become of the working man's savings in the savings bank?”

The lecturer's reply practically was, that the working man's savings would be appropriated by the socialist state and absorbed in the general capital of the country. The recompense to the working man, for this confiscation of his savings being the greater good that will come to him through the establishment of social democracy.\*

Now, I maintain that it is this teaching which creates the chief obstacle in the way of socialist victory. For intelligent working men can see that Marxism is capitalist communism. They can see that, while repudiating all dividends, Marxism *will in reality bring them back in the disguised form of pensions*, to be paid to the industrious and the shiftless classes alike. But, in doing this, it will take the dividends earned by capital, put them into a common pot, and divide them equally between the idle and the industrious classes. It will thus secure “the equal division of unequal earnings.” And, in doing this, it will cut the knot of individual responsibility, and enable the shiftless classes forcibly to load themselves onto the backs of the thrifty and industrious. †

Farthermore, the Marxist promise to place all men, when sick and old, on a pension and so make them the wards of the government, does not appeal to the thrifty working man.

As I have said before, there are three essential factors in our economic life. The first is the right to work and earn a just wage; the second is the right to buy at a just price; and the third is the right to invest one's savings in our

\*Note:—Most Marxists no longer say that they will confiscate the working man's savings, but only that he will receive no dividends from them.

†See Reid's *Effective Industrial Reform* pp. 188-190.

country's industries, and so free one's self from the slavery of toil.

Now what the industrious worker wants is not the abolition of any one of these factors, least of all, the third, but *justice in their operation*. And a communistic system that will allow nobody to invest and then place all on the pension roll alike does not meet their demands. They want a system that will bring justice and protection alike to all in each economic function and so enable each man to pension himself, justly, according to his true ability, thrift and actual worth.

Until socialism, therefore, can present a definite scheme of industrial reconstruction that will secure these ends, socialism cannot prevail. I know whereof I speak when I say that a large part of the thoughtful and intelligent working men, farmers, teachers and others in America, have carefully studied the Marxist teaching regarding capital, rents, profits and dividends, and have deliberately rejected it. And already the foes of socialism are seeing this weakness in our position and using it for our overthrow.\*

9.

What then is the just view for us to take concerning the nature of Capital and dividends and their place in our economic life?

*First.* We see that capital, when correctly defined, is not identical with mere money as taught by Marx, but that it embraces all those agents external to man which may be appropriated and employed in human service—such as land, horses, cattle, machinery, factories, and human homes. Capital is nature's forces harnessed for the service of man.

*Second.* Capital as thus defined is productive. It

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\*Note:—See editorial in the *New York Evening Post*, Nov. 1st, 1910, in relation to discussion in the *Times* between J. G. Phelps Stokes and Prof. Irving Fisher.

earns a profit; and the earnings of capital should go to the man or men, individually, whose labor created it.

*Third.* Every man even under a socialized industrial system should possess two sources of income. First, the earnings of his labor, and second the earnings of his invested capital. And the earnings of the one are as essential as the earnings of the other, for it is through the acquisition and earnings of capital that each man must free himself from the slavery of toil, and provide for sickness and old age.

*Fourth,* hence, the thing which we are to secure, in our reconstructed industries, is not the abolition of the individual acquisition and ownership of capital, but justice in its acquisition, and justice in the distribution of its earnings.

*Fifth,* hence, the service which our reconstructed industrial system under socialism must perform is threefold. First, it must provide each man with work at a just wage; second, it must provide him with needed utilities at a fair price; and third it must provide him a place where he can invest his savings, make them work for him and, thereby, free himself from the slavery of toil. An industrial system that fails to perform any one of these functions, especially the last, is defective and cannot win the support of the race.

*Sixth,* therefore, in order to remedy present wrongs, we need a new industrial system that will not only overthrow industrial autocracy and make the people supreme, but will also perform every one of the three functions just named. And instead of abolishing the individual ownership of capital and the earnings of dividends, we must make them to be the crowning factor in the new plan.

Assuming that these conclusions concerning capital and profits are correct, what Plan must we adopt in the reconstruction of the industrial world? What must be the next step in our industrial evolution?



## CHAPTER II.

### THE NEXT STEP IN OUR INDUSTRIAL EVOLUTION—THE STOCKBRIDGE PLAN.

The grand agent or organization through which practically all our industrial activities are carried on and controlled today is *the modern consolidated business corporation*. For the modern consolidated business corporation has come to be to the industrial world what government is to the political. It is the grand instrument of industrial consolidation and control.

The modern business corporation is no artificially created thing. It is an evolution of modern times. It is the product of modern economic necessities. Its coming was inevitable and like civil government it has come to be a necessary factor in the social order and it has come to stay.

Our industrial system in America, was based in the beginning upon pure industrial individualism or anarchism. Our policy made the struggle for bread to be a free-fight-for-all in which the best man was expected to come out on top. But such a policy was intolerable and could issue only in the gradual evolution of a consolidated industrial organization under one centralized control. Our industrial evolution has issued in this result. And today we see our industrial activities, actually or rapidly coming to be, consolidated into one vast whole under one centralized administration.

But this unification of the industrial world under one centralized power could be achieved only through the creation of a new and all-powerful agent or institution adapted expressly to that end. And economic necessity has created the agent or institution that was needed, name-

ly, the modern consolidated business corporation. For the modern business corporation has come to be to the industrial world what government is to the political. It is the grand instrument of Industrial consolidation and control.

Indeed, it is through the unjust seizure and control of the consolidated business corporation that a band of strong men now plunders and oppresses us.

2.

Do we ask, then, how shall the state emancipate the people from industrial tyranny and, at the same time, preserve for capital and profits their true place and function?

In order to achieve these ends, I affirm, that the state must not turn our industries over to the government, as is advocated by some; but it must give to the people, collectively, *supreme ownership and control of the consolidated business corporation*. In short it must make the people to be the business corporation, with authority to acquire, own and operate the consolidated business world in the interests of the whole people and for the profit of all.

Here, for example, is a town held within the predaceous grasp of an Electric-light corporation. Now, how shall the town free its people from such predaceous grasp? In order to achieve this end, I affirm that the town must constitute the whole people, by law, into an Electric-light corporation with authority to acquire, own and operate its own Electric-light plant. In short, the people must be the Electric-light corporation. And, *organized after strictly business principles*, they must run the Electric-light plant for the profit of all.

Thus democracy, which has already acquired supreme control of the government and of education, must now acquire supreme ownership and control of the consolidated business corporation and thereby acquire supreme ownership and control over the whole industrial world.

But can we do this, and, at the same time give to capital and dividends, their true place and function? Yes we can and we shall. For we shall organize the people's consolidated business corporation *after strictly business principles*. And this means that we shall call for and require the individual subscription and ownership of the capital, just as in the private business corporation, and we shall make our reconstructed industries, under socialism, to serve as the agent of the whole people for the production, not of communistic, but individual wealth and gain.

### 3.

What then are the specific demands which we make for the proper reconstruction of the industrial world? What are the fundamental features of our concrete plan?

**In the first place,**—We demand that the government from town to nation shall constitute the people, by law, into a single, Consolidated Business Corporation, with authority to acquire, own and operate every industry which the welfare of the people may demand; and that the whole industrial world shall be consolidated and placed under the people's sovereign ownership and control.

**In the second place.**—We demand that in the acquisition of each plant or industry, the capital shall be *individually subscribed and owned*, just as in the private corporation, and that each citizen shall be *required by law* to subscribe his proper quota,—giving each time, if he cannot pay it all in at once.

In order to make this capital secure, we demand that the government guarantee shall be placed behind every dollar invested.

If, in the introduction of this plan, the people are not able to subscribe at once all the capital needed—which will be the case,—the government shall be required to subscribe or give its bond for the remainder, and the plant shall

at once be taken over and placed in the immediate ownership and administration of the people.

But as soon as the people are able, this amount that has been supplied by the government, shall, of course, be taken up and subscribed by the people individually as this plan requires.

Thus, we shall make each man to be a sovereign capitalist factor and shareholder in the consolidated business corporation.

**In the third place.**—We demand that dividends shall be paid on all the capital invested just as in the private business corporation—and that the government shall guarantee a minimum dividend of, say 5%, and as much more as we can make our industries pay, up to say 10%,—the government to receive, of course, the dividends on the amount that it has subscribed, like any other investor, until such amount shall be taken over by the people.

By this provision, we shall give to capital and profits their true function. We shall secure justice to every investor and make it possible for every man to free himself from the slavery of toil.

**In the fourth place.**—We demand that the people shall have authority to elect and call to account their own directors, or better, the president of each plant. But we demand that no man shall be a candidate for any such office unless he shall be a graduate of some approved school of business and technology, and shall have served a prescribed term of years in a lower position sufficient to put his ability to the test; and, second, that no man shall vote for such director or president, unless he shall have paid in a certain prescribed part, as say one-tenth, of his required quota of the capital.

**In the fifth place,**—We demand that justice shall be secured in relation to wages, and salaries by having them fixed, relatively,—not by competition, but rationally, ac-

ording to justice, by a Board of commissioners chosen annually to that end.

**In the sixth place,**—We demand that adequate rules shall be made to protect each man's right to invest equally with every body else. We shall make it so that if a man should, through evil habits, fail for a time to invest his quota, yet should he reform and come to the industrial office, he could then begin to invest his full quota.

For an enumeration of these Rules and Regulations we must refer the reader to—“*Effective Industrial Reform*,” (Chap. VIII). Suffice to say here that each man's investment or “stocks” shall always be at par; there shall be no buying and selling of “stocks” between man and man whatsoever; each man shall come to the industrial office and pay in his money and that shall be the end of the matter so far as his investment is concerned.

Each man's investments shall be classified into Preferred investments and Surplus bank deposits.

Each man's Preferred investments shall be limited to a certain prescribed amount—corresponding to the aggregate capital of the country, as, say, to \$500 per year, until his full aggregate quota is in, as, say, \$15,000, (for self and wife). There shall be no limit to the Surplus which a man may deposit in the public bank—only this surplus shall draw no interest until all the Preferred investments are provided for. Investments may be withdrawn at any time providing the Surplus bank deposits permit it. But in all such cases of withdrawal, the money may be re-invested at any following investment time at the option of the investor.

**In the seventh place,**—We demand that each man shall be allowed to convert his savings into an annuity which shall embrace a fixed and a variable part,—to be paid to himself or wife during life, or at death to his orphaned children until they come of age; or each investor may, so long

as present laws of inheritance exist, continue to draw his regular dividends and, at death, allow his capital to go to his heirs. But when a man dies we demand that all his capital shall be paid in cash (or in the form of a surplus deposit) to his heirs; for when a man dies, his capital must go out with him, to give place to the next generation. We shall thus prevent any man's loading his children onto the backs of the people to unending generations, as is done to-day.

**In the eighth place,**—We demand that the members of each new generation shall be called upon, when coming of age, to invest their regular quota, from year to year, and so take the place of those who die.

**In the ninth place.**—We demand that our public school shall be correlated with this plan. We shall train every child for life and make each to be, as far as possible, an expert worker in his vocation, even though it be only that of the digger of a ditch. And we shall train each child in the principles of economic justice and industrial democracy as embodied in this plan.

**In the tenth place,**—We demand that this plan, when it shall be adopted by a majority vote, shall be introduced by law and carried out by law.\* It is to be no voluntary thing, subject to individual choice or caprice. When it is once adopted by a majority vote, its introduction and operation shall be compulsory, like our public school system or our Post office, and the whole people shall be required to stand or fall with the consolidated business corporation.

##### 5.

Such are the fundamental features of our concrete plan of industrial reconstruction. Its distinguishing characteristics are,—first, *it makes the whole people collectively by*

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\*Note:—Certain reviews of my book,—Effective Industrial Reform—have misrepresented its character as teaching a phase of "Christian Socialism" to be introduced by moral suasion.

*law to be the consolidated business corporation, and secondly, it organizes this consolidated business corporation after strictly business principles; in particular, it gives to capital and profits their true place and function.*

**In taking over a private industry,** we declare our willingness to acquire ownership of all industries *by honest purchase.* But we refuse to pay for watered stock, or for worn-out or looted industries. We also declare our purpose to force men to relax their grip on stock that can be shown to have been gotten by fraud or dishonest profits. By the enforcement of this measure, we shall be able to compensate those who might otherwise suffer in the process of readjustment and we shall *provide annuities for all aged workmen* and others who have been left helpless by the present evil system.

In the acquisition of a new industry, the following measures shall be taken. *First,* the government shall appoint a Commission of experts carefully to appraise and report on the true value of any one or all the industries which the people have decided to acquire. *Second,* the government shall then call upon each citizen to subscribe and pay in his quota of the Preferred stock investments, and to say how much of surplus deposits he is willing to make. *Third* the government shall then be required to subscribe or give its bond for an amount sufficient to make up the full quota of capital demanded. *Fourth,* the desired industries shall then be taken over, at once, by the government and placed in the possession and management of the people.

**Practicability of this plan.** We affirm that this plan of industrial reconstruction is perfectly safe and perfectly practicable and could be put into operation tomorrow, if the people so desired.

It is perfectly safe, for the government guarantee will be behind every dollar invested. And the plan is perfectly practicable, for since the government guarantee

will be behind every investment and will guarantee a minimum dividend of at least 5%, and since the government will borrow or give its bond for all the surplus capital needed, it will be possible, as expert financiers affirm, to obtain the funds sufficient to take over any one or even ALL the consolidated industries of our country tomorrow, if the people shall so desire.

**Farthermore**, when this is done, we affirm that every thrifty man shall be enabled speedily to acquire and invest his quota of the needed capital and begin to reap his share of the dividends. For when the people shall thus come into power, by cutting in two exorbitant salaries\* now paid to the men at the top, by eliminating graft, by saving the dividends now paid to watered stock, by increased efficiency, we can and shall so increase the wages paid to labor and so reduce prices, that every thrifty worker shall be able speedily to buy and own his full quota of the aggregate capital, and share in its rewards.

## 8.

Such is the concrete plan which it can be shown, socialism must adopt for the reconstruction of the industrial world if we are to give to Capital and Profits their true functions, command the support of the people and remedy present wrongs.

(I.) For in the first place, this is the only plan of industrial reconstruction that will secure the collective ownership of the plant and at the same time preserve the individual subscription and ownership of the capital and make the public business corporation to be the agent of the whole people for the production of individual wealth,—as effective industrial reconstruction demands.

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\*Note:—By reducing the \$100,000 salary of a single high official to \$50,000, we could add \$200 a year to the wages of 250 men. By reducing to the same extent the salaries of four such officials, we could add \$200 a year to the wages of 1000 common workers.



(II.) In the next place this plan grows naturally and organically out of the present stage of our industrial evolution and it is the next logical step in our industrial development. *It is no artificially created thing.* For it takes the Consolidated Business Corporation,—which has been thousands of years in unfolding and, without attempting to abolish it or change its essential structure, it expands it, by law, so as to embrace the whole people and so carries its evolution up to the creation of industrial democracy.

And this plan marks the next step in the progress of democracy in acquiring control of the whole social order. For democracy advances in its control of the social order, by acquiring control, one by one, of the several special institutions or organizations, of which the social order is composed. When the people made themselves masters of the government, they took the first step, in democracy and acquired control of all political functions; when they acquired control of the Public schools they took the next logical step and made themselves masters of education; and now the time has come when they must take the next great step, and acquire sovereign control of the Consolidated business Corporation, and so make themselves masters of the whole industrial world.

(III.) This plan will also overthrow, root and branch, as we can see, industrial autocracy, and make the people supreme over the whole industrial world. It will thus secure the *very thing* which socialism seeks to achieve. Marxists have asked—What is the difference between your plan and the present capitalist system? The difference is as wide as the world—as wide as the difference between an arrogant industrial autocracy and a real sovereign democracy.

(IV.) *And this plan will emancipate the worker.* For this plan will make the whole people collectively to be the business corporation. But who constitute the vast ma-

jority of the people? Is it the small band of astute men who now plunder and oppress us? No. The vast majority of the people of these United States are the workers of hand and brain,—the wage-earners, the farmers, the teachers in the schools, the clerks and smaller business men. Hence, when once we make the people to be the business corporation, it means that the workers will be for the first time in human history, industrially supreme; and the power to fix all wages and salaries, all prices and dividends according to justice shall be placed in their hands.

(V.) And this plan will challenge criticism as no other plan can, and successfully meet every objection.

It is sometimes charged that socialism will enable the idle and shiftless classes to forcibly load themselves onto the backs of the industrious. And this fear, is no doubt one thing which keeps many persons from embracing socialism. But this result can never occur under the plan which I am advocating. For since, in this plan, we shall keep a record of the amount of work which each man performs and pay him only for the work which he does, and since each man will be required to pay justly for all that he buys, and since each shall receive a dividend only on the capital which he has actually invested, and since under this plan there will be no free pensions, it will be simply impossible for any body to load himself undetected onto the backs of the industrious.

Neither will it be possible for the incompetent to vault into supreme control and so ruin the business. For, in the first place, in this plan, no one will be allowed to be a candidate for any directorship or high position unless he has passed through some severe prescribed school of industrial training and had a prescribed experience in a lower position—sufficient to test his ability. And secondly, this plan will create such an intense individual interest

on the part of each voter,—for every voter will be a sovereign capitalist factor in the business corporation,—as to preclude the possibility of an incompetent person's being elected to any office of responsibility or, if so elected, he will be speedily recalled. For every person,—the busy housewife, the keen and alert business man, the thrifty worker,—all, will have their savings invested in this consolidated business corporation and their dividends at stake. Each voter will stand or fall, financially, with the corporation. Hence, on the least lowering of dividends, or the least rise of prices, or a fall in wages,—which will infallibly occur, if incompetency vaults into control.—there will be at once, an outcry from *the whole people*, and the incompetent official shall be peremptorially recalled.

Objections have been made to socialism, on the ground that before it can be made successful, we will have to “reform Tammany,” or “change the government,” or “reform human nature.” But under this plan, our business system will have no connection with Tammany, and while like the public school system, it shall be introduced and enforced by law and the government guarantee will be behind each investment, yet it will have no administrative connection with any government official, neither will it require any change in human nature to make it successful. Indeed, instead of having to do any of these things in order to make our plan successful as is claimed by objectors, it is the introduction of this plan, which will put Tammany out of business, reform the government, and regenerate the nature of man.

Finally, objection has been made to socialism on the sweeping charge that, under public ownership, business has never been so successfully conducted as under private ownership. But, even if this charge be true, it can be shown that it will not apply to this new plan. For in every form of public ownership tried heretofore, the motive that is

necessary to secure careful management and control,—namely, the investment of individual savings for the earning of dividends,—has been eliminated, and of course there has been more or less of graft and failure. But in this new plan, this fundamental motive shall not be eliminated, but intensified and multiplied a million-fold, for every man shall be a capitalist factor in the consolidated business corporation;—every man shall be on the alert, as I have already shown, to secure the best management possible, and to eliminate graft and achieve the greatest results.

(VI.) Finally, this plan, viewed merely as a business proposition, offers a most attractive thing to all classes in the United States, except of course to the oligarchy in control.

For even if the wealth of this country were not increased, yet, under this plan, every thrifty man can acquire at forty-five or fifty years of age, from \$10,000 to \$15,000 of the Preferred capital stock of this country; and since on this capital, he can receive as can be easily proven, a dividend or annuity of at least 10%, the income of each thrifty person over and above his wages, at fifty years of age would be from \$1000 to \$1500 a year. But this is not all. For with the rapid increase of wealth, which will surely take place under this plan, these results will be greatly increased.

## 9.

In conclusion I would say, that if all socialists would join in advocating this plan, I am confident that the socialist party would speedily come into power. For wherever this plan has been presented to intelligent working men, it has received almost universal favor. Marxist speakers have addressed audiences of intelligent working people and failed to win a single convert. This plan has been presented to the same audience and won universal and enthusiastic support. It also meets with favor from large num-

bers of farmers, teachers in the schools, and smaller business men. For all classes can see that this plan will at once, overthrow industrial autocracy and make the people supreme over the whole industrial world. They can see that it will give the true place to Capital and Profits, as well as to Labor and will meet every economic need. It will bring justice and equal opportunity to every soul; it will convert the struggle for bread from being a savage warfare between man and man, into a united, cooperative effort; and if, in the future, other changes must come,—even if Marxism must prevail,—this plan will prepare the way for all such changes in their own proper time. And, finally, they can see that this plan, viewed merely as a business enterprise, is a most attractive thing. They can see that it will abolish poverty; it will transform individual character; it will save the home; and transform the world.

Why not, then, adopt this plan at once as *the next logical step* in our industrial evolution?

All classes even Marxists should be able to do this. For while Marxists may not believe that this plan embodies the final goal of industrial evolution, yet they can accept it as the next logical step leading up to the final goal.

I would urge, therefore, all socialists to squarely adopt the **Stockbridge plan**. I would make the adoption of this plan to be the issue in the coming presidential campaign. And whenever socialists come into power, I would urge them to apply this plan as far as possible to their Electric-lights, Water-works, Street-car lines, and other monopolies. I would urge them to enter into the full spirit of this plan and aim to make their socialized industries, to be not only a place where work can be obtained at a just wage and commodities and services obtained at a fair price, but also a place where the people can invest their increasing savings with safety, profit and permanency, earn a good dividend

from them, and so free themselves from the slavery of toil. For this is the crowning service which the people now demand that our industrial system shall perform.\*

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\*Note:—In this pamphlet I have given only the briefest outline of the Corporation Plan of Industrial Reconstruction. For a full discussion of the Plan, every one should read,—*Effective Industrial Reform*.

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