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READER'S GUIDE

performance are also revealed by the prints, although Mr. Beck recognizes that pictures drafted for decorative purposes are not infallible in this regard. Illustrations in early instrumental tutors, which could appropriately be collected and reproduced in another sort of publication, tend to be less pretty but more reliable in matters like the spacing of frets or the positioning of the performers' hands. Such documents are not without incidental value to social historians. Christopher Simpson's *The Division-Violist* (1659) is illustrated by a seated player wearing a hat. The engraver's plate is used again for the 1664 edition with only two changes: a fret is added to the bass viol and the player's hat has been removed. New manners as well as new musical procedures came in with the Restoration.

CONTRIBUTORS TO THIS NUMBER

Robert Penn Warren, poet, novelist, and critic, is Professor of English at Yale.

Robert Strausz-Hupé is director of the Foreign Policy Research Institute at the University of Pennsylvania.

Peter J. Larmour, author of *The French Radical Party in the 1930's*, is a member of the Department of History at Ohio State University.

Robert C. Elliott, Professor of English Literature at the University of California, San Diego, has published *The Power of Satire: Magic, Ritual, Art* and is now engaged in writing a book on the literature of utopia.

Norman A. Bailey teaches political science at Queens College and serves as a consultant in international economics. He has edited *Latin America: Politics, Economics, and Hemisphere Security*.

Trim Bissell, a young poet only once previously published (in *Poetry*), has just completed his first year of teaching at Earlham College.

George Starbuck's second collection of poems, *White Paper*, will be published in October. During the past year he has been teaching in the Writers Workshop of the University of Iowa.

Underlining and comments by Louis O. Kelso,

THE AMERICAN ECONOMY: POWER AND PARADOX

By NORMAN A. BAILEY

JOSÉ ORTEGA Y GASSET, who was perhaps the twentieth century's greatest philosopher, once wrote that true reaction is characterized not by its dislike for modernity but by its manner of dealing with the past: "There is only one way to dominate the past, the realm of things that have perished: to open our veins and inject some of our blood into the empty veins of the dead. This is what the reactionary cannot do: treat the past as a form of life. He pulls it out of the sphere of vitality, and, thoroughly dead as it is, he places it on its throne so that it may rule over our souls." This is perhaps nowhere so true as in the field of political economy, where yesterday's bright new ideas become today's dogmas and tomorrow's reaction.

The United States, the most economically advanced nation in the world, has for some time been experiencing a disturbing series of economic dilemmas, similar at least in their seeming defiance of solution. In the midst of plenty, poverty continues, and one "massive" governmental program after another fails to affect it. The stock market continues to act erratically, and seemingly without relation to actual economic conditions. The United States loses gold, and the measures taken to deal with our deteriorating balance of payments turn out to be mere stopgaps. Prices refuse to decline, regardless of recession or boom, and yet there is a distinct profit squeeze. Directly productive investments in the public sector, in health, education, and transportation, are relatively starved, while billions are paid out to people who do nothing or who produce commodities no one wants.

At the same time another series of seemingly unrelated events is taking place, events that puzzle many observers because they run counter to the economic currents of recent decades, and thus at first glance (the only glance most of us can give them) seem paradoxical, perverse, or worse. Governor Scranton of Pennsylvania, a "liberal" Republican, pushes a bill through his legislature (against violent opposition) to reduce and rationalize unemployment benefits; the mayor of a Connecticut city asks that all federal aid be terminated; the city manager of a New York town tries to reduce welfare payments; the Committee for Economic Development, made up of "liberal" businessmen and professional economists, issues a report supporting the "reactionary" right-to-work laws; a Presidential Commission attacks labor abuses on railroads (and much later the roads are still trying to abolish them); state power is increasingly used *against* unions; a chorus of voices, from business, labor, farm, and professional organizations, demands the gradual elimination of farm subsidies (with little result so far); the President of the American Economic Association suggests that minimum wage laws be repealed; four "liberal" writers publish books within weeks of each other entitled *Taxpayer's Hayride, The Great Treasury Raid, The Wasted Americans,* and *A Fair Day's Work,* attacking respectively the farm program, the tax structure, the welfare program, and monopoly labor.

Are these events isolated phenomena, aberrations, inexplicable treachery to the orthodoxy of today? More than anything else they remind us of the ferment currently going on in the Communist world (outside of the Chinese-dominated areas)—profits made and dividends paid in Yugoslavia and free farm markets; Soviet professors advocating incentives and the profit motive; Bulgarian suggestions that too much planning restricts the economy; competition and termination of central planning advocated in Poland; workers' income tied to profits of enterprises, a novel idea from Czechoslovakia. Those who refuse to examine these very un-Marxist notions are called "neo-dogmatists," and this term could perhaps be well applied to many in the United States who continue to regard themselves as progressive.

The developments in the Communist world to which I have just referred are part of an interrelated response awakened by the failures of the Communist economy. What is contended here is that many of the "inexplicable" problems and recent economic events in the United States are also interrelated and similarly arise from some central dislocation. There are too many of them, and the reaction to them is too violent to consider them isolated, unrelated events; and indeed, I believe, they are not.

For the past century and more, two parallel lines of economic thought and action have beset the world of public policy—the collectivist or socialist trend and the capitalist trend. There is no completely socialist country as envisioned by the original theorists, and complete government ownership of the means of production has predictably produced tyranny, not the genteel anarchy foreseen by Marx. There is no completely capitalist country either, of course, and perhaps it is time to put an end to sterile polemics and try new approaches to that most elusive of all combinations—prosperity *with* freedom.

Karl Marx and Friedrich Engels analyzed the first stage of capitalism with minute care and considerable success. They conceded that it was the essentially competitive aspect of the capitalist system that compelled entrepreneurs constantly to improve their methods and that made possible the unprecedented increases in production following the industrial revolution. But because they failed to see that capitalism was developing, not dying (failed, that is, to look upon the past as dynamic, not static), they went on to predict that low wage rates would prevent the working class from purchasing the goods the factories were producing; that the very progress of technological innovation would result in ever-greater unemployment, further reducing public purchasing power; that the amassing of unpurchased inventories would lead to economic collapse, so that production would be curtailed to clear inventories and prepare the way for another boom; and finally, that the ills of this repetitive cycle would grow more severe until the proletariat rose in revolt and destroyed bourgeois society.

The Marxist utopia translated into economic reality (the mongrel offspring of this analysis that is now in power in one-third of the world) unquestionably redistributed income, but concentrated capital to the utmost extent—in the hands of the state. And though Engels realized that the immense productive power of capitalism made human labor more and more superfluous, the straitjacket of the labor theory of value prevented his drawing the conclusions we do today. (It is probably unnecessary once again to refute the labor theory of value, but it seems to have more lives than the proverbial cat. What gives an object value is not the amount of labor that went into its fabrication, but rather the demand for it on the part of potential consumers. This can easily be illustrated by comparing the value of a drawing by Matisse which may have taken the master two or three minutes to do and which now sells for seven or eight hundred dollars with the value of those interminable novels that earnest but talentless people spend their whole lives writing and which, when finally completed, have a negative value—that is, the authors have to pay to have them published.)

The analysis of capitalism was carried a stage beyond Marx and Engels by Berle and Means in their classic work, *The Modern Corporation and Private Property*, in 1932. Berle and Means, of course, had the advantage of knowing that capitalism had developed quite differently from the ways predicted by Marx and Engels. In the second stage of capitalism enterprises owned by single persons or families were transformed into giant corporations owned by thousands—in some cases tens and hundreds of thousands—of individual shareholders. Although the well-known divorce between ownership and management has perhaps been overemphasized, the Berle and Means analysis of oligopolistic capitalism was a brilliant one. Their remedy was to encourage the rise of giant monopolistic labor and giant redistributive government as countervailing forces to the power of the great corporations and thus preserve our pluralistic society. Again, as with Marx and Engels, they recommended coercion to redistribute the income from the total capital holdings of society, while considering inevitable the greater and greater centralization of the capital itself. And yet unwittingly, perhaps, they foreshadowed a different possible development of capitalism. Speaking of the American Telephone and Telegraph Company of their day, they pointed out that 100 companies of the same size would control all of American wealth, would employ all of the

This what I told Berle in a group of about 100 executives in Aspen in 1963.

gainfully employed, *and would be owned by practically every family in the country.* (In 1932 the American Telephone and Telegraph Company had 570,000 shareholders. Today it has over two million.)

In 1958, in *The Capitalist Manifesto,* Kelso and Adler took as courageous a look at the remedies of Berle and Means and their consequences as Berle and Means had themselves taken when they looked at the corporate giants. What Kelso and Adler found was that monopoly labor and the redistributive state had indeed been set off against the corporate colossus, but that in the process the individual, supposedly the ultimate beneficiary of the democratic society, had been largely forgotten. What they proposed, for the first time, was the redistribution not of the income of capital but of capital itself, and contended that this would indeed free the individual, free him not only from his dependence on the giant state, corporation, or labor union, but also from the absolute necessity of remunerated work. They pointed out that much of the present work of society was simply make-work, and that even make-work would be insufficient to curb unemployment and inflation as long as full employment remained the goal. They proposed that employment be allowed to shrink, as persons with sufficient capital estates left the labor market. Fully remunerated employment, after all, is a meaningful goal only in a society where productive capital is not widely distributed and the major source of income is in the form of wages and salaries. Every individual, they argued, had the right to the fruits of his labor (property in labor), but many were without capital. Labor productivity was declining and had been for a long time, whereas capital productivity was rapidly increasing. Consequently, full employment of capital, not full employment of labor, was appropriate to a very advanced society. Just as the low return to labor had once been an economic injustice, the low return on capital was an injustice now.

we did not propose redistribution of anything. It is clear Bailey does not know the concept of the second economy, or appreciate the importance of protecting all private property.

Kelso and Adler were blithely ignored at the time they wrote, but it may be time to take another look at their theory, without necessarily becoming mesmerized by it. One reason perhaps for its neglect is that the authors presented their idea as a sort of general solution to just about everything, whereas if there is one thing certain about the future of the economic system, it is that it will bring with it its own new problems, whatever the old problems it may solve. For another thing, Kelso and Adler felt it necessary for the state to take all kinds of steps to *coerce* wider distribution of capital, whereas the distribution of income in the welfare stage was already supposed to be taking care of the problem of distribution.

In the first stage, then, of capitalist development (a continuous process, of course, not a clearly delineated period of time) capital was accumulated; in the second stage the income from that capital was widely distributed; in the incipient third stage, as a result of the distribution of income, capital has begun to be widely distributed. This is the thesis of this essay, and the argument is that the process should be encouraged, and not hindered.

Actually, it has not. Bailey simply does not understand the facts.

In 1800, total production was low and a greater portion of its value was due to the input of labor than to the input of capital. However, the share of produced wealth then returned to capital was greater than the share capital contributed to production, and the share returned to labor less than the share it contributed. The disproportionately large share returned to capital made possible the extremely rapid adoption of new machinery and techniques characteristic of capitalism's initial stage. As the century progressed, however, labor's share of produced wealth increased at first because of the increase in productivity of capital instruments, and later because of the rise of monopoly labor and the development of the welfare state. Simultaneously, as Engels and Marx foresaw, increasing mechanization caused a decrease in the contribution of labor to over-all production. Public purchasing power did not, however, decline in consequence, for capitalism placed ever-increasing amounts of wealth in the hands of the people as a whole.

It was in the second stage of capitalism that monopoly labor and the welfare state became the major redistributors of income, but the practice of paying to labor a greater portion of total production than it was entitled to (by a strict economic account-

As noted last page, the evidence is to the contrary.

Of these, only 3 million have viable estates

ing of its contribution to production increases) began in the first stage, when capitalists sought to increase their markets. Even in the heydey of "robber baron" capitalism, between 1870 and 1890, the share of capital in national income declined 6 percent while the share going to labor rose by 5 percent. It was during this same period that labor's total share of national income passed the 50 percent point. While the contribution of labor to productivity continued to decline through increasing investment in mechanization and the beginnings of automation, the size of the capitalist class began to grow and of the laboring class to decline in relation to the total population.

He overlooks the fact that the number of non-capitalists is multiplied proportionately faster than the number of capitalists

This trend has continued, so that there are about 20 million shareholders and only about 11 million industrial workers in the United States today. This is approximately the reverse of the situation that prevailed immediately following the second World War. In some cities as much as 26.6 percent of the *total* population (not of households) is now estimated to hold some stock. Further, I would argue, the growth of the capitalist class and the reduction of the laboring class is an inexorable part of the development of our economic system. It has proceeded apace despite the now counterproductive agencies of the welfare state and monopoly labor, and despite the fact that since the middle of the nineteenth century the rewards of labor have constantly increased and the rewards of capital constantly decreased. So much has this been the case that dividend income is little more than twice today what it was in 1929, while total personal income is five times as great. Dividends accounted for 6.7 percent of total personal income in 1929, but for only 3.4 percent in 1961. Between 1948 and 1957 labor took 121.8 percent of the gains resulting from increased productivity; capital's reward correspondingly shrank by 21.8 percent. In 1950, employee compensation was 63.7 percent of national income; by 1962, it was 70.2 percent.

this is misleading: there are 70 million workers

absolutely not true, except as [illegible] causes it. Reformed institutions are necessary

Consequently, today neither capital's nor labor's economic return bears any relation whatsoever to its contribution to production. That a family cannot live comfortably from the earnings of a $100,000 capital estate is not only absurd; it is an indica-

True

Very good

tion of the current internal crisis in the American economy. What might have logically been expected to happen is that an increasingly greater portion of produced wealth would flow to owners of capital and an increasingly smaller portion to labor, according to their numbers and contribution to production. Such a decrease in return to labor would mean, of course, not a decrease to the individual laborer, but a decrease in the percentage of total national income represented by wages and salaries; individual wage and salary scales would remain high and undoubtedly increase on the average.

If we now view some of our current economic puzzles against the background of the development of capitalism just sketched, we may find it possible to explain them as phenomena peculiar to the transitional period we are now experiencing. The economic system itself, having generated the momentum to make the second stage obsolete, is ready to move on to the third. However, by no means do I intend to imply economic determinism here. The capitalist process can be aborted at any point, as we have seen in Russia, China, Eastern Europe, and elsewhere; and it should be obvious to all by now that political power can be used to divert economic forces into unnatural channels (for how long, however, is questionable, judging from the recent economic and academic ferment behind the Iron Curtain). The position of monopoly labor, though seemingly unassailable now, is perhaps already seriously eroding, as membership and enthusiasm decline and as the state begins a tortuous process of lessening its support. The state itself, however, although only one power bloc among many in a pluralistic society, has at its disposal methods of defense and attack that are unavailable to other groups, and will not hesitate to use them if its position is threatened.

Only the 2nd Income Plan can make this necessary.

Nevertheless, the forces opposing societal change have always been strong, and at least in the United States, have always eventually been overcome. There is no reason why the growing capitalist class cannot organize and use its voting strength as effectively as labor once did. Although the unproductive and counterproductive portions of state spending would decline and eventually disappear, the political functions of the state, including the enormous item of defense, would continue, and greater sums could be devoted to transportation, health, and education. The continued necessity of massive defense spending ~~will~~ slow the changes suggested here by delaying tax reductions and thus reducing the incentive of corporations to pay out the ever-greater portions of their profit to shareholders that otherwise would more rapidly increase average return to capital.

this is what makes war

There is no harking back here to Manchesterian laissez-faire. It is important to stress that the first two stages of capitalism were the necessary antecedents of a hypothetical third. The first stage provided the essential accumulation of capital; the second stage distributed its fruits. During the second stage, the welfare state and monopoly labor were the principal means of the distribution of income, which in turn promoted the widespread ownership of capital. They also acted, in the political field, as countervailing powers to the great masses of corporate wealth. But today they seem to have outlived these ends. In the most advanced capitalist countries, certainly in the United States and probably in Canada, the welfare state and monopoly labor are obsolescent. Once vital to capitalist development, they are now counterproductive forces, working against the natural tendency of the economic system to enter its next stage of development.

Many interests—within government, labor, and, indeed, capital itself (corporate gain at the expense of individual gain)—are strongly resisting the continuing natural development of the capitalistic system. If left alone, however, the emergence of the third stage of capitalism would in fact appear to be just the treatment needed to heal those economic wounds that grieve us most, while undoubtedly creating new ones of its own.

The regulation of the stock market that has evolved since 1929 has been successful in reducing the incidence of outright fraud, but it has been spectacularly unsuccessful in preventing wild fluctuations of the market caused by speculation. Yet consider: the present average return on capital is so low that only those with large capital estates (perhaps exceeding $500,000) are generally interested in buying stock for investment; the majority of those active in the market are more interested in buying for speculation, since only capital gains yield substantial amounts of money. If, however, the future development of capitalism were to free corporations from excessive taxation and labor costs, and it would become possible for business to realize all its capital needs through the issue of more common stock instead of through retained earnings and borrowed money, then the general yield of capital could be substantially raised from the present four percent more or less, and the majority of those with capital would invest in stocks for income rather than for speculative gains, and greater market stability would result. The Keynesian paradox would simply vanish: saving and investment would again become undiluted virtues.

True

Unemployment would be reduced, and automation would clearly become the boon it should be rather than the threat it now seems. Many of those with sufficient capital estates would be replaced in the remunerated labor market from below by the unemployed. In other words, there should be a continuous outflow from the labor market; it should progressively shrink. Sustained full employment (directly *productive* employment) is unattainable through the laws of the market economy under capitalism at this stage in its development. Full employment can be achieved only by artificial stimulation and coercion and therefore is harmful to future growth.

Good insight.

Price stability would be another effect of the economic changes. The economic return, no longer absorbed by monopoly labor and the state, could either increase the return to capital, or reduce prices. Most likely it would result in a combination of both.

The continuing evolution of the capitalist system would affect not only domestic problems. The deterioration of the balance of payments, for instance, would be reversed when the gradual increase in the domestic return to capital began to attract additional capital from abroad. Lower domestic prices would also tend to expand exports.

Politically, too, the future of capitalism is of extreme importance, and not only because of the cold war. One of the mainstays of social stability has historically been the independent farmer; but in advanced capitalist countries his position is weakened and his number has dwindled dramatically. He should be replaced, not by the propertyless worker, bureaucrat, technician, or manager, but by the independent capitalist, who will have vested, rather than professional, class interests.

I am then contending that the breakup of monopoly labor and the reduction of the economic functions of the state should be looked upon not as reactionary measures, but rather as the natural developments of the future, and therefore progressive, and that pluralistic society and consensual government will be *aided* by the reduction in the power of these two blocs, coupled with the continued reduction in power of the aggregate corporate bloc, now feeding on a wealth and control internally maintained through autonomous managerial manipulation using retained earnings and borrowed money.

Very Good

Breaking the wage-job link in our minds may free our thought processes sufficiently to speculate a bit concerning that about which none of us knows anything—the future. The new society that we might expect to take shape would consist primarily of shareholders, who, to a greater or less degree, would be able to live from the earnings of their capital estates, rather as the independent but not necessarily wealthy farmer has been doing all along. There would also be a large and overlapping class of managers, technicians, scientists, and engineers, and, finally, a certain number of unskilled, semi-skilled, and skilled manual laborers, although the number needed and employed would be drastically reduced. A recent announcement by the Pullman Corporation that it is testing an "all-purpose robot" may indicate to the farsighted the eventual complete replacement of the manual laborer in industry. Even today, trade union membership, despite favorable legislation and government support, is declining under the pressures of economic reality. In the simplest possible terms, the third stage of capitalism would have as its distinguishing characteristic the continuing spread of capital ownership throughout the population, together with a gradual disappearance of the economic functions of the welfare state and the destruction of monopoly labor, no longer needed for the protection of the working class. In any case, the laboring class would continue to shrink and the capitalist class swell in numbers. This development would accelerate as the share of national wealth going to shareholders increases and the portion going to wage earners or confiscated by the state decreases. By the year 2000 or so, we could expect to see the establishment of a true "people's capitalism." - A meaningless word.

No. Without the Second Income Plan the totalitarian Welfare State seems inevitable.

Utopia? I think not. If it is claimed that by lowering state spending economic growth would be stunted, it can be answered that the state will continue to spend on many things, and in any case what it does not tax from the people will be spent directly by the people without having its economic effect diluted by the transfer cost of coercive redistribution by the state. It would be a strange utopia, in any case, that might well still be faced with the threat of nuclear obliteration. Finally, the educators can contemplate the task of teaching a nation to use what will in many cases be total leisure productively, not from the material, but from the spiritual standpoint (and this in a society that has largely lost its faith). If utopia means a society without problems, this will not be utopia.

The welfare, or economic redistribution state, that is.

Still, from the purely economic standpoint, we may have come full cycle again to Marx and Engels. Capitalism has developed so that the instruments of production can now be truly in the hands of "society." The state in many of its economic functions, can "wither away," although its political functions would subsist. Engels wrote, "State ownership . . . is not the solution of the conflict: [this] can only come about by society openly and directly taking possession of the productive forces." True enough. What the followers of Engels and Marx forgot, however, Ortega reminds us of: "Only parts do exist in fact; the whole is an abstraction of the parts and it depends on them."