CAPITAL AND LABOR
A FAIR DEAL

EXTRACTS FROM AN ADDRESS

BY

OTTO H. KAHN

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Extracts from an address by Mr. Kahn before Carnegie Institute, Pittsburgh, April 24, 1919

THE principle on which all concerned should deal with the labor question appears to me plain. It is the principle of the Golden Rule. I think the formula should be that, first, labor is entitled to a living wage; after that, capital is entitled to a living wage; what is left over belongs to both capital and labor, in such proportion as fairness and equity and reason shall determine in all cases.

The application of that formula is, of course, complex and difficult, because there are so many different kinds of labor, there are so many different kinds of capital. Not infrequently the laborer and capitalist overlap and merge into one. You have skilled labor and unskilled labor and casual labor, you have the small employer, the large individual employer, the corporate employer, the inventor, the prospector, etc. And then, circumstances and conditions vary greatly, of course, in different parts of the country and in different industries.

It is impossible to measure by the same yardstick everywhere, but the principle of fairness can be
stated, the desire can be stated to do everything possible to bring about good feeling and good understanding between labor and capital, and willingly and freely to co-operate so that labor shall receive its fair share in the fruits of industry, not only by way of a wage return, but of an adequate return also in those less tangible things which make for contentment and happiness.

It seems to me that, in the main, right-thinking men of capital and of labor would concur in the following points:

1. The workman is neither a machine nor a commodity. He is a collaborator with capital. (I do not use the word "partner," because partnership implies sharing in the risks and losses of the business, which risks and losses labor does not and cannot be expected to share, except to a limited extent and indirectly.) He must be given an effective voice in determining jointly with the employer the conditions under which he works, either through committees in each factory or other unit, or through labor unions, or through both. Individual capacity, industry and ambition must receive encouragement and recognition. The employer's attitude should not be one of patronizing or grudging concession, but frank and willing recognition of the dignity of the status of the worker and of the consideration due to him in his feelings and viewpoints.

Everything practicable must be done to infuse interest and conscious purpose into his work, and to diminish the sense of drudgery and monotony of his daily task. The closest possible contact must be
maintained between employer and employee. Arrangements for the adjustment of grievances must be provided which will work smoothly and instantaneously. Every feasible opportunity must be given to the workman to be informed as to the business of which he forms a part. He must not be deprived of his employment without valid cause. For his own satisfaction and the good of the country, every inducement and facility should be extended to him to become the owner of property.

Responsibility has nearly always a sobering and usually a broadening effect. I believe it to be in the interest of labor and capital and the public at large that workmen should participate in industrial responsibilities to the greatest extent compatible with the maintenance of needful order and system and the indispensable unity of management. Therefore, wherever it is practicable and really desired by the employees themselves to have representation on the Board of Direction, I think that should be conceded. It would give them a better notion of the problems, complexities and cares which the employer has to face. It would tend to allay the suspicions and to remove the misconceptions which, so frequently, are the primary cause of trouble. The workman would come to realize that capitalists are not, perhaps, quite as wise and deep as they are given credit for, but, on the other hand, a good deal less grasping and selfish than they are frequently believed to be, a good deal more decent and well meaning, and made of the same human stuff as the worker, without the addition of either horns or claws or hoofs.

2. The worker’s living conditions must be made dignified and attractive to himself and his family. Noth-
ing is of greater importance. To provide proper homes for the workers is one of the most urgent and elementary duties of the employer, or, if he has not the necessary means, then it becomes the duty of the State.

3. The worker must be relieved of the dread of sickness, unemployment and old age. It is utterly inadmissible that because industry slackens, or illness or old age befalls a worker, he and his family should therefore be condemned to suffering or to the dread of suffering. The community must find ways and means of seeing to it, by public works or otherwise, that any man fit and honestly desirous to do an honest day's work shall have an opportunity to earn a living. Those unable to work must be honorably protected. The only ones on whom a civilized community has a right to turn its back are those unwilling to work.

(Some of you may regard certain of the foregoing suggestions as closely approaching Socialism. I believe, on the contrary, that measures of the kind and spirit I advocate, so far from being in accord with the real Socialist creed and aim, would be in the nature of effective antidotes against Socialism and kindred plausible fallacies.)

4. The worker must receive a wage which not only permits him to keep body and soul together, but to lay something by, to take care of his wife and children, to have his share of the comforts, joys and recreations of life and to be encouraged in the practice and obtain the rewards of thrift.

5. Labor, on the other hand, must realize that high wages can only be maintained if high production is maintained. The restriction of production is a sinister and harmful fallacy, most of all in its effect on labor.

The primary cause of poverty is under-production. Furthermore, lessened production naturally makes for
high costs. High wages accompanied by proportionately high cost of the essentials of living don't do the worker any good. And they do the rest of the community a great deal of harm. The welfare of the so-called middle-classes, i.e., the men and women living on moderate incomes, the small shopkeeper, the average professional man, the farmer, etc., is just as important to the community as the welfare of the wage-earner. If through undue exactions, through unfair use of his power, through inadequate output, the workman brings about a condition in which the pressure of high prices becomes intolerable to the middle classes, he will create a class animosity against himself which is bound to be of infinite harm to his legitimate aspirations. Precisely the same, of course, holds true of capital.

The advent of the machine period in industry somewhat over a century ago brought about a fundamental and violent dislocation of the relationship which had grown up through hundreds of years between employer and employee. The result has been a grave and long-continued maladjustment. In consequence of it for a long period in the past, it must be admitted, unfortunately, labor did not secure a square deal, and society failed to do anything like its full duty by labor. But, more and more of recent years, the conscience and thought of the world have awakened to a recognition of the rights of the working people. Much has been done of late to remedy that maladjustment, the origin of which dates back to the beginning of the Nineteenth Century. The process
of rectification has not yet been completed, but it is going on apace. Meanwhile, laboring men should take heed that, in their rightful resentment against former practices of exploitation and in their determination to obtain the redress of just grievances, they do not permit themselves to be misled by plausible fallacies or self-seeking agitators. They must not give credence, for instance, to the absurd preachment that practically all wealth other than that produced by the farmer, is the product of the exertions of the workingman.

There are, of course, a number of other factors that enter into the creation of wealth. Thus, the "directive faculty," the quality of leadership in thought and action is not only one absolutely needful in all organized undertakings, great or small, but it becomes increasingly rare and, consequently, increasingly more valuable as the object to which it addresses itself increases in size, complexity and difficulty.

Let us take as an example the case of Mr. Henry Ford. Through the organizing genius and enterprise of this absolutely self-made man (not by monopoly, but in keen competition), the automobile, instead of being a luxury of the few, has been brought within the reach of those of modest means.

The cost of the product has been vastly cheapened. The margin of profit on each automobile sold has been greatly diminished. Wages have been very
largely increased, the living conditions of employees greatly improved. Work has been found for a great many more men than were employed before.

In other words, every single human factor concerned in either production or consumption has been advantaged. New wealth has been created at the expense of no one. It cannot be said that it was created by the workingman, except in the physical sense. It was not created by either monopoly or privilege. It was created mainly out of Mr. Ford's brain and at his risk.

By far the largest percentage of this new wealth goes to pay the wages of workingmen and other expenses of the business, but out of what is left, Mr. Ford's share is, by common report, in excess of $1,000,000 a year.

Did Mr. Ford earn $1,000,000 in one year? If not, how much did he earn? By what scale would you measure the proportion due to him of the new wealth created mainly by his faculties?

If he had not been allowed to earn the large sums which he did earn, how and where could he have found the means to enlarge and improve his factory, so as to make possible an enterprise which immensely cheapened the product to the consumer and largely increased the wages to the workingman and the opportunity for employment? Is there any instance where communistic or even merely co-operative undertakings have produced similar results? Is there
any instance where governmental management has produced similar results?

Or, to take another instance: The State of Florida existed long before Mr. Henry M. Flagler came upon the scene, but its opportunities were permitted by its people and government to lie largely dormant until Mr. Flagler risked his fortune and employed the power of his creative genius to realize the visions which he conceived as to the possibilities of that beautiful and richly endowed portion of our national domain. The new wealth, growth and opportunities which were created by Mr. Flagler's daring and far-flung enterprise, undertaken and carried out by him almost single-handed in the face of scoffing and discouragement and vast difficulties, are almost incalculable. A portion of that new wealth—a considerable portion regarded by itself, but utterly insignificant as compared to the total enrichment of individuals as well as of communities, the state, and the nation—went to Mr. Flagler. Did he earn that reward? Can it be denied that his directive faculty and pioneering genius were a splendid investment to the people of Florida and of the nation, at the compensation he received?

It would be easy to multiply similar instances testifying to the vast additions made to the assets of the community by the genius, daring and efforts of men endowed with the gifts of industrial captaincy.
In a recently published, very able, pamphlet entitled “Industrial Salvation,” Miss Christabel Pankhurst, the well-known English leader in the cause of woman suffrage, says:

“Certain Socialists, who ought to know better, have falsely taught that the poverty or semi-poverty of the many is due to the luxurious living of the prosperous sections of the community. This is not the truth, and if through all the years of Socialist preachings the result of each year’s industrial effort had been divided equally among the members of the community, there would have been no appreciable increase of prosperity for any, and there would have been one dead level of poverty for all.”

The way to progress is not to pull everybody down to a common level of mediocrity, but to stimulate individual effort, and strive to raise the general level of well-being and opportunity.

It is not material success which should be abolished; it is poverty and justified discontent which should be abolished.

We cannot abolish poverty by division, but only by multiplication.

It is not by the spoliation of some, but by creating larger assets and broader opportunity for all, that national well-being can and must be enhanced.

I wonder how many people realize that, if all incomes above $10,000 were taken and distributed among those earning less than $10,000, the result, as
near as it is possible to figure out, would be that the income of those receiving that distribution would be increased barely ten per cent.

And the result of any such division would be an immense loss in national productivity by turning a powerful and fructifying stream into a mass of rivulets, many of which would simply lose themselves in the sand.

I wonder how many people know that the frequent and loud assertion that the great bulk of the wealth of the nation is held by a small number of rich men, is wholly false; and that the fact is, on the contrary, that seven-eighths of our national income goes to those with incomes of $5,000 or less, and but one-eighth to those with incomes above $5,000. Moreover, those in receipt of incomes of $5,000 or less, pay little or no income tax, while those having large incomes are subjected to very heavily progressive income taxes.*

*As bearing upon the mischievous allegation so frequently and recklessly made by inciters to class hatred, that capital appropriates to itself the lion's share of the value of the workers' product, certain figures recently quoted in the New York Tribune are interesting:

A recent compilation concerning some sixty of the best industrial companies in Germany, over a period of ten years, ending April 1, 1918, showed that out of each $1,000 earned, $767 went to labor, $117 to meet taxes, and $116 to pay dividends to investors.

If the entire amount thus paid out in dividends on capital had been turned over to the workmen instead, i.e., if the compensation to capital had been entirely eliminated, the result would have been that the average rate of wages would have been increased by less than three cents per hour.

I have not the data available for a similar analysis of the ratio of distribution of the fruits of industry between capital and labor in America, but from such cursory investigation as I have made, I am satisfied that the resulting picture here would not be very different from that which the investigation in Europe has disclosed.
We have often heard it said recently—it has become rather the fashion to say it—that the rulership of the world will henceforth belong to labor. I yield to no one in my respect and sympathy for labor, or in my cordial and sincere support of its just claims. The structure of our institutions cannot stand unless the masses of workmen, farmers, indeed all large strata of society, feel that under and by these institutions they are being given a square deal within the limits, not of Utopia, but of what is sane, right and practicable.

But the rulership of the world will and ought to belong to no one class. It will and ought to belong neither to labor nor to capital, nor to any other class. It will, of right and in fact, belong to those of all classes who acquire title to it by talent, hard work, self-discipline, character and service.

He is no genuine friend or sound counselor of the people nor a true patriot who recklessly, calculatingly or ignorantly raises or encourages expectations which cannot or which ought not to be fulfilled.

We must deal with all these things with common sense, mutual trust, with respect for all, and with the aim of guiding our conduct by the standard of liberty, justice and human sympathy. But we must rightly understand liberty. We must resolutely oppose those who in their impatient grasping for unattainable perfection would make of liberty a raging and
destructive torrent instead of a majestic and fertilizing stream.

Liberty is not fool-proof. For its beneficent working it demands self-restraint, a sane and clear recognition of the reality of things, of the practical and attainable, and a realization of the fact that there are laws of nature and of economics which are immutable and beyond our power to change.

Nothing in history is more pathetic than the record of the instances when one or the other of the peoples of the world rejoicingly followed a new lead which it was promised and fondly believed would bring it to freedom and happiness, and then suddenly found itself, instead, on the old and only too well-trodden lane which goes through suffering and turmoil to disillusionment and reaction.

I suppose most of us when we were twenty knew of a short-cut to the millennium and were impatient, resentful and rather contemptuous of those whose fossilized prejudices or selfishness, as we regarded them, prevented that short-cut from becoming the high road of humanity.

Now that we are older, though we know that our eyes will not behold the millennium, we should still like the nearest possible approach to it, but we have learned that no short-cut leads there and that anybody who claims to have found one is either an impostor or self-deceived.
Among those wandering sign-posts to Utopia we find and recognize certain recurrent types:

There are those who in the fervor of their world-improving mission discover and proclaim certain cure-alls for the ills of humanity, which they fondly and honestly believe to be new and unfailing remedies but which, as a matter of fact, are hoary with age, having been tried on this old globe of ours at one time or another, in one of its parts or another, long ago—tried and found wanting and discarded after sad disillusionment.

There are the spokesmen of sophomorism rampant, strutting about in the cloak of superior knowledge, mischievously and noisily, to the disturbance of quiet and orderly mental processes and sane progress.

There are the sentimental, unseasoned, intolerant and cocksure "advanced thinkers" claiming leave to set the world by the ears, and with their strident and ceaseless voices to drown the views of those who are too busy doing to indulge in much talking.

There are the self-seeking demagogues and various related types, and finally there are the preachers and devotees of liberty run amuck, who in fanatical obsession would place a visionary and narrow class interest and a sloppy internationalism above patriotism, and with whom class hatred and envy have become a ruling passion. They are perniciously, ceaselessly and vociferously active, though constituting but a small minority of the people, and
though every election and other test has proved, fortunately, that they are not representative of labor, either organized or unorganized.

Among these agitators and disturbers who dare clamorously to assail the majestic and beneficent structure of American traditions, doctrines and institutions there are some, far too many, indeed—I say it with deep regret, being myself of foreign birth—who are of foreign parentage or descent. With many hundreds of thousands they or their parents came to our free shores from lands of oppression and persecution. The great republic generously gave them asylum and opened wide to them the portals of her freedom and her opportunities.

The great bulk of these newcomers have become loyal and enthusiastic Americans. Most of them have proved themselves useful and valuable elements in our many-rooted population. Some of them have accomplished eminent achievements in science, industry and the arts. Certain of the qualities and talents which they contribute to the common stock are of great worth and promise.

When the great test of the war came, the overwhelming majority of them rang wholly and finely true. The casualty lists are eloquent testimony to the patriotic devotion of "the children of the crucible," doubly eloquent because many of them fought against their own kith and kin.
But some there are who have been blinded by the glare of liberty as a man is blinded who after long confinement in darkness, comes suddenly into the strong sunlight. Blinded, they dare to aspire to force their guidance upon Americans who for generations have walked in the light of liberty.

They have become drunk with the strong wine of freedom, these men who until they landed on America's coasts had tasted little but the bitter water of tyranny. Drunk, they presume to impose their reeling gait upon Americans to whom freedom has been a pure and refreshing fountain for a century and a half.

Brooding in the gloom of age-long oppression, they have evolved a fantastic and distorted image of free government. In fatuous effrontery they seek to graft the growth of their stunted vision upon the splendid and ancient tree of American institutions.

Admitted in generous trust to the hospitality of America, they grossly violate not only the dictates of common gratitude, but of those elementary rules of respect and consideration which immemorial custom imposes upon the newcomer or guest. They seek, indeed, to uproot the foundations of the very house which gave them shelter.

We will not have it so, we who are Americans by birth or by adoption. We reject these impudent pretentions. By all means, let us move forward and upward, but let us proceed by the chart of reason,
experience and tested American principles and doctrines, and let us not entrust our ship to demagogues, visionaries or shallow sentimentalists who most assuredly would steer it on the rocks.

When you once leave the level road of Americanism to set foot upon the incline of Socialism, it is no longer in your power to determine where you will stop. It is an axiom only too well attested by the experience of the past, that the principal elements of the established order of civilization (of which the institution of private property is one) are closely interrelated. If you tolerate grave infringement upon any of these elements, all history shows that you will have laid open to assault the foundations of personal liberty, of orderly processes of government, of justice and tolerance, as well as the institution of marriage, the sanctity of the home, and the principles and practices of religion.

The strident voices of the fomenters of unrest do not cause me any serious apprehension, but we must not sit silently by, we must not look on inactively. Where there are grievances to redress, where there are wrongs existing, we must all aid in trying to right them to the best of our conscience and ability.

To the extent that social and economic institutions, however deep and ancient their roots, may be found to stand in the way of the highest achievable level of social justice and the widest attainable extension
of opportunity, welfare and contentment, they will have to submit to change. And the less obstructive and stubborn, the more broad-minded, co-operative, sympathetic and disinterested those who pre-eminently prospered under the old conditions will prove themselves in meeting the spirit of the new day and the reforms which it may justly call for, the better it will be both for them and for the community at large.

But to the false teaching and the various pernicious "isms" with which un-Americans, fifty per cent. Americans or anti-Americans are flooding the country, we must give battle through an organized, persistent, patient, nationwide campaign of education, of information, of sane and sound doctrine. The masses of the American people want what is right and fair, but they "want to be shown." They will not simply take our word for it that because a thing is so and has always been so, therefore it should remain so. They do not mean to stand still. They want progress. They have no use for the standpatter and reactionary.

Even before the war a great stirring and ferment was going on in the land. The people were groping, seeking for a new and better condition of things. The war has intensified that movement. It has torn great fissures in the ancient structure of our civilization. To restore it will require the co-operation of all patriotic men of sane and temperate views, whatever may be their occupation or calling or political affiliations.
It cannot be restored just as it was before. The building must be rendered more habitable and attractive to those whose claim for adequate house-room cannot be left unheeded, either justly or safely. Some changes, essential changes, must be made. I have no fear of the outcome and of the readjustment which must come. I have no fear of the forces of freedom unless they be ignored, repressed or falsely or selfishly led.

Changes the American people will make as their needs become apparent, improvements they welcome, the greatest attainable well-being for all those under our national roof-tree is their aim. They will strive to realize what formerly were considered unattainable ideals. But they will do all that in the American way of sane and orderly progress—and in no other.

Whatever betide in European countries, this nation will not be torn from its ancient moorings. Against foes within no less than against enemies without, the American people will ever know how to preserve and protect the splendid structure of light and order, which is the treasured inheritance of all those who rightfully bear the name Americans, whatever their race and origin.
With the Compliments of

OTTO H. KAHN

52 William Street
New York