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Source: *American Bar Association Journal*, Vol. 46, No. 2 (FEBRUARY 1960), pp. 167-169

Published by: American Bar Association

Stable URL: <https://www.jstor.org/stable/25721108>

Accessed: 18-02-2022 00:57 UTC

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Labor's Great Mistake:

The Struggle for the Toil State

Mr. Kelso declares that it is a mistake to assume that full employment is a desirable condition of society. Labor, he explains, is no longer the only source of economic wealth, since modern technology makes it possible to produce many goods and services primarily by the use of capital. What is needed, he suggests, is not full employment, but participation in production by all, which in the case of the owner of capital would mean leisure instead of employment. To achieve this, he says, we need an economic system that will make a rapidly growing number of capitalists possible.

by Louis O. Kelso • *of the California Bar (San Francisco)*

THE CONGRESS HEREBY declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means . . . to promote maximum employment, production, and purchasing power." So runs the text of one of the most important policy determinations ever made by Congress—the Employment Act of 1946. The intent of the law, explained the Conference Committee, is that "Causes of unemployment are to be removed or eliminated".

The "all practicable means" referred to in the act and used since World War II to maintain full employment are mainly the pump-priming schemes advocated by John Maynard Keynes. Keynes saw that it was necessary only to place *sufficient* purchasing power in the hands of those most likely to spend it and all workers will be employed in producing goods and services. Faithfully following the Keynes theory and the policy of the Employment Act of 1946 during the thirteen years since the end of the war, we have force-injected hundreds of billions of dollars of purchasing power into our economy in order to provide *toil for all*.

Some of these billions were pumped in as various kinds of consumer debts which governmental policy encouraged: Easy construction mortgage credit, easy consumer durable goods credit, advance borrowings by business (in-

terest free) against future taxes in the form of the rapid amortization program.

Other billions of governmentally created purchasing power took the form of lavish defense expenditures—expenditures that would not have been so recklessly made if it were not for the fact that however useless they might be, they do create purchasing power and promote full employment. When these expenditures carried our war potential to the point where we could erase any enemy from the face of the earth (and the Russians can do the same for us), their usefulness for full employment did not decrease. In spite of the problem which the military strategists call "overkilling", *i.e.*, being equipped to devastate people who already have been devastated, we continue to increase defense expenditures on the theory that ever more massive striking power is the *only deterrent* and, even if it isn't, building it creates full employment!

Other billions of government-created purchasing power have taken the form of direct governmental redistribution of income. Personal incomes and business incomes are taxed on a steeply graduated scale to give purchasing power to farmers, to elderly persons, to the unemployed.

Still more billions of purchasing power are created through international

charity, called foreign aid. The use of charity—not charity as a Christian's act of mercy and compassion, but charity as a principle of income distribution to compensate for inherent injustices and inadequacies of the economic system—is, as we would expect if we analyzed it, a source of shame and a cause of hatred among men. To borrow capital on reasonable business terms in order to become self-supporting in an age where wealth is produced mainly by capital is consistent with mutual self-respect. But this is not true of charity in such cases. The historical record shows that what is true as between individuals is equally true as between nations: International charity is a source of mutual resentment, shame and hatred. But, since a large part of foreign aid is spent on machinery, equipment and food produced in the United States and on technical services rendered by Americans, full employment is promoted. So the spending goes on, and the deficits, the national debt and the international tensions all grow.

With all this, and a great deal more omitted here for brevity, the purchasing power pumped into the economy in the past thirteen peacetime years from time to time has been insufficient. During 1958 and early 1959, we had a recession in progress for many months. Unemployment hovered around five mil-



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lion, or higher. A super-pump-priming group, the Conference on Economic Progress, spearheaded a program to double, triple, and in some cases multiply by ten our deficit financing, our private borrowing, our foreign aid, our defense expenditures—whatever is necessary to create full, even over-full, employment. One benefit claimed for these proposals is that *more people will enter the labor market!*

We are late—dangerously late—in raising the question of whether full employment is a desirable economic goal. To be sure, the objection has been raised that the full-employment policy is inflationary, that inflation alone is redistributing billions of dollars of wealth annually, and that the brunt of the injury falls on those with fixed incomes from government bonds, insurance policies, pensions, savings accounts, and the like. And *the objection is well-founded*. Relentless and accelerating inflation must result from seeking full employment, unless we are willing to see economic freedom destroyed through government price and production controls and through the universal dole—probably in the form of permanent and universal unemployment compensation.

But, grave as the alternatives of dis-

astrous inflation on the one hand or socialism on the other are, the question of whether full employment is a desirable economic goal for an advanced industrial society is a still more profound one. I believe that full employment is a false goal for labor because it must eventually rob the worker of precisely what he seeks in a free industrial economy:

The greatest possible freedom from grinding toil,

Personal economic security and independence,

The opportunity to obtain an adequate distributive share of the wealth produced as the direct result of his making a contribution towards production, and not through a mere welfare or charitable share,

The security of having *property rights*, rights established and protected by law, in his means of contributing to production: Property in his labor power (ability to work) and in wealth-producing capital instruments.

How Is Wealth Produced?

The fallacy of the full-employment policy lies in our unthinkingly assuming something that Karl Marx relied upon as the cornerstone of socialism: That wealth is produced only by labor. The truth is that in the American economy, wealth is produced primarily by capital, and the very purpose of technological change—improvements in the methods of production—is either to eliminate labor, or to render its employment unnecessary.

Our economic thinking has failed to keep pace with changes in the methods by which we carry on production. We have looked upon the industrial revolution as an improvement in tools which *make men more efficient producers of wealth*. This is a way of describing industrialization which can only be used where private property, either in men's labor power, or in capital, is not legally recognized or protected. To say that the addition of a locomotive and rails improves the productivity of the train crew in transporting goods (for otherwise they would have to haul the goods on their backs), is to disregard the question of who owns the labor power and who owns the capital instruments. To treat

the railroad capital equipment as the tools of the railroad workers is to presume that the workers own the capital—which they almost invariably do not.

Nor does it affect the argument to point out that the train could not haul goods without the crew, for it is equally true that the crew could *never* transport the goods without the train. Indeed, the most important changes today in technology are those making possible the production of forms of wealth primarily through capital instruments that could never have been produced at all by labor alone: Aluminum, structural steel, artificial industrial diamonds, jet plane transportation, television transmission, etc.

While the productivity of capital instruments has been rising spectacularly, the productivity of men has been, by comparison, declining strikingly. The object of technological advance is not to create employment, but to destroy it! In every branch of production, the trend of technical change is towards greater output by capital instruments and less by labor. Even in the white collar fields where we have been able to absorb much of the disemployment in recent years, the automation revolution is now laying the groundwork for spectacular labor-saving innovations.

Industrialization has not merely taken the toil out of many kinds of labor; it has taken the production out of them, too.

Because of our failure to develop a theory of capitalist production of wealth which is consistent with our desire for a high general standard of living and our political objective of a free society, we find ourselves in the almost depraved state of trying artificially to puff up production, not to obtain more goods and services, *but for the sake of creating employment*.

Dispelling the Myths About How Wealth Is Produced

No industrial society will ever free itself from the necessity of using great quantities of human toil in order to produce wealth. The quality and quantity of the goods and services turned out will ever depend upon the integrity,

diligence, skill and intelligence of that labor (including managerial labor) as well as upon the quantity and quality of capital instruments. But in the United States of today, those necessary quantities of human toil fall far short of full employment—perhaps ten million jobs short, perhaps more. And if we are not so unwise as to destroy technological advance with our economic ignorance, the gulf between the actual demand for labor and a condition of full employment will broaden steadily and indefinitely into the future. The only possibilities that might interrupt the *normal* increasing of unemployment would be the stalemating of technological advance through a combination of industrial and labor monopolies, or the destruction of our great capital equipment through atomic war.

The solution to our problem lies not in the attempt either by organized labor or by economists or by politicians to pretend that there are more actual jobs than in fact there are. It lies in recognizing that some of our wealth is produced by labor, and much—an increasing portion—is produced by capital. Our salvation lies in our recognizing that wealth is produced in the ways in which it is in fact produced, and not in the ways in which a pre-industrial economic theory assumes that it is produced.

Not Full Employment, But Full Participation in Production

There is no need to question the common sense and common conscience that each household should produce wealth commensurate with its income. Elementary justice lies in the receipt of a distributive share from the pro-

ceeds of production equal to the contribution which a household makes towards production.

If an increasing share of the wealth is produced by capital and a decreasing share is produced by labor, then the legitimate objective of workers and of their unions should be to make certain that as the burden of production shifts from labor to capital, the number of households who participate in production through their individual ownership of capital shall *increase* in proportion, and the extent of dependence upon ownership of labor shall *decrease* in proportion. As the task of producing wealth is increasingly assumed by capital, the unemployment must be shifted from those dependent entirely on their labor to those dependent upon substantial capital estates for their participation in production. For these latter "unemployment" is a blessing, not a curse, enabling them to engage in the limitless other creative activities of civilization that lie outside the sphere of mere wealth-getting.

For us to maintain that our prosperity depends upon full employment is to repudiate the triumph of men's intelligence over their age-old economic problem of producing sufficient subsistence.

Needless to say, our prosperity, our political freedom and our well-being all depend upon *all* households participating in the production of wealth if they are to participate in its distribution. But let that participation be real; let it be in fact proportionate to the incomes that result from production, and let us not falsely overvalue labor as a substitute for revising our pre-industrial economic theories. As

more of the wealth is produced by capital, more of our families must participate in production as owners of capital. A capitalist society requires a growing number of capitalists, not just growth in the estates of those who for generations have been capitalists. The goal of labor should not be toil for all, but *participation in production for all*. And the method of participation should not be dictated by the historical fact that once labor was the only productive force. It should be dictated by the technology of today. Our economic system, as a man-made institution, should adapt itself to make a rapidly growing number of capitalists possible.

When we are freed from the necessity of calling things labor which do not involve production (*i.e.*, featherbedding and other forms of artificially induced or pretended productive labor), and from the necessity of bloating consumption with artificially infused purchasing power merely to make toil for which there is no genuine need in our economy, we can again speak of the dignity of workers actually performing necessary work, of the pleasure of excellence, of the honorableness of service, and of the inspiration of creativeness.

The abandonment of the goal of full employment, and the setting of the goal of full participation in the production of wealth, either through the ownership and exercise of labor or the ownership and wise husbanding of capital, as the state of technological change dictates, is, I am sure, the one possibility open to us to avoid the collectivization of our economy, and the disappearance of freedom from our society.