

CAPITAL.

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CAPITAL with a big C has been the *bête noire* of socialists and other radical reformers of the social order for so long a time that its evil character has come to be a generally accepted truism. It is the fashion to denounce capital and capitalists as things that like vice and crime are to be suppressed to secure the welfare of society. It was the habit of those who wished to stigmatize the recent war to call it a capitalistic war, as if that term alone, whatever it might mean, would condemn it.

It would seem, therefore, only timely and suitable to put in some plea for capital in answer to the many strong indictments brought against it. For capital, properly understood, is no Juggernaut of evil that rides roughshod over all that stands in its way; no abstract embodiment of all that is wicked and heartless, but a perfectly natural concomitant of modern industrial activity, as necessary to its growth and prosperity as water or air, and in fact, as great a benefactor as either. It is a part, and an essential part, of the system. How and by whom it shall be owned may be a question, but its existence and necessity are not arguable matters. Whether owned by individuals or in any other way, its function and behavior as capital will not vary materially. Certain requirements and certain methods of action are so essential to its existence and growth, that no matter who owns it, these will and must prevail and govern, or capital itself will be destroyed. And if capital be destroyed, with it will be destroyed all the industrial activity which rests upon it as a foundation; society would return to the primitive activities of the individual worker, each man for and by himself. For without capital all the vast combinations of machinery and workmen, with their infinite subdivisions of labor and specialized tasks, would be impossible. By capital and capital alone are these made possible: understanding by capital, the whole store of useful things in the

world, from wheat and beef to houses, hotels, factories, locomotives, ships, machines and all the other more elusive elements of capitalistic organization, banks, insurance companies, scientific laboratories with their delicate apparatus, hospitals, schools and colleges, warehouses and retail shops, the industrial organized army of engineers, chemists, draftsmen, specialists of various sorts, down to the private soldier, the manual laborer of the complicated organization. All this industrial structure presupposes capital in great and generous amounts. So far from its being denounced, it should be cherished and helped and *qua* capital highly esteemed by those who owe to it every comfort of civilized society.

When we come to the further question of how and by whom it should be owned, how it should be controlled, if at all, legitimate differences of opinion are quite admissible. That it must be owned by somebody is equally clear with the necessity for its presence in industrial society. For capital is not automatic nor autonomous; it does not act mechanically; it must be handled and managed and used by human intelligence; nothing will disappear so rapidly as capital badly used or carelessly applied, and nothing will yield such rich and beneficial results if skilfully employed.

The handling of capital is one of the great problems of the industrial world, and it is because the ownership of capital and its handling are so bound together that the ownership of capital becomes of moment. The man who handles capital must be the owner to all intents and purposes. And it is this handling of capital that is vitally important to the welfare of society, so much so, since the ownership cannot be, or at any rate, never has been, successfully separated from the handling, that it becomes of general importance. Up to the present time, capital has been owned by individuals who have of course handled it as their own.

That capital must exist and continue its functions, if the present industrial civilization is to continue to grow and flourish, must be conceded by the most radical reformer, and therefore the only question must be who is to handle or own it, since handling and ownership are inseparable. There are only two or three ways possible. The government or the community as a whole might own and handle it by appropriate public officials; or a committee or commission made up of representatives of the various classes interested in the industry, either workmen or employees or government officials, each representing their particular interests and acting as a controlling body over the industry, the ownership being vested in the commission or committee for the benefit of all concerned; or lastly, the

present, almost universal method of handling might be employed, in which the owner of the capital by himself and for himself and at his own risk, manages his capital in whatever shape it may happen to be, a bank, a manufacturing plant, a mine, oil well, or railroad.

How well governments, committees of workmen, or of soldiers and workmen, as in Russia, handle capital, there are fortunately, by way of warning, numerous and very recent examples, the mere mention of which would seem sufficient evidence that so far as actually tried, such joint ownership, or handling separate from ownership, has not been successful. There are no exceptions to this so far as known to the writer. In these United States the Government, during the late war, took and handled the railroads, in consequence of which there ensued rates for freight and passenger service higher than ever before: notwithstanding which the taxpayers must contribute hundreds of thousands of dollars in addition to make up the deficit in fixed charges. In England the like condition prevails with the difference that no increase in freight rates has been made. Individual ownership and management have always been more successful in handling capital, just as in the handling of all great enterprises, in conducting wars and commanding armies, it has always been the personal equation that counted, brought success or precipitated failure. War and industry are alike in that they have never been successfully conducted by committees or syndicates: they are one-man jobs in the sense that one man must control and judge and decide. It is he who brings success, not the workmen. The first Napoleon, quoted with approval by Marshall Foch, expresses the great truth when he says:

"It was not the Roman legions that conquered the Gauls, but Cæsar. It was not the Carthaginian soldiers that made Rome tremble, but Hannibal. It was not the Macedonian phalanx that penetrated India, but Alexander. It was not the French army that reached the Weser and the Inn, but Turenne. It was not the Prussian soldiers that for seven years defended Prussia against the most formidable powers in Europe, it was Frederick the Great."¹

If any one supposes that this task of handling capital or handling armies or nations is a light task, of little or no great importance to the well-being of people, requiring no particular talent, let him supplement the remarks of Napoleon by observing the vast consequences that ensue for weal or woe upon the employment of these masters of men. Contemplate the state of Germany after her four or five years handling by her German masters. How much would

¹ *Quarterly Review*, Jan., 1919.

it have been worth, think you, to the German people if instead of these men they had been handled by wise, capable rulers who, avoiding blunders, could have so managed their affairs that success, prosperity, peace, might have been their lot?

But the case is not different, save in degree, whether the men are charged with nations or industry, in both it is the capacity of some one or two men that makes for prosperity or ruin. The man who can handle capital in the huge amounts that modern industry demands must have many of the qualities of a great general: organizing ability, foresight, judgment—that supreme quality that seems to combine all the others.

Capital viewed in this light is a far different thing from the picture of the socialists who present it as some Moloch of iniquity devouring men, women and children for its own gratification. According to them, the rich man or capitalist takes all his income and expends it for his own selfish personal ends. And this income is taken from his neighbors who are thus that much poorer by reason of his riches. This is a perfectly fanciful picture with only enough truth to make its essential falsehood misleading. That there is a certain number of rich spendthrifts is of course true, but the general prevalence of such conduct among the rich would speedily result in the destruction of all capital. Everything depends on the angle of view in matters that deal so largely with sentiment as this question of capital, of riches and poverty does. To represent the rich man, the capitalist, as enjoying and recklessly expending great income for his pleasure, while his poorer neighbors have scarcely enough to feed and clothe themselves and their children, is to make a very moving appeal against him. But change the angle of view, see the facts as they really are, and much of the feeling of injustice will disappear. Understand the real function in the social order of capital and of its owners, the rich men denounced by socialist propaganda. Conceive capital in its true character, as something owned by individuals, it is true, but requiring and demanding of its owners that they manage it and handle it in certain ways, for certain social uses, on penalty of losing it; that for this handling and management they take for their own use a certain amount which, if you please, is their compensation, their wages of administration. If they exceed that, spend more than the proper allowance, exceed their income, they lose their share of capital, which passes to other and more competent hands. Or, to put it concisely, rich men own and manage capital, each his own particular share, and take of its earnings or profits what they like, it is true, for their

reward, but always under penalty of losing it if they exceed a just sum.

Capital, by its very nature, exercises this compelling influence on its owners; they must observe the rules and the rationale of its existence and activity. It is not a matter of their volition; it is a necessity growing out of capital's essential character. How many rich men, disregarding these rules, lose their ownership and management of it is something to be daily seen in the industrial and financial world. Bad judgment in investments which means incapable handling, extravagant expenditure which means a failure to observe that Kronos-like peculiarity of capital to always demand much of its profits for reinvestment, brings the disobedient rich man to poverty every day and on every occasion of his disobedience with unfailing certainty. For capital, like the fabled Kronos, has the fatal characteristic of devouring its offspring, and for the same reason as the Greek divinity. To preserve itself, to perpetuate its own growth and existence, it must consume its children. And the rich man might well be represented as an officer or representative of the industrial organization, who, after deducting his own living expenses, is occupied in reinvesting capital for the use and advantage of society.

Capital devours its earnings or profits and must do so. There is a fundamentally mistaken supposition upon which many socialistic views are based, that this is not a true characteristic of capital, but that the earnings or income or interest on capital might be distributed to all that do not receive them, thus increasing their living wages, and which, if not so distributed, are simply squandered selfishly by their rich owners for their own luxuries. The truth being that the major part of the returns of capital must go back into the industrial organization which produced them if continued progress is to be made in national wealth and prosperity. If the aggregate of all the money spent by rich men for themselves were compared to the amount invested by them, the percentage would be surprisingly small. Of one wealthy man it was said that he lived on the income of his income each year. Distribute all the income of the rich, so much per capita, to everybody and it would simply mean a robbery of the future, a crippling of the great spur to industrial improvement; it would be the wasting of the seed-corn of the coming harvest. Even as it is much of the income is wasted, unavoidably wasted, in experiments and enterprises that fail, but without which many of the improvements of living would cease; for out of these failures every now and then there emerges some

helpful, useful thing which but for the failures might never come into being. How much capital was "wasted" in experimenting before we got the steam-engine, the telegraph, the generation of electricity by water-power, the steamship, even the humble india-rubber of commerce which it took Goodyear years to find by mixing every possible ingredient he could think of before he found that by adding sulphur to caoutchouc he could get a substance capable of being moulded and shaped for the various uses now made of rubber.

The Kronos character of capital may be best understood if we take the reports of our great corporations. They exhibit to the highest and most perfect degree the functioning of capital in industrial society. For corporations of the size referred to are so large, so free from all personal equations, that they seem like an example of the working-out of some purely theoretical problem in economics. Select a great railroad, a great manufacturing plant, and a great mining enterprise, so that there may be a sufficiently wide sweep of the industrial field, and observe how much of the earnings are distributed to the stockholders and how much is simply and perforce, as a matter of self-preservation put back into the plant, and there will be a vivid realization of this great and important characteristic of capital. To save itself from destruction, to perpetuate itself, it must devour its offspring. It is true, as in the case of the fable one child, Zeus, was saved from the all-devouring Kronos, so capital does permit a certain amount of its earnings to go to stockholders in the shape of dividends, but a comparison of the sums set aside for depreciation, surplus, etc., etc., with the sums paid in dividends, will afford convincing proof of the all-devouring nature of capital. The last report of the Pennsylvania R. R. Company reads in one part as follows:

Capital stock	506	millions
Surplus	260	"
Net annual earnings	37	"
Dividends	29	"

leaving over one fifth of its earnings for surplus or investment. The New York Central earned 25½ millions and paid dividends of 12½ millions, only one half its earnings.

The U. S. Steel Corporation has a common and preferred stock of 860 millions; it has a total surplus of 541 millions, and out of its net earnings (1917) of 274 millions it paid about 50½ millions (extra dividends may have increased this somewhat), so that 224

millions were set aside for reinvestment and only one fifth of its earnings paid out to its stockholders.

The Utah Copper Company has a capital of 16 millions, and an earned surplus of 48 millions; in 1916 it earned 39 millions and paid in dividends 19 millions, less than one half its earnings, leaving nearly 20 millions to go into surplus. And copper mining companies are not usually supposed to be in the conservative and constructive class of industrial enterprises.

The Pittsburg Coal Company has a capital, in round figures, of 58 millions; its yearly dividend is about 3.7 millions out of earnings of nearly 24 millions, say one sixth of its earnings; and it has a surplus of 66 millions.

It must also be remembered that of these dividends paid to stockholders a considerable amount is usually reinvested by the recipients.

The demand for more capital by prosperous and going corporations may be said to be insatiable. Some able managers of them have declared that a company that did not require more money every year was going backward. But there could be no clearer or more convincing evidence than the surplus set aside from earnings or profits by every large corporation, for those surpluses mean just one thing, the absolute necessity of all business for constantly increasing doses of capital. It is nothing more or less than Kronos devouring his offspring.

So much for capital on the personal side of the rich men, its owners and managers; there is, however, a much wider and broader view to be taken. Capital means much more than this; the whole fabric of civilized life is built on capital; here is a nut for socialists and other denouncers of capital to crack; if they were asked what made the difference between the half savage creature of the stone age and the present workman of the humblest and least prosperous sort that walks our streets to-day, with a trolley-car at his beck and call, a store at his right hand, a telephone on his left, with a telegraph, a railroad, a hospital, a school waiting on his needs, there could be but one answer—Capital with the largest possible C.

How capital first came into existence, the how and why of its generation might be hard to state with any definiteness. It must have had its first beginnings in the savings from those results of labor which were not needed for immediate consumption. These were probably very small and insignificant at first, for the man of the stone age would have all he could do to extract a scanty subsistence from the earth; if he contrived to build a hut or even

a cave, and to fashion a few rude instruments of labor between his struggles for bare food, that would be the greatest contribution to capital possible for him, for such hut or tools would be essentially capital, since not being at once consumed they would be entitled to go into the class of capitalistic goods or things saved for future usefulness. For two thousand years of authentic history capital grew very slowly, there was little permanent increase. Great cities, palaces of kings, immense temples to the gods, public works, theaters, roads, sewers there were; and there were also slaves and fruit-trees and cattle; some small store, in advance of immediate consumption, of corn and oil and wine. But of this small capital frequent and destructive wars took heavy toll, so that of capital in the modern sense and to the large amounts now so common, there never was any existence. This is quite evident when we read of the small sums of money with which kings and nations dealt. In early times and down to quite late centuries, great sums of money were unknown. Or rather, and more correctly, it might be said there was no great stock of things of comforts and conveniences of life that go to the making of capital, and of which money is only the convenient symbol or token. There was no capital in the stone age because there were no things, except a few skins, some stone tools, a scanty and uncertain supply of food. Comfort makes capital; capital makes comfort. There was no comfort and no food in the early times as comfort and food are now understood. Take the least considered of the many items of the present comforts of life, even as late as three hundred years ago, those now universally common articles, tea, sugar, coffee, tobacco, cocoa, potatoes, were almost unknown. Tea came to Europe in 1615, 1660, sugar in small quantities as early as 1319, coffee in 1652, cocoa in 1657, tobacco in 1586, potatoes in 1563. The amount of money spent in England alone in 1901, and for that trifling luxury, tobacco, exceeded the total revenue of the Roman Republic in the time of Julius Cæsar. This revenue was, in round figures, \$7,500,000, and, allowing for the greater value of money in those days, may be called 30 million dollars of modern value,² against which England, in 1901, consumed 122 million pounds of tobacco, which at the very moderate price of 30 cents per pound would give an expenditure of over \$36,000,000.

Or, taking a great leap, we may quote the earnings estimated by our Government of the factories, farms, railroads and mines only of the United States at 50 billion dollars per annum. This may

² See Ferrero, *The Greatness of Rome*.

give us some faint idea of the meaning of capital and its uses in modern times.

It is said by some economists that it was the silver of the mines of Peru and Mexico that awakened the dormant industrial activities of the Middle Ages; they put money in circulation, stimulated commerce, and quickened industry. This is in a measure very probable, but what would money do, however abundant, with nothing to buy! The mere appearance of money does not create purchasable articles. May it not be equally probable that the gradual increase of the number of useful purchasable things, i. e., of capital, may have increased the demand for money, for the easy exchange of them? Might it not very well have been that the many articles of commerce that made their appearance almost simultaneously with the silver of America have had more to do with the quickening of trade and the rise of the middle classes than silver? Less conspicuous than that precious metal they added, in reality much more to real comfort and to the stimulation of new wants.

In 1885 England consumed 182 million pounds of tea, 1,100,000 pounds of sugar; in 1873, 32 million pounds of coffee; in 1875, nearly 10 million pounds of cocoa; in 1901, 122 million pounds of tobacco; in 1884 the value of the potato crop alone was 75 million dollars, more than twice the revenue of the Roman Republic mentioned above. All these luxuries, if you choose to call them so, were unknown a few hundred years previously, and they are but a few, being cited here rather for their unsuspected significance to make impressive the lesson that it was these and their like that constituted and demanded capital in the modern world. And as they keep increasing, capital too must increase; every added comfort of life means just that much more capital and capital requirements, and just that many more rich men to own and manage it in spite of themselves for the good of all, and that many more poor men to use and enjoy the new comforts—for without their use and enjoyment the comforts would have no value to their owners. In other words, wealth must always and of necessity be common wealth, that is, all wealth must be common to all; there is no such thing as wealth exclusively for a few rich people. What would be the value of ownership in a trolley road, a theater, a factory, save for the use of these and their products by everybody? Thus the rich may be properly regarded as stewards of the wealth of the community, who keep investing and reinvesting its savings. This they do from no benevolent or philanthropic motives, but simply and selfishly by a sort of blind instinct much as bees store up the honey of their hives.