

**Editor's Note**

By labeling his moral-economic concepts as a "universal" or "social" version of "capitalism," Kelso, in the opinion of some supporters, has failed to appreciate the enormous difficulty in communicating with many people around the world who have become disenchanted with the ideological and moral shortcomings of the social system known as "capitalism."

In the classic work Kelso co-authored with the philosopher Mortimer Adler, *The Capitalist Manifesto* (Random House, 1958), Kelso and Adler constructed their theory of economic justice as the logical "third alternative" to primitive capitalism and primitive socialism. As they pointed out, neither system provides a sufficiently solid moral foundation for guiding social change.

Kelso and Adler justify their use of the term "capitalism" by describing an economy as "capitalistic" when its mode of production shifts from labor-intensive ("laboristic") to capital-intensive processes. However, the term "capitalism" obscures the value system which Kelso and Adler espouse.

Furthermore, the term "capitalist" was coined by socialists as a term of derision, to suggest an ownership class devoid of human values, persons who glorify the vice of greed and live by exploiting others. Adding such qualifiers as "universal," "social," "democratic" and even "worker" to a word that historically has signified monopoly power and special privilege, fails to remove the odious connotations of "capitalism."

And since Kelso defines "capital" as "things" used in production (in contrast to people or "labor"), the term "capital-ism" also suggests an ideology or value system which elevates material values above the higher spiritual and moral values of mankind. "Economic justice," "free markets," and "private property" rest on a much more attractive semantic base. Semantics aside, anyone who reads their book will find that Kelso and Adler explicitly describe a just form of "free market" society that aims at fulfilling the highest human values.

Louis Kelso's Critique of Karl Marx's **Das Kapital**

## KARL MARX: THE ALMOST CAPITALIST

By Louis O. Kelso

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England of the mid-nineteenth century, in the throes of the industrial revolution, was not a pleasant place to work. Anyone who entertains the contrary idea need merely consult the writings of the economists of that period, or its historians, or even its novelists, such as Dickens.

It was against a background of the disintegration of the agricultural economy of England, and the human chaos incident to the industrialization of production that Karl Marx set himself the task of improving the lot of the factory worker.

Beginning slowly during the first seventy-five years of the eighteenth century and reaching a crescendo during the last quarter of that century and the first half of the nineteenth century, incalculable changes took place in the lives of laboring people. The transformation was initiated first by the intensification of the division of labor and later by the crowding of workers into hand or hand-and-machine factories. This phase was, in factory after factory, followed by the mechanization of progressively more of the manual tasks, shifting to animal power, then water power and wind power, and then to steam for basic motive power.

The resulting disorganization in the lives of the people affected was stupendous and frightful. Only the few who were quick to adapt themselves to the era of the machine were able to avoid the destruction--frequently successive destructions--of their means of livelihood through the radical changes resulting from rapid technical obsolescence of the methods of production. The impact of these swift transformations was more than could be safely digested and absorbed by the farm populations which began to turn to the industrial cities for their means of living.

The division and subdivision of tasks once calling for the most highly developed skills until the tasks could be performed in many instances by women and children provided the opportunity, and the indigence entailed in the shifting from an agricultural life to dependence upon the fluctuating employment in factories provided the inducement: thousands of parents exploited their children by forcing them into the factories. Wives neglected their families to become factory employees. The full fury of competition between man and machine, between merchants, between manufacturers and between nations was unleashed among people who had not the faintest idea of its implications. Methods by which producers could become reasonably informed about markets were almost wholly lacking. Laws against adulteration of products had not yet been enacted. Industrial safety codes and means of compensating the dependents of injured workmen were unknown. The sanitary conditions of factories in general were incredibly bad. An employer who worked the men, women and children in his factories only twelve hours a day was something of a public-spirited paternalist. Foreign trade brought the local supplier into competition with foreign producers he had never seen or heard of.

Newly born industrial enterprises and the people whose fortunes were tied to them, learned the nature of industrial production primarily by successive bitter experiences. Businesses ran through constantly recurring cycles of expansion, boom, over-production, liquidation and depression. Superimposed upon this disorganizing parade of booms and slumps were the disrupting effects of primitive money and credit systems providing mediums of exchange containing built-in erratic gyrations of their own. The money system of Great Britain, like that of other countries experiencing the industrial

revolution, suffered not merely from irresponsible banking, inadequate knowledge, poorly designed regulatory laws and rampant exploitation of the opportunities for financial fraud, but also from the results of heavy importations of gold and silver--the monetary metals--from the New World.

Without analyzing here the causes, we need merely note that the problems of the workers fell upon deaf political ears in Britain and elsewhere as the industrial revolution progressed, until agonized suffering reached the notoriety of an unsuppressible public scandal. Even then, the factory owners, who could point proudly to the fact that for the first time in history, *per capita* increase in the output of goods and services was beginning to race ahead, had no basis in experience for knowing whether they could at once be humane in their labor relations and still maintain their positions in the unprecedented hurly burly of competition.

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### **Marx's Work... The Cause of Injustice**

Against this background, in which the mere outlines of industrial production under free enterprise were vaguely taking shape, Marx set himself the task of finding the cause of economic injustice. His masterpiece, *Capital*, draws and documents the picture of the industrial revolution from the standpoint of the industrial worker. He was the one primarily responsible for having attached the name "capitalism" to the theretofore unclassified economic system of Great Britain. Marx's source materials, in addition to his own indefatigable personal studies of factory life, were the Reports of the Royal Commissioners on the Employment of Children and Young Persons in Trades and Manufacturers, the Reports of the Inspectors of Factories (who were appointed under the Factories Regulation Acts of 1859), the Reports from the Poor Law Inspectors on the Wages of Agricultural Labourers, the Reports of the Select Committee (of the House of Commons) on the Adulteration of Food, and other official documents, as well as the writings of the economists of his day.

Because of the dire suffering of the industrial workers, Marx, who knew the facts and knew how to describe them, made a powerful emotional case for economic reforms to improve the lot of the worker. Since the actual operation of the system, which he called "capitalistic" was as enormously beneficial to the segment--less than 10 per cent--of the population who owned the factories as it was destructively detrimental to most of the 90 per cent who worked in them, Marx could have led a revolt against the established order by pointing to this disparity alone. But he did not choose to do so. He made the most painstaking and ponderous effort to seek out the cause of the injustice.

At length, Marx rendered his verdict. The malefactor, the cause of all this limitless human misery, was the capitalist. His crime, felonious by all canons of human decency and fairness, was the unrecompensed piracy from the defenseless industrial workers of most of the wealth which *they alone* created. No plunder in history, said Marx, could compare with the enormity of the offense of the capitalist who, without working himself, appropriated the products of the worker, leaving the worker with only the minimum amount paid as "slave-wages" to keep him alive and to enable him to produce.

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### **Marx and Capitalism... They Almost Meet in the Dark**

The root of all of the evil Marx surveyed was, he concluded, the private ownership of the means of production. The emotional case which he built in favor of a revolution to improve the position of the industrial worker was mountainous. The method of carrying out the revolution, he advocated, was for the workers to seize the government by force and then to use the state to expropriate the ownership of capital. Unfortunately, the moral truth of the massive case which Marx marshaled for improvement of the lot of the industrial worker was dwarfed by the magnitude of his error in assigning as the cause of the maldistribution of wealth, *the private ownership of capital*.

In the course of his investigation, Marx actually saw, but was prevented by this error from comprehending, the underlying principles of capitalism. Since there can be no doubt about Marx's honest effort and fierce desire to find the key to a workable industrial economy, we are justified in venturing the speculation that had Marx understood the implications of the principles of capitalistic distribution which presented themselves to him as "appearances" only, *he might have become a revolutionary capitalist* instead of a revolutionary socialist.

Karl Marx, as he reflected upon the causes of economic injustice in the first century of capitalism, came to a conclusion as momentous as it was mistaken. The world was to suffer as much from the critical error of the decision as it had suffered to provoke Marx to make it. Had he not been blinded by a borrowed myth, Marx might well have proclaimed "People of the world, unite! Extend the benefits of capitalism to all mankind." Instead, he exhorted the workers of the world to unite and "throw off the chains" of capitalism.

Had Marx chosen the capitalistic alternative rather than the socialistic one, the world would be a vastly different place in which to live today. Without the false and seductive promises of socialism, Russia, the nation built on Marxism, would be without the principal rhetorical weapon which it uses to seduce the minds of men.

Yet it is a fact that Marx actually considered the problems which should have led him to discover capitalism. But for three basic errors in reasoning, Marx might have been looked upon today as the apostle of capitalism rather than its detractor and tormentor.

The three mistakes that turned Marx away from capitalism rather than towards it, have made Marx the false prophet of the industrial worker. Together with the socialist writers who have followed in his footsteps, Marx deprived generations of workers from realizing that in capitalism--not in socialism--lies their hope for economic well-being, the good life, and political freedom.

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### **Three Mistakes... The Course of History Changes**

The three errors which Marx made were these:

(1) His adoption of the labor theory of value which had previously been advanced by David Ricardo.

(2) His failure to understand that the private ownership of property, including capital instruments, is indispensable to political freedom; in short, his failure to understand the menace to human freedom of the ownership of the means of production by the state.

(3) His mistaking the wealth produced *by capital* for "surplus value", *i.e.*, value which he thought was created by labor and stolen from the laborer by the capitalist.

Let us examine each of these mistakes. In the course of doing this, we shall see in each case how closely Marx came to acknowledging the actual principles of capitalism. Yet in every case, having grasped the principles, he also rejected them because of his fundamental errors.

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#### **Error No. 1: The Labor Theory of Value.**

Except for the few wants which men can satisfy directly by things adequately supplied by nature, human labor, for untold ages, had been the primary source of the creation of wealth. Man, with his hands and his brain, has given value to raw materials found in nature by imparting to them qualities which render them able to satisfy his wants. Similarly, man has performed personal services for himself or for others which have also satisfied needs. Nothing is more obvious than that man must wrest his living from nature through the cleverness of his mind, the strength of his muscles and the skill of his body. Since, at the outset, then, man was the only acting force, the idea that all changes in nature's raw materials were wrought by man alone was both obvious and indisputable. The labor theory of value--the idea that labor is the only agency capable of creating wealth, *i.e.*, adding "value" to raw materials and performing services--must have been approximately correct in primitive times and, to a lesser degree, in pre-industrial economies.

But once men applied their intelligence to constructing tools and machines which were able to produce wealth, or at least to co-operate with human labor in the production of wealth, a basic change occurred, the significance of which was not at once fully appreciated. The fact that all economic value was not created by labor, but rather by labor and capital together, was obscured by the fact that, in the early stages of machine production, machines were usually "operated" by their owners. As a result, the services of the machine were indistinguishably commingled with those of the machine-owner and

The significance of the labor theory of value is more than academic. *If labor is the source of all value created in the productive process, then labor has a valid moral claim to all wealth created through production.* Then the only moral claim of the owner of capital is to have his capital restored to him, *i.e.*, to get back the value of his capital with compensation for the effects of wear, tear and obsolescence. Honestly to reach his conclusion that the capitalist was thieving from the laborer, Marx had only to believe that labor did in fact create all economic value (*i.e.*, the values added to raw materials found in nature).

But confronted with the fact that capital instruments were actually performing more and more of the functions which added value to raw materials and were even beginning to compete with labor in the performance of purely service activities, Marx could not *prove* the proposition that labor was the sole creator of value and *he did not try*. He merely asserted, again and again, that the proposition was *historically true* and that its truth was of very recent discovery. All commodities, including capital instruments, said Marx, "are only definite masses of congealed labour time" (*Capital*, Modern Library Edition, page 46, New York.)

"The recent scientific discovery that the products of labour, so far as they are values, are but material expressions of the human labour spent in their production, marks, indeed, an epoch in the history of the development of the human race, but by no means dissipates the mist *through which the social character of labour appears to us to be an objective character of the products themselves.*" (*Ibid.* page 85; italics added). Marx is here saying flatly what he elsewhere elaborates--that although capital instruments *appear* to create wealth, this is merely an illusion, and that there is some sort of mysterious "congealed labor" hidden in the capital instrument which enables it to give value to its products.

At this point Marx actually saw one of the basic principles of capitalism: *that capital instruments do create wealth, just as labor does.* But he rejected the idea as an "appearance" only and held doggedly to his belief that only labor *could* create wealth. By denying the obvious, that in an ever-increasing number of instances, the performance of particular production tasks may be carried out alternatively either by labor or capital instruments; and by asserting that regardless which method was used, the capital instruments owned by a "capitalist", were in fact, "labour instruments"; and by concluding that whichever method was used, labor in fact created all the value, Marx put the capitalist in the unethical role of getting something for nothing.

Today we are not merely familiar with the phenomenon of machines to make machines, we are also acquainted with the trend to make automated machines with automated machines. Nevertheless, tracing the process backwards through several technological generations sooner or later brings one to the point where the predecessor of a particular machine was made by hand labor. Since Marx regarded human labor not only as an ingredient in an economic product, but as the *only* ingredient other than raw materials provided by nature, the problem of machines made largely by machines was a disconcerting one for him.

The value of a product, he said, is determined by the amount of labor time it contains. After a few technological generations of producing machines primarily by machines, what could be said of the machine which, although it contained almost no "value" in terms of man-hours and required very little assistance from labor in the form of an operator's man-hours, turned out a vast quantity of products, all of which sold for very good prices?

Marx actually considered this problem. How could he square the labor theory of value with a machine containing very little "value" (in terms of man-hours of labor) which at the same time is operated with very few man-hours of labor, yet which produces a great amount of wealth? Confronted with this problem, Marx might have announced another of the basic principles of capitalism: that the productiveness, the "productivity", of capital instruments, *in comparison with that of labor* (other than the top echelon of labor consisting of management and technical workers) *is steadily rising.* But here again Marx rejected the clearly discernible truth and supplemented it with a corollary to the labor theory of value.

In this case, he said, the machine, after yielding up what little "value" it contains, *works gratuitously*, just as the sun works ripening the corn in the field. Marx here came within a hair's breadth of recognizing the increasing productivity of capital instruments in comparison with that of labor. Had he allowed himself to see the point, it is safe to

assume that a man of Marx's sincerity would have cried, "If capital instruments are the source of the increasing production of wealth in an industrial economy, the owners of capital instruments are rightly the persons who should receive the proceeds of the wealth so produced. Let us then set as our goal the greatest possible accumulation and perfection of capital instruments for the greater production of wealth. And let us so regulate our economy as to extend the opportunity of engaging in production *through the ownership of capital instruments* to an ever increasing proportion of the population."

Marx missed this critical point. Faced with the spectacle of the production of vast wealth through a large contributory effort by capital instruments and a negligible contribution by labor, Marx could merely say: "In modern industry man succeeded for the first time in making the product of his past labour work on a large scale *gratuitously, like the forces of nature.*" (*Ibid*, page 424). Thus did Marx substitute for objective analysis the dogma he had borrowed from Ricardo.

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**Error No. 2:  
Marx's Failure To Understand the Political Significance of Property.**

Before examining Marx's second critical error, it may be helpful to take note of what the concept "property" means in law and economics. It is an aggregate of the rights, powers and privileges, recognized by the laws of the nation, which an individual may possess with respect to various objects. Property is not the object owned, but the sum total of the "rights" which an individual may "own" in such an object. These in general include the rights of (1) possessing, (2) excluding others, (3) disposing or transferring, (4) using, (5) enjoying the fruits, profits, product or increase, and (6) of destroying or injuring, if the owner so desires. In a civilized society, these rights are only as effective as the laws which provide for their enforcement. The English common law, adopted into the fabric of American law, recognizes that the rights of property are subject to the limitations that

(1) things owned may not be so used as to injure others or the property of others, and

(2) that they may not be used in ways contrary to the general welfare of the people as a whole. From this definition of private property, a purely functional and practical understanding of the nature of property becomes clear.

Property in everyday life, is the right of *control*.

*Property in Land.* With respect to property in land, we need merely note that the acquisition of an original title to land from a sovereign is a political act, and not the result of operations of the economy. If the original distribution of land unduly favors any group or type or persons, it is a political defect and not a defect in the operation of the economy as such. A capitalistic economy assumes and recognizes the private ownership of land. It may, as under the federal and state mining laws and federal homestead acts, encourage private ownership of land by facilitating private purchasing of mining, timber, agricultural, residential or recreational lands.

*Property in Capital.* In a capitalistic economy, private ownership in all other articles of wealth is equal in importance to property in land. From the standpoint of the distributive aspects of a capitalistic economy, property in capital--the tools, machinery, equipment, plants, power systems, railroads, trucks, tractors, factories, financial working capital and the like--is of special significance. This is true because of the growing dependence of production upon capital instruments.

Of the three components of production land is the passive<sup>1</sup> source of almost all material things except those which come from the air and the sea, while labor and capital are the active factors of production. Labor and capital produce the goods and services of the economy, using raw materials obtained, for the most part, from land. Just as private property in land includes the right to all rents, the proceeds of sale of minerals and other elements or substances contained in land, private property in capital includes the right to the wealth produced by capital. The value added to iron ore by the capital instruments of a steel mill becomes the property of the owners of the steel mill. So in the case of all other capital instruments.

*Property in Labor.* What is the relationship of the worker to the value which he creates through his work? It has been said that no one has ever questioned the right of a worker to the fruits of his labor. Actually, as was long ago recognized by John Locke and Jean Jacques Rousseau, the right of the worker to the value he creates is nothing more than the particular type of private property applicable to labor. Each worker, they said, has a



*Marx and Property.* Marx did not err in his understanding of the dependence of capitalism upon private property. In fact, the Communists, following Marx, appreciate this absolute dependence more than do non-Communists, many of whom, influenced by the conviction that Marx is full of errors, have falsely entertained the idea that this is one of them.

Marx, however mistaken he was in his program for achieving the economic changes he thought were needed, cannot be charged with having intended to worsen the economic and political condition of modern man. The facts of his life and character permit us little doubt that his intention was to eliminate suffering by substituting a fairer distribution of economic goods and services, and through this, a more equitable distribution of leisure and the opportunity to lead a good life. Marx was rightly, if also vehemently, critical of the exploitation of the many by the few.

Had Marx seen that the socialization of capital (*i.e.*, its ownership by the state) would of necessity place the control of capital in the hands of those currently wielding political power, thereby unifying economic and political power, the two basic sources of social power, we can assume that Marx would not have advocated the destruction of private property in capital instruments. If the factory owners of the nineteenth century, having political influence but not unlimited political power, were in a position to exploit the workers, the bureaucrats of the twentieth century in a socialized state, possessing not only unlimited political power, but also unlimited economic power through ownership (*i.e.*, control) of the instruments of production, are infinitely better equipped to exploit workers and other non-bureaucrats. What better proof of this than Russia and the Russian satellites?

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### **The Communist Politician... A True Tyrannical Capitalist**

It is the Communist politician who sees in Marxism the opportunity for personal power and wealth which Marx, if we may take him at his word, failed to perceive. The Communist politician perceives in Communism the personal advantage to himself which comes with the transfer of property (working control) in the means of production to the state, and the elevation of himself to a place in the management of the state. The Communist politician is thus able to epitomize in himself the kind of tyrannical capitalist Marx declaimed against, with the further opportunity for unlimited despotism that is inherent in the fusion of political power and economic power in the same hands.

Marx's failure to perceive the political significance of private property has allowed his doctrine to furnish the most perfectly designed ruse for potential tyrants that has ever been devised. In the name of benefitting society as a whole, the actual control of the capital instruments and land is placed in the hands of those wielding political power!

Marx's second great error prevented him from seeing that *the ideal* "classless society", of which he dreamed, is not one in which a political group in power has the function of distributing wealth. It is rather the political economy in which the *individual* ownership of property--particularly capital instruments--is spread over the entire population. Only such a broad distribution of private economic power can guarantee individual freedom and the power of the people as a whole to limit or turn out at will a political group in power.

Marx was actually on the verge of recognizing that so long as men are what they are, capitalism is the only possible classless society. His failure to do so derives from his failure to understand the *political significance of private property*. He consequently also failed to understand the political significance of state ownership in a socialist state. To concentrate control over the means of production in a political group is to establish that administration as a class--an all powerful class--and to remove all possibility, so long as such a group exercises its power fully and ruthlessly, to overthrow such despotism by means other than force.

Marx recognized that the men who were the owners of productive property also enjoyed "individuality", leisure and opportunities for culture and education. (*Ibid.*, page 581). This being so, it is nothing short of fantastic that he brought himself to these illogical conclusions: (1) Destroy private ownership of productive property. (2) Make all men workers. (3) Appropriate all wealth produced in excess of that required to sustain workers, and let it be distributed by the state as its political leaders see fit.

The political commissars, however, who employ Marx's ideas for their own purposes--the exploitation of power and wealth which socialism offers to a ruling bureaucracy--are not so illogical. The destruction of private property in the means of production is their guarantee of self-perpetuation.

There is a Marxian tenet that the nature of a society is determined by the mode of production (whether agricultural or industrial), and the ownership of the means of production. It is sound. The conclusions here are within and consistent with this fundamental insight.

Thus the second great Marxian error caused Marx to seek in socialism what he could have found only in capitalism.

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**Error No. 3:  
Mistaking the Wealth Created by Capital for Wealth Created by Labor and Stolen by the Capitalists.**

Each of the three critical mistakes which Marx made in his study of capitalism arose from the fact that he began his analysis with a study of distribution *rather than with a study of production*. At the distributive end, something less than a tenth of the population, for the most part owners of land and capital, were faring infinitely better--receiving a proportionately greater share--than were the other nine tenths, whose only participation in economic activity was as workers or as recipients of public charity under the poor laws. The pattern of distribution was bad from whatever standpoint it might be judged. Those who were receiving the great share were the capitalists, the owners of the expanding industrial and commercial enterprises.

For Marx, capitalism was simply what he observed in the European world around him, and primarily in Great Britain. Since the distributive pattern was unsatisfactory, capitalists and capitalism, he concluded, must be at fault. Labor had "historically" been the source of all production of wealth, and the workers were now receiving a progressively smaller proportion of the proceeds of production. Down with capitalism!

Had Marx started with an objective analysis of production and a deeper insight into the property-freedom relation, he might well have concluded with a declaration of war against capitalists *for hoarding capitalism*.

Let us now examine once more the principles of capitalistic production that Marx might and should have used as a starting point. In an exchange economy, and particularly in an economy of freely competitive markets, each service and each commodity is valued for its peculiar ability to satisfy a certain desire of the consumer. Whether the service of commodity is produced by labor alone or by capital alone or by the co-operation of these two, is unimportant to the potential purchaser except as the method of production implants specific characteristics in the thing marketed. It is the finished product which is demanded by the purchaser, not the knowledge that it is produced in one way or another--a mere means by which the product was brought forth. Contrary to what some sentimentalists think, there is nothing sacred about the products of labor that is not equally sacred about the products of capital or those produced jointly by capital and labor.

To effect any change in the nature or position of material goods or to perform any kind of a service, material goods must be acted upon. Marx recognized this; but, because of his obsession with the labor theory of value, he contended that only labor could be credited with the value of material goods produced or services performed. "Useful labor" he said, "is an eternal necessity imposed by Nature without which there can be no material exchanged between man and Nature, and therefore no life." (*Ibid.* page 50). To effect such changes in matter, or to perform such services, purely physical, *i.e.*, mechanical means, must be used. With rare exceptions, pure thought is not economically compensable. Speech, writings, mechanical action--all these things performed by man, are capable of entering into economic transactions. The thought behind such speech, writings, mechanical action, is not *by itself* capable of entering into ordinary commerce.

Man as a non-scientific and non-managerial subsistence-laborer is, from the standpoint of economics (aside from his separate nature and position as the consumer), a primitive, low-horsepower engine, relatively clumsy and of brief durability, for the production of economic goods. Man the worker, except in the fields of science and management, has grown steadily less impressive since the onset of the industrial revolution. He can work eight, ten or twelve hours at a stretch and then must rest. His strength and speed of action are quite limited. He is subject to numerous ailments, often adversely affected by

climate, temperamental and not infrequently lazy. He makes many mistakes. As a factor in the production of wealth, man is progressively less successful in competing with capital instruments, except, again, as a scientist or as manager.

It is not as a worker that man is master of the earth. It is as the *intelligence* behind all production and as the consumer--the reason for production and the destiny of the things produced--that he is supreme.

It may well be that confusion between man the worker and man the thinker--the source of all ideas and plans--contributed as much as any cause to Marx's failure to recognize capital as a producer of wealth in the same sense that labor is. Mental activity enters into economic transactions primarily in two ways:

(1) the mental activity of the scientist and manager is responsible for the invention, development, improvement and production of capital instruments, and the supervision of productive activity of both laborers and capital instruments. Scientists and managers are in general the top echelon of *labor*--the professional level. Their services include entrepreneurial activities, in which they provide the initiative in organizing the capital and labor to institute or expand particular business activities. A substantial portion of their services is rendered in improving the productivity of capital instruments, thus promoting the substitution of machines for men and otherwise reducing labor requirements, where to do so will reduce the costs of production and render the businesses in which they are engaged more efficient and competitively better. The steady improvements in capital instruments, systems of production, and organization of productive processes, are the results of the mental activity of the scientists and managers. Their ability to produce in these fields is the secret of their rising productiveness and the increased demand for their services.

(2) Mental activity enters into non-scientific work and non-managerial work in varying degrees. The intelligent direction by the worker of his own activities is incidental to the mechanical work performed by him. Labor is compensated for a particular type of service of a physical nature which could not be rendered in the absence of intelligent direction on the part of the worker himself.

Marx recognized that machines and men are competitors in the sense that scientists and managers, in carrying out their function to produce goods and services in a competitive market, strive to eliminate labor costs and to improve upon hand methods of production. "The instrument of labour [meaning, of course, machines, *the instruments of the capitalist*] when it takes the form of a machine, immediately becomes a competitor of the workman himself." (*Ibid.* page 470) In speaking of this competition, Marx comes as near as possible to recognizing that capital instruments are active forces in the production of wealth, performing an economic function of the same sort as labor, and frequently performing functions which can interchangeably be performed by either.<sup>2</sup>

Marx observes that in the case of the handcraft industries, "the workmen are parts of a living mechanism. In the factory we have a lifeless mechanism independent of the workman, who becomes its mere living appendage....By means of its conversion into an automaton, the instrument of labour confronts the labourer, during the labour process, in the shape of capital, of dead labour, which dominates and pumps dry living labour power. The separation of the intellectual powers of production from the manual labour and the conversion of those powers into the might of capital over labour, is, as we have already shown, finally completed by modern industry erected on the foundation of machinery. The special skill of each individual insignificant factory operative vanishes as an infinitesimal quantity before the science, the gigantic physical forces, and the mass of labour that are embodied in the factory mechanism and, together with that mechanism, constitute the power of the 'master'." (*Ibid.* page 462). It may well have been Marx's failure to recognize that capital instruments in practice supplant not only physical forces, but intelligence, that deterred him from recognizing that capital "works" just as labor works.

Whether Marx could have closed his eyes to the facts of production in the now-dawning age of automation is an interesting speculation. Yet even in Marx's own day it should have been possible for him to recognize that the scientists (engineers) in designing capital instruments build into these instruments the capability of performing operations which, if performed by labor, would require the application of brainwork. His obsession with the labor theory of value rendered him incapable of this insight.

But today, with the development of feed-back, self-correcting and self-programming machines, capable of automatically performing a sequence of logical operations,



correcting their own errors as they perform their productive tasks, choosing from built-in instructions or characteristics their proper functions, it is likely that even Marx would have broken through his barrier-obsession that labor does all the work.

Human minds ultimately direct the production of goods and services. This is true of the functions of capital instruments as it is of workers. As a production process uses more and more capital instruments, more of the human mental *control* of the process of production is shifted away from workers to scientists (and their mechanical progeny) and to management. Thus the private ownership of labor is not, in action, essentially different from the private ownership of capital. Each involves the right of control of an active means of production, the right to take the fruits of such production, to produce where and when the owner desires, and to accept or reject conditions of production. The most significant difference is that the owner of capital instruments is not required to be personally present in the productive process; he produces, or in any event he may produce, vicariously. Mental activity as such is not the basis of the property rights of either labor or capital owners in wealth produced.

What difference would it have made to Marx's theory of capitalistic economics if he had recognized both the power of labor and the power of capital instruments to create wealth? *It would have made all possible difference.*

If all wealth is created by labor, and if the total wealth created is in excess of that distributed to labor on the basis of the market value of labor, then the excess is "surplus value". This surplus value, according to Marx, is something really stolen from labor by the capitalist. It is elementary that wealth belongs to him who creates it, and if only labor *can* create wealth and capital instruments *cannot* create wealth, then the owners of capital have no possible claim to a share in the proceeds of production. The most they could legitimately claim would be to have the value of their original capital, which has been partly or wholly consumed in the productive process, restored to them. In the socialist state, this "surplus value" is something that would belong to society as a whole, to be distributed as the administrators of the state decide.

In short, if labor is the only possible creator of wealth, then capital cannot be a creator of wealth, and there can be no legitimate return to capital other than a return of the original investment. The recognition by Marx of capital as one of the two active actors creating wealth would have exposed the falsity of his own basic theories. More than that, he would have been led inevitably *to exactly the opposite conclusions*. If labor is entitled to a return in the form of wages for wealth created by labor, then the owners of capital should be entitled to a return for the wealth created by capital.

Strange as it may seem, Marx recognized the technological trend and even acknowledged that it appeared to be the case that the net wealth remaining after payment for raw materials and labor was wealth created by capital. Yet he refused to believe this *appearance*, and simply asserted again and again that this excess was "surplus value". With regard to the increasing productivity of capital, he noted that "every introduction of improved methods...works almost simultaneously on the new capital and on that already in action. Every advance in chemistry not only multiplies the number of useful materials and useful applications of those already known, thus extending with the growth of capital its sphere of investment.... Like the increased exploitation of natural wealth by the mere increase in the tension of labour power, science and technology give capital a power of expansion independent of the given magnitude of the capital actually functioning." (*Ibid.* pages 663-664) With respect to the apparent production of wealth by capital instruments, Marx acknowledged that there appeared to be, as Sismondi had said, a "*revenue* which springs from *capital*". But he refused, to the very end, to believe that it was the wealth created by capital--a possibility he saw but never understood or appreciated. To Marx, the wealth *created* by capital remained "surplus value" to which the owners of capital had no claim--surplus value stolen by the owners of capital from the owners of labor.

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### **Marx's Three Errors... A Fateful Near Miss**

But for the basic and demonstrable errors in his theory of capitalism--the three errors discussed above--Marx would have reversed his views about capitalism and socialism. His writings leave no doubt that he was making an honest search for the truth about capitalism and the causes of maldistribution of wealth under capitalism. But it is also true that his writings leave no doubt that, had he caught and prevented himself from falling into his three foundational errors, he would have become as defiant in his espousal of capitalism as he erroneously was vehement in its denunciation.

If labor alone is a creator of wealth, there must be, as Marx and Engels said in the *Communist Manifesto*, equal liability of all to labor. But if capital is a creator of wealth, one may participate in the production of wealth either as an owner of labor or as an owner of capital. Similarly, if land is a source of wealth, one may participate in the production of wealth as an owners of land. But this basic capitalistic principle goes further. If, as we know, the productivity of capital is increasing in relation to that of non-managerial and non-scientific labor, and if the right to participate in the distribution of the proceeds of production follows from the fact of participation in production, the social justice which Marx sought lies *in regulating the capitalistic economy so that there emerges an ever-increasing proportion of capitalists.*

The uneasy ghost of Marx must suffer the torments of the damned at the truth glaring from the pages of history that *one does not abolish property by transferring it to the state.* To put an end to *private property* in capital and land by establishing the socialist state is to concentrate the vast aggregate of property rights in the wielders of political power. There is no mystery in the fact that through a literal application of the theories of the great seeker after social justice, the Communist countries have achieved the exact opposite of what was promised. Marx wailed over the plight of the helpless worker under the merciless lash of the powerful factory owner. What would he say of the plight of the worker before the inescapably crushing power of the dictator, the political clique, or the party which in fact (though never in name, since everything is always done in the name of "*the people*") owns all factories, all instruments of production, all land, *and fuses this power with political power?*

There can be only one answer. The safety, the security, the dignity of the individual which Marx sought in socialism can be found only under capitalism. The answer to the charge that ownership of capital instruments is too concentrated lies in the proper use of governmental regulation to reduce the concentration and to continuously broaden the *private* ownership of the means of production.

What Marx *almost* discovered was that both the benefits and the success of capitalism grow with the number of men who are capitalists. His error in failing to discover this truth was the most fateful near-miss in history.

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## ENDNOTES

<sup>1</sup> Agricultural and timber land may be said to be an exception to this, since in growing crops and timber, agricultural and timber lands may be said to function in an active manner.

<sup>2</sup> Note that by using the term "instruments of labor" to designate *capital instruments owned by capitalists*, Marx is again indulging the labor theory of value. By referring to capital instruments as "instruments of labour", Marx makes it appear logical to attribute the productive efforts of capital to labor.