

CLASSIC REPRINT SERIES

THE CAPITALIST CLASS



by
Karl Kautsky

Forgotten Books

Karl Kautsky
The Capitalist Class
(1911)

Source: *The Capitalist Class*, National Executive Committee Social Labor Party, 1911. [?]

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Transcribed: Sally Ryan for marxists.org, July 2002.

Introductory

- I. Commerce and Credit
- II. Division of Labor and Competition
- III. Profit
- IV. Groundrent
- V. Taxes
- VI. The Lowering of the Rate of Profit
- VII. The Growth of Large Production-Syndicates and Trusts
- VIII. Industrial Crises
- IX. Chronic Overproduction

Introductory

The Capitalist Class is the second one of the *Kautsky Pamphlets*. The first of the series is *The Working Class*, the third *The Class Struggle*, and the fourth *The Socialist Republic*. For information relative to the origin of the pamphlets, their scope, meaning of terms used, and suggestions for more extensive research, the reader is referred to the preface to *The Working Class*. The foot-notes in that pamphlet will also be of aid in getting a firm grasp of the facts brought forward in *The Capitalist Class*.

Chapter I

Commerce and Credit

In countries like the United States, where the capitalist system of production prevails, the masses of the people are forced down to the condition of proletarians, that is to say, of workers who are divorced from their instruments of production to the extent that they can produce nothing by their own efforts, and are therefore compelled, in order to escape starvation, to sell the only commodity they possess – their labor-power. To this class virtually belong, in fact, the majority of the farmers and small producers and merchants; the little property they still possess is to-day but a thin veil, calculated rather to conceal their dependence and the exploitation to which they are subjected than to prevent these; any little gust raises and carries away the veil.

Over against this class, we find a small crowd of property-holders – capitalists and landlords – who alone own the most important machineries of production and the most important sources of livelihood, the exclusive ownership of all of which invests them with the power and the ability to subjugate the propertiless class, and to exploit them.

While the majority of the people sink ever deeper in want and misery, it is this small band of capitalists and landlords alone, who, together with their parasites, appropriate all the prodigious advantages that have been wrung from nature, especially through the progress made by the natural sciences, and their practical application.

Let us take a closer look at this select band; let us observe the role it plays in the economic life or society, and the results therefrom upon society.

Merchants' Capital, Usurers' Capital, Industrial Capital.

There are three sorts of capital: merchants' capital, usurers' capital, and industrial capital. The last of these is the youngest; it is not as many centuries as the other two are thousands of years old; but the youngest of these brothers has grown faster, much faster, than either of his seniors; he has become a giant, who has enslaved and forced them into his service.

in its classic form, small production was not dependent upon commerce. The farmer and the mechanic could acquire the means of production, in so far as they needed any, direct from the producer; furthermore, they could sell their product directly to the consumer. Commerce, at that stage of the economic development, catered especially to luxury; it was not then a matter of necessity, either for the promotion of production or for the support of society.

Relation of Commerce to the Capitalist System of Production

Capitalist production, however, is from the very start thrown upon commerce, and vice versa, from a certain stage on, commerce needs capitalist production for its further development. The further the capitalist system of production extends, and the more absolute it becomes, the more requisite is the development of commerce to the whole body economic. Commerce to-day no longer caters simply to

superfluity and luxury. The whole system of production, yea, even the sustenance of the people in a capitalist country, depends now upon the free and unrestricted action of commerce. This is one of the reasons why to-day war is more devastating than ever; it interrupts commerce, and that has become tantamount to a stoppage of production, to a suspension of economic life, and to an industrial ruin that spreads beyond the field of battle, and is not less mischievous than the devastation that takes place there.

Relation of Usury to the Capitalist System of Production

As important as the development of commerce, is the development of usury to the capitalist system of production. In the days of small production, the usurer was simply a leech, who profited by the distress or the improvidence of others to suck their blood. The money which he loaned to other's was, as a rule, put only to unproductive uses. If, for instance, a nobleman borrowed money, he did so to spend it in debauch; if a farmer or a mechanic borrowed money, it was mainly to pay his taxes, or some other government dues; neither, as a rule, needed originally any money for productive purposes: they owned their own instruments of production, or acquired them by barter. In those days, interest was considered immoral, and was everywhere condemned.

Under the capitalist system of production, the thing takes on another aspect. Money is now a means whereby to establish a capitalist industry, to buy and to exploit labor power. When a capitalist raises money to-day in order to establish a factory, or to enlarge one already in existence, it does not follow – provided, of course, his undertaking prosper – that

his previous income will be reduced by the interest on the loan. The loan, on the contrary, helps him to exploit labor-power, consequently, to increase his income by an amount larger than the interest which he will have to pay. Under the capitalist system of production, usury loses its original character. Its role as a means for the exploitation of distress or improvidence is pushed to the rear by a new one: that of "fructifying" the capitalist system of production – that is to say, to enable its development to proceed faster than it otherwise would by the mere hoarding of capital in the vaults of the industrial capitalists. From that moment, the horror once entertained for the usurer comes to an end; he now becomes a spotless character, and he receives a brand new and euphonious name: CREDITOR.

Simultaneously with this metamorphosis, the principal current of interest-bearing capital underwent a wonderful change. The moneys, which the usurers heaped up in their vaults, flowed formerly *out* of that reservoir, through a thousand channels, *into* the hands of non-capitalists. To-day, on the contrary, the vaults of the usurers, the institutions of credit, have become the reservoirs *into* which there now, through a thousand channels, moneys *from* non-capitalists, and out of which these moneys are then conveyed to the capitalists. Credit is to-day, just the same as it was formerly, a means whereby to render non-capitalists – whether property-holders or propertiless – subject to the payment of interest; to-day, however, it has furthermore become a powerful instrument wherewith to convert into capital the property in the hands of the various classes of non-capitalists, from the large estates of endowed institutions down to the pennies saved by servant girls and day-laborers. In other words, it has become an instrument

for breaking up the former, and for the intensified exploitation of the latter. People praise the present institutions of credit, savings banks, etc., upon the plea that, as the praise-singers of the present social order claim, they turn the small savings of the workmen, servant girls, and farmers into capital, and these unfortunates themselves into "capitalists." Nevertheless, the only object in collecting the moneys of non-capitalists is to place at the disposal of capitalists an increased quantity of capital to the end of accelerating the development of the capitalist system of production, in the shape of loans to capitalists whereby these may "improve" their plants. What this, however, means to wage-workers, small farmers, mechanics, and small producers and merchants is their ruin. In proportion as the capitalist system of production develops, the small man goes by the board, workingmen are displaced, and the condition of the working class declines. In a word, the class of the proletariat swells.

Relation of Institutions of Credit (Banks) to the Capitalist System of Production

At the same time that the present institutions of credit are intent upon converting the whole property of non-capitalists into capital, and to place it at the disposal of the capitalist class, they see to it that the capital of the capitalist class itself is better utilized than before. They become the reservoir for all the moneys which the Individual capitalist may, from time to time, have no occasion to use, and they make these sums, which otherwise would have lain "dead," accessible to such other capitalists as may stand in need of them. Furthermore, they make it possible to convert merchandise into money before it is sold, and thereby to diminish the

quantity of money capital that may be needed at a given time in a business undertaking.

Through all these means the quantity and the power of the capital at the disposal of the capitalist class is enormously increased. Hence it is that credit has now become one of the most powerful levers of the capitalist system of production. Next to the great development of machinery and the creation of the reserve army of unemployed labor, which the capitalist class conjures into existence for the purpose of keeping the employed in a manageable frame of mind, credit is the principal cause of the rapidity with which the present system of production is carried on, and which enables modern production – whether industrial or agricultural – to shoot up and develop mightily, responsive to the slightest pressure.

Credit is, however, much more sensitive than commerce to any disturbance. Every shock it receives is felt throughout the body economic.

Many an alleged political economist has looked upon credit as a means whereby people without any, or with little, property could be turned into capitalists. But as its name indicates, credit rests upon the confidence of him who gives in him who takes credit. The more the latter possesses, the greater is the security which he offers, and the greater is the credit which he enjoys. Consequently, credit is only a means whereby more money may be furnished to the capitalists than they possess, thereby increasing their preponderance, and drawing sharper the social antagonisms, instead of weakening or removing them.

To sum up, credit is not only a means to develop the capitalist system of production more quickly, and to enable it to turn to use every favorable opportunity; it is also a means to promote the downfall of small production and trade; but last (though not least) and significant enough, it is a means to render the springs of modern industry more and more complicated and liable to disturbance, to carry the feeling of uncertainty into the ranks of the capitalists themselves, and to make the ground upon which they move ever more shaky.

Chapter II

Division of Labor and Competition

While, on the one hand, the industrial development draws commerce and credit in ever closer relation with industry, it brings about, on the other hand, the result that, by reason of the increased division of labor, the various functions which the capitalist has to fulfil in the body politic split up ever more and more and become separate undertakings and institutions. Formerly, it was the merchant's function not only to buy and to sell goods, but also to carry them often to very distant markets. He had to assort his goods, display and render them accessible to the individual purchaser. To-day, there is a division of labor not between wholesale and retail trade only; we also find large undertakings for the transportation and for the storing of goods. In those large central markets called exchanges, buying and selling have to such an extent become separate pursuits and freed themselves from the other functions commonly appertaining to the merchant, that, not only are goods located in distant regions or not yet even produced, bought and sold there, but goods are bought without the purchaser intending to take possession of them, and others are sold without the seller ever having had them in his possession.

Division of Labor in the Ranks of the Capitalist Class

In former days a capitalist could not be conceived without accompanying the thought with a large safe in which money was collected, and out of which he took the funds which he needed to make payments. To-day the treasury of the capitalist has become the subject or a separate occupation in all industrially advanced countries, especially England and America. The *bank* has sprung up. Payments are no longer made to the capitalist, but to his bank; and from his bank, not from him, are his debts collected. And so it happens that a few central concerns perform to-day the functions of treasury for the whole capitalist class in the country.

But, although the several functions of the capitalists thus become the functions of separate undertakings, they do not become independent of each other except in appearance and legal form; economically, they remain as closely bound to and dependent upon each other as ever. The functions of any of these undertakings could not continue if those of any of the others with which they are connected in business were to be interrupted.

The more commerce, credit, and industry become interdependent, and the more the several functions of the capitalist class are assumed by separate undertakings, the greater is the dependence of one capitalist upon another. Capitalist production becomes, accordingly, more and more a gigantic body, whose various limbs stand in the closest relation to each others. Thus, while the masses of the people are ever more dependent upon the capitalists, the capitalists themselves become ever more dependent upon one another.

The economic machinery of the modern system of production constitutes a more and more delicate and complicated mechanism, the correct action of which depends ever more upon the exact fitness of its innumerable wheels, and the exact fulfilment of their respective roles. Never yet did any system of production stand in such need of planful regulation as does the present one. While the several industries become, in point of fact, more and more dependent upon one another, in point of law they remain wholly independent.

The means of production of every single industry are private property; their owner can do with them as he pleases.

Free Competition in the Ranks of the Capitalist Class

The more completely large production develops, the larger every single industry becomes, the greater is the order to which the economic activity of each is reduced, and the more accurate and well considered is the plan upon which each is carried on, down to the smallest details. Outside of that, however, the joint operation of the various industries is left to the impulse of *free competition*; and it is at the expense of a prodigious waste of power and of matter, and across economic shocks called crises, which up to a certain time increase in violence, but which subsequently become so chronic as to cease to call much attention, that free competition keeps the economic mechanism in motion. It moves with fits and starts. The process goes on, not by putting every one in his proper place, but by crushing every one who stands in the way. This is what is called "the selection of the fittest in the struggle for existence." The fact is, however, that competition crushes, not so much the truly

unfit, as those who happen to stand in the wrong place, and who lack either the special qualifications, or, what is more important, the necessary *capital* to survive. But competition is no longer satisfied with crushing those who are unequal to the “struggle for existence.” The destruction of every one of these draws in its wake the ruin of numberless other beings who stood in economic connection with the bankrupt concern-wage-workers, creditors, etc.

“Every man is the architect of his own fortune,” so runs the favorite proverb. This proverb is an heirloom from the days of small production, when the fate of every single breadwinner, at worst, that of his family also, depended upon his own personal qualities. Today the fate of every member of a capitalist community depends less and less upon his own individuality, and more and more upon a thousand circumstances that are wholly beyond his control. *Competition no longer brings about the survival of the fittest.*

Chapter III

Profit

Whence does the capitalist class derive its income? The gains of *merchants'* and *usurers'* capital consisted originally of the portions which the merchants and usurers withheld from the property of those who needed them, either to satisfy a craving for luxuries, or for aid in distress. It is otherwise with *industrial capital*.

How the Capitalist Class Squeezes Profit out of the Working Class

The capitalist class performs no manner of productive work. This is done by the wage-worker. But the wage-worker does not produce for himself; he cannot. All the things which are to-day indispensable for production – land and capital – are the private property of a comparatively small number of people. The proletarian, the person who has none of these, must either starve or sell the only thing left to him, his labor-power, to the person who will buy it. That person is the capitalist. When the capitalist buys the labor-power of a proletarian, and thereby turns the latter into a wage worker, he does so only because the wage-worker will produce more than he is paid for. If he produced only as much as he is paid for – and worse yet, if he produced less – the capitalist would have no use for him, would not buy his labor-power, would not have him for a wage-worker. The proletarian, the wage worker, employed by the capitalist, is the wealth producer. Out of the heap of wealth brought into life by the wage-worker himself, the capitalist takes a part, not more than one-quarter, it as much, and *returns* that to the wage-worker in payment for his labor power, as his *wages*. The rest

of the wealth produced by the wage-worker, the remaining three-quarters, if not more, is the surplus – that is to say, the quantity of wealth produced by the worker over and above what was necessary to enable him to restore the forces he expended in production. That surplus the capitalist keeps to himself; he calls it *profits*; it constitutes his income. Industrial capital, accordingly, hatches its profits by exploiting the propertiless wage-workers.

It so happens, however, that, in proportion as the capitalist system of production develops, the industrial form of capital overshadows all others, and forces them into its service; and it happens, furthermore, that this evolution cannot go on without the capitalists returning to the wage-workers, in some manner or another (by the employment of an increased number of personal service men, such as lackeys, watchers, etc.; by institutions styled “benevolent;” and so forth) a part of the surplus which they withhold from him. As a result of all these causes, the surplus produced by the proletarians becomes ever more the only source from which the *whole capitalist class* draws its income.

As the small manufacturer and small farmer are disappearing, and their influence upon modern society is felt ever less, so also are disappearing, the old forms of merchants’ and usurers’ capital, both of which made their gains by exploiting the non-capitalist classes. Already there are nations without artisans and small farmers. England is an instance in point. But no one can conceive of a single modern State without large production. Whoever desires to understand the modern forms of capital must proceed from the industrial form that capital has assumed. The real and most prominent or the sources from which all capitalist

gains flow is to be found in the surplus which capitalist industry hatches out.

Why the Surplus Taken from the Working Class is Steadily Increasing

The proletariat produces the surplus which industrial capital appropriates. This surplus is on a steady increase through the increased burden of toil thrown upon the workers, through the introduction of labor-saving machines, through the cheapening of labor-power, etc., etc. Side by side with the development of the capitalist system of production grows the number of the exploited proletarians, and, as an inevitable consequence of this, the quantity of the surplus that flows into the hands of the capitalist class becomes ever larger and larger.

Unfortunately, however, "life's unalloyed enjoyment is not the lot of mortal man." However hateful the operation may be to him, the capitalist is compelled to "divide." The *landlord* and the *State* or *Government* both come in for their shares; and the capitalist class is compelled to divide with them the surplus that it scoops in.

Chapter IV

Ground Rent

When one speaks of the classes which are steadily becoming the sole property-holders and exploiters, the monopolists of the instruments of production, distinction must be made between *capitalists* and *landlords*; and, furthermore, the fact must not be overlooked that to speak of the small holder of land as a landlord is as great a misuse of terms as to speak of the small holder of capital as a capitalist. The capitalist system of production is rapidly extinguishing both of these small holders, and congesting into the hands of a few whatever valuable property still lingers in the hands of the small man.

The land is a peculiar means of production; it is the most necessary of all; without it no human activity is possible; even the sailor and the aeronaut need a place of departure and for landing. Furthermore, it is a means of production that cannot be increased at pleasure. For all this, it must be noted that as yet it has but rarely happened that every inch of ground in any State was actually occupied or used productively by its inhabitants; even in China, with all the thickness and primitiveness of her population, there are still wide stretches or unreclaimed land.

The private ownership of an article so all-essential to life and production as land confers theoretically a preponderating, irresistible power upon him who is vested therewith. To this appearance of things is due the notion that has seized upon some uncritical minds that the only cause of all *present* misery is private property in land; that the

landlord alone sucks up all the increased productivity of both labor and capital; and that his removal, or the clipping of his wings, would restore to the people – both capitalists and workmen – all, or the bulk of, the wealth that directly or indirectly flows from them. This view of things indicates a total blindness to the significance of the capitalist system of production, and the social evolution that underlies it.

Fallacy of the Single Tax Theory

The relation of the capitalist to the landlord is not that of the wage-worker to the capitalist. On the other hand, the capitalist need not “stand and deliver” to the landlord. The days are gone by when “white parasols and elephants mad with pride were the powers of a grant of land.” Such a state of things prevailed under former systems of production, and in such countries as India; but even there they are steadily losing their pristine characteristics. Despite all that landlordism could and did do, the development of the capitalist system of production has conjured up a rival to the landlord of olden days and former social systems – the capitalist. The power he wields makes him at least the equal of the landlord; the two can deal as peers; and in proportion to the fuller development of capital, the scepter, formerly wielded by the landlord class, came to be held by both landlord and capitalist, with a steady tendency to being ultimately wielded by the latter alone.

The power of the landlord is greater or less according to the smallness of the number of landlords, and the greater or lesser facilities which the laws afford for the sale of land. In England both these circumstances contribute to strengthen the power of the land monopolist.

In the United States the attributes of capitalist and landlord are usually blended in the same person. The manufacturer usually owns the land on which his factory is built; the mining company usually owns its own mines; and in the domain of agriculture itself, where the capitalist system of production is now in full bloom, the land of the bonanza farm is owned by the same capitalist concern that cultivates it. For all this it must not be lost sight of that when the capitalist himself is a landlord and operates upon his own land he has not therefore escaped sharing his surplus with the landlord class. In nine cases out of ten, or even a much larger proportion, he has become a landlord only by paying to the previous owner a round sum of money. The annual interest which he would otherwise derive from that purchase money represents the rent he is paying to the landlord – that is, the portion of the surplus which he squeezes out of labor and which he is compelled to share with the landlord class.

***Capitalists are Compelled to Share with the
Landlords the Wealth Taken from the Working
Class***

The purchase money or the rent, as the case may be, paid by the capitalist for the land he needs, is the slice of his surplus which he is compelled to share *directly* with the landlord. But *indirectly* also does the landlord class appropriate to itself considerable portions of the wealth that would otherwise accrue to the capitalist. It happens this way:

The profits of the capitalist are, as shown above, that portion of the wealth produced by labor and withheld by the capitalist, after he has deducted the sum which he returns to the wage-worker in the shape of wages, to enable the toiler to live, work, and reproduce himself. It follows that the

larger the share which the wage-worker needs to live, work, and reproduce himself, the smaller must be the share, called profits, which the capitalist can seize; and vice versa, the smaller the share which the wage-worker needs to live, work and reproduce himself, the larger will be the share, called profits which the capitalist can seize. Anything that will diminish the cost of living – cheaper goods, cheaper rent, etc. – lowers the quantity of wages absolutely necessary to the wage-worker, and as his wages will then tend downward, the share of the wealth produced by him, but seized by the capitalist as profits, is increased; and vice versa, anything that will raise the cost of living – dearer goods, higher rent, etc. – raises the quantity of wages absolutely necessary to the wage worker, and as his wages would then have to rise, the share of the wealth produced by him, but seized by the capitalist as profits, is bound to decrease in proportion. Now, then, the tendency of the necessities of life is to decline in price owing to the increased quantities in which improved methods enable them to be produced. This tendency would tend to lower the quantity of wages required by the wage-worker, to reduce his wages, and, correspondingly, to increase the share of profits left in the hands of the capitalist. But the effect of cheaper commodities upon the downward tendency of wages and the upward tendency of profits is checked by the increasing price of one of the necessities of life – city land. It is the irony of fate that one of the effects of the capitalist system of production is to crowd people – proletarians – into cities, thereby raising the rent that the wage-worker must pay, and by so much reducing the share of withheld wages which the capitalist can seize as profits. This increased rent, paid by the wage-worker to the landlord class, is the share of which it *indirectly* deprives the capitalist class.

The quantity of wealth that the landlord can appropriate from the capitalist class becomes larger proportion as the general demand for land increases, in proportion as population grows, in proportion as the capitalist class needs land; namely, in proportion as the capitalist system of production expands. In proportion with all this rent rises – that is to say, the aggregate amount of wealth increases which the landlord class can slice off, either directly or indirectly, from the surplus that would otherwise be grabbed by the capitalist class alone.

Chapter V

Taxes

How the Government Gets its Share of the Surplus from the Capitalist Class

Not less greedily than the landlord is the State, the Government, engaged in the work of paring off slices from the surplus of the capitalist. The modern State grew with and through the capitalist class until the point was reached when the former became the most powerful means for the exaltation of the latter. Each has promoted the interests of the other; the capitalist class cannot forego the assistance of the State, as at present constituted; it needs the powerful hand of Government to protect it from internal and external foes.

Weaknesses of the Capitalist System of Production Necessitate "Government"

The capitalist system of exploitation is by no means the product of specific laws. It is, on the contrary, the weaknesses of the system that have brought forth the laws that are to-day in force. These laws do not create the exploitation of the proletariat; they only provide for the smooth running of the system of exploitation, together with all the other processes appertaining to the existing social order. *Competition* being styled the mainspring of production, law may be designated the *lubricating oil*, the object of which is to diminish as much as possible the friction between the social antagonisms in the present social mechanism.

For every weakness in the constitution or make-up of the capitalist system, a special function is required of modern Government.

***First Weakness: Capitalists Dispute over Profits –
Hence the Necessity of Courts***

It is a weakness in the capitalist system of production that its mechanism becomes more and more complicated, and the individual capitalists more and more interdependent. The prompt fulfilment by each individual capitalist of the duties that arise from his economic functions is a requisite condition for the fulfilment of their corresponding duties by all the others. Such a delicate social mechanism can suffer less than any of those that preceded it the individual settlement of disputes by the parties concerned or aggrieved. In proportion, therefore, as every single capitalist becomes more and more dependent upon the prompt co-operation of numerous others, the more involved, cumbersome, and complicated grow their conflicting interests. Out of this weakness springs the necessity for an adequate system of laws and of judicature, and of a properly equipped Government, able to keep the individual capitalists to their duties. Hence arises the vast machinery of courts with their extensive appendages, intended to enforce their decrees.

***Second Weakness: Capitalist Nations Must
Expand Abroad – Hence War Departments***

It is a further weakness of the capitalist system of production that it digs the ground from under itself. The more it produces, the larger becomes the number of proletarians,

and, consequently, the slighter the general capacity of the people to purchase their own products in the markets of their own country. Thus, capitalism in every capitalist country restricts its own, the home market, at the same rate that it develops in vigor. Failing of a market at home, the capitalist looks abroad, and is pushed beyond his own political limits in search of foreign markets. Foreign commerce plays, accordingly from the start, an important role in capitalist production. In proportion as the latter develops, security abroad and the power to expand over foreign lands become vital questions to the interests of the whole capitalist class in a capitalist nation. In the world's markets, however, the capitalists of one nation run against those of another as competitors; in order to cope with each other, each set invokes the powers of its own State to enforce its "rights" at the cannon's mouth, or, what it likes still better, to chase its competitors away. Formerly wars were dynastic, to-day they are essentially commercial, in the last analysis they can now always be traced to the economic conflicts between the capitalists of the belligerent nations. Out of this weakness of the capitalist system of production – the requirement to conquer, and maintain itself in, foreign markets – springs in turn the necessity for extensive armaments by land and by sea. Hence "War Departments" in government, with navies and land forces, whose size grows from year to year, with an ever increasing and expensive personnel of officers – an idle, unproductive class, that cultivates the "art of war" and must be supported from the surplus of the capitalists.

Third Weakness: Antagonisms Between Exploiters and Exploited – Hence Courts, Police, and Militia to Keep the Working Class Down

A further weakness of the capitalist system of production consists in the antagonisms it generates between exploiters and exploited, between property-holders and proletarians. This weakness the capitalist system shares with all of those that have preceded it, all of them being based upon human exploitation; but it intensifies the ill, and reproduces it in an aggravated form. The more the capitalist system develops, the greater becomes the friction, and the sharper the antagonisms, between these two leading and now only remaining classes – capitalist and proletariat – and the larger, more powerful, becomes the proletariat. Increasing numbers, increasing uncertainty of livelihood, increasing want and dependence, all of these causes combined conspire to make the proletariat more and more redoubtable to the capitalist class. Out of this weakness or this danger springs the third function of the capitalist State, *the function of keeping the working class down*. This specific function is filled by extending those previously mentioned. Hence the necessity of a still larger system of Courts, with a still larger and more specialized system of repressive forces-constables, police, official Pinkertons, militias, etc., etc.

Fourth Weakness: Creation of Crime – Hence Jails, Penitentiaries, and Reformatories.

Lastly, it is one of the conspicuous weaknesses of the capitalist system of production that it generates a special worthless, disgraceful, criminal class – the slums. As capitalism grows, the ground is narrowed upon which people can stand. The uncertainty and dependence of the masses

become fatal to character; the weakest of the population, morally, sink swiftly below the class of the proletariat, they fall into the slums and become a part of that sink of moral putrefaction. The slums are recruited both from the capitalist and the proletariat classes, with numberless additions from the middle class. The steady increase of the capital necessary for production ruins the capitalists whose property is not sufficient to carry on the competitive struggle; it crushes out the members of the middle class; and it plays havoc among the proletarians. Fraudulent practices, crime in some form or another, from the lightest to the blackest, become the methods that the most unfortunate, the weakest, or the worst disposed of these resort to. Out of this weakness of the capitalist system springs, in all capitalist countries, the necessity for that extensive branch of government – the penitentiary, with its numberless appendages of jails, “houses of correction,” “reformatories,” etc.

These four functions and duties of the capitalist State, which correspond to the four leading and general weaknesses of the capitalist system, cause heavy outlays, and they reduce heavily the capitalist surplus.

In capitalist republics, there is still a fifth source through which the capitalist class is plundered of a goodly portion of its surplus by its own State. This arises from the concerted action of the slums and their extensive ramifications upon the political field. Universal, at least, manhood suffrage, places in the hands of the slums a weapon that they often use with unerring certainty, and by means of which they not infrequently put their own representatives into government offices. These representatives of the slums in governments

act like a tap upon the capitalist class; they tap it of hoods of wealth that are poured straight into the hands of the slums, thereby rendering them still more worthless, vicious, and criminal. Of all republics, our own furnishes the most frequent and striking illustrations of this phenomenon. The slums have their representatives in all our legislative bodies and fill many an executive chair. Of the many instances of this fact, the most conspicuous is presented by the city of New York, where Tammany Hall, the organized crime of the city, i.e., the slums, holds sway and is a thorn in the side of the local capitalists.

Thus, in all these several ways the State, or the Government, reduces the profits or surplus of the capitalist; as the capitalist system develops, the causes that lead to that result are intensified; despite all capitalist manoeuvres to stem them, the inroads increase upon the surplus which labor produces and which capital grabs.

Chapter VI

The Lowering of the Rate of Profit

Hand in hand with this development, the quantity of capital which the capitalist class applies productively shows a tendency to increase more rapidly than the exploitation of the working class, that is to say, more rapidly than the mass of surplus which the latter creates. To illustrate: compare a spinner of sixty or seventy years ago, who was then exploited by a capitalist with a machine weaver of to-day. How prodigious is the capital requisite to enable the latter to work! On the other hand, the capital which the capitalist invested in hand weaving was trifling in comparison. Sixty or seventy years ago, the capitalist paid the weaver his wages and gave him the cotton or flax which he needed. In point of wages, there has not been much change; but a machine-weaver consumes to-day in production a hundred times more raw material than the former handweaver; over and above that, how prodigious to-day are the buildings, power-engines, steam-looms, etc., necessary to carry on the industry!

Small Capital Required to Begin Business Sixty Years Ago

There is still another thing to be considered. The only outlays of the capitalist who sixty or seventy years ago employed a spinner, were for wages and raw material; there was not any fixed capital: the spinning-wheel was too trifling to consider; he got his capital back quickly, say, every three

months. As a result of this he needed to start with only one-quarter of the capital which he used during the whole year. To-day, the capital invested in a corresponding mill, in machinery and building, is prodigious. Even though the time within which the capitalist could now get back the sums he pays out in wages and for raw material were the same as sixty or seventy years ago, the time it now takes him to get back the rest of the capital, which sixty or seventy years ago he hardly needed, has become a very long one.

A series of circumstances work in the opposite direction. Among these, the most important are the more recently developed system of credit, and the decline in the price of the products, the latter of which is the inevitable result of the increased productivity of labor. But neither of these causes is able to counteract the effect of the others. In all branches of production, in some more slowly, in others more rapidly, the quantity of capital necessary for production grows perceptibly from year to year.

Let it be assumed that the capital necessary for a certain industry sixty or seventy years ago was \$100, and that to-day the amount necessary is \$1,000, and furthermore, that the amount exploited from labor is now five times as large as then, namely, that while the surplus which labor formerly produced was \$50, to-day it is \$250. In this case the quantity of the surplus has increased absolutely; nevertheless, in proportion to the quantity of capital invested, the surplus would be fifty per cent. of the total capital invested; to-day it would amount to twenty-five per cent. only.

This instance is simply an illustration intended to point out a tendency.

Rapid Increase of Capital and Surplus

The total amount of surplus yearly produced in this country, as in all other capitalist countries, increases rapidly, but still more rapidly grows the total amount of the capital invested by the capitalist class in their establishments. If now, it be considered that, through taxation, the government carries off yearly an ever larger portion of the capitalists' surplus, the phenomenon may be explained that *the quantity of surplus that will accrue to a certain amount of capital tends steadily to diminish, notwithstanding the amount of exploitation of labor tends steadily to increase.*

Accordingly, profit, that is to say, that portion of the surplus produced by labor which a capitalist retains, shows the tendency to decline in proportion to the quantity of capital that he invests. Or, to put it otherwise, in the course of the development of the capitalist system of production, the profit which a given quantity of capital yields tends to go down. This, of course, holds good only after long intervals of time. An evidence of this downward tendency of profit is the steady decline of interest.

It happens, therefore, that, *while the exploitation of the workingman has a tendency to rise, the rate of capitalist profit has a tendency to sink.* This fact is one of the most remarkable contradictions of the capitalist system of production – a system that bristles with contradictions.

There are some who have concluded from this sinking of profit; that the capitalist system of exploitation will put an end to itself; that capital will eventually yield so little profit that the capitalists will starve and be forced to look for work. This conclusion would be correct if the profits sank at the same time that the quantity of invested capital remained the same. This, however, is by no means the case. The total quantity of capital in all capitalist nations grows at a more rapid pace than the rate of profit declines. The increase of capital is a prerequisite to the sinking of profit; the rate of interest drops from 5 to 4, and from 4 to 3, the income is not reduced of that capitalist whose capital in the meantime grew from one million to four millions.

***Decline of Rate of Profit and Interest Does Not
Mean Reduction of Capitalist Income***

The decline of the rate of profit, and likewise of interest, in no way implies a reduction of the income of the capitalist class. The mass of surplus that flows into its hands grows ever larger. The decline diminishes solely the incomes of those capitalists who are not able to increase their capital at the rate their competitors increase theirs. In the course of the industrial development, the point is raised ever higher where capital can support its owner with the "dignity of his class." The quantity of capital requisite to free its owner from labor, and to enable him to live on the labor of others, becomes ever larger. The sum that fifty years ago sufficed to start an industry is to-day utterly inadequate for the undertaking. The sum which fifty years ago was a considerable fortune is to-day an insignificant pittance.

The decline of profit and interest does not bring on the downfall, but the *narrowing* of the capitalist class. Every

year small capitalists are expelled from its midst, and consigned to the same death struggle in which the small dealer, the small producer, the small farmer, and the small concerns generally are engaged – a death struggle that may be more or less protracted, but which can end only with their own downfall into the proletariat or, at the latest, the downfall of their children into that class. As a rule, with this class, their efforts to escape their fate only hasten their ruin.

One often wonders at the large number of simpletons whom any knave can allure to intrust him with their money upon the promise of steep interest; these people are, as a rule, not the fools they seem. As the Panama Canal Scandal and so many other similar instances strongly show, fraudulent undertakings are the last straws at which sinking capitalists grasp, in the desperate hope of making their small capital remunerative. It is not so much greed, or the love for fraud, as the fear of poverty that blinds them.

Chapter VII

The Growth of Large Production-Syndicates and Trusts

Side by side with the competitive struggle between individual and capitalist production, rages the competitive struggle between large and small capitalists. Every day brings forth a new invention, a new discovery, whose application increases considerably the productivity of labor. Each of these renders useless, to a smaller or larger extent, former machines, and compels the introduction of new ones, often also of enlarging existing establishments. The capitalist who at such a pinch has not the requisite capital at his command, is sooner or later unable to hold his own in the competitive struggle, and goes down, or is forced with considerable loss to invest his capital in some smaller industry, not yet seized upon by more powerful capitalists than himself. In this way competition in large production causes the overstocking of capital in small production, and thereby renders the competition between the small capitalists all the more fierce, and their ruin all the more rapid.

The industries carried on by large production expand ever more; the large establishments which once counted their workmen by the hundreds, become giant concerns that employ thousands of hands; day by day the smaller business establishments go by the board. After reaching a certain point – a point that was reached in the United States at least ten years ago – the industrial development, instead

of *increasing*, steadily *decreases* the number of individual enterprises. As agriculture has become an industry, the same phenomenon is noticeable there: the number of small farms decreases, the holders of large farms increase.

Nor is this all. The industrial development leads steadily to the concentration of more and more capitalist undertakings into a single hand, be that the hand of a single capitalist, or of a combination of capitalists who legally constitute one person – the syndicate, the trust.

The paths that lead to these are manifold.

The Paths that Lead to the Trust

The one is opened by the anxiety of capitalists to exclude competition. Competition has been shown to be the mainspring of the modern system of production; indeed, it is the mainspring of the production of merchandise, that is to say, of production for sale. Nevertheless, however necessary competition is for the production of merchandise in general, there is no capitalist but is anxious to see his own goods free from competition in the market. If he is the sole possessor of goods for which there is a demand, he has a monopoly of them; he can send their prices away above their actual value; those who need his goods will be wholly dependent upon him. Where several sellers of the same goods appear in the market, they can establish a monopoly only by combining in such way that they virtually become one seller. Such combines – rings, syndicates, trusts – are the sooner and more easily brought about the smaller the number of the competitors whose conflicting interests are to be brought under one hat.

In so far as the capitalist system expands the market, and increases the number of competitors in it, it makes difficult the formation of monopolies in production and commerce. But in every branch of capitalist industry the moment arrives, sooner or later, when its further development implies the lessening of the establishments engaged in it. From that moment on, the march is rapid toward the syndicate and the trust. The time when in a given country an industry can ripen into a trust may be hastened through the protection of its domestic market against foreign competitors by a high tariff. In such a case the number of competitors is diminished, and the domestic producers can come together all the easier, establish a monopoly, and, thanks to "Protection to Home Industry," skin the national consumer to their hearts' content.

During the last twenty years the number of trusts intended to "regulate" the price of their products has grown greatly, especially in "protected" countries, such as the United States, France, and Germany. The trust being once formed, the several concerns that have combined constitute virtually only one concern, under the guidance of a single head.

The articles most necessary for the development of production, such as coal and iron, are the ones that become the first subjects or syndicates and trusts. The largest combinations extend their influence far beyond the monopolized industries themselves; they render the whole machinery of production dependent upon a few monopolists.

Side by side with the eagerness of the several establishments of one industry to run together into a single hand, there also

develops the eagerness of the several establishments engaged in different branches of industry, but one of which furnishes either raw material or the machinery needed by the others, to come under one management. It is a common thing to see railroad lines owning their own coal mines and locomotive works; sugar manufacturers try to raise their own cane; the Standard Oil Company manufactures its own tanks and cans, etc.

There is still a third way, and that the simplest, in which several establishments are merged into one.

However superfluous the functions of the capitalist would be under a rational system of production, under the present system these functions are highly important; under the system of private property in the instruments of production, large production is possible only as capitalist production. Under this system it is necessary, in order that production be carried on smoothly, that the capitalist take the field with his capital and apply it properly. Accordingly, although the capitalist produces nothing, although he brings forth no values, yet through his capital he plays an important role in the economic life of society.

The Capitalist Becomes a Coupon-Clipper

At the same time, the larger a capitalist becomes, the more necessary it is for the capitalist to relieve himself of a part of his increasing duties, either by passing them over to other capitalist concerns, or to some employee whom he engages to attend to his business. Of course, it makes no difference in the industrial process whether these functions are performed by some employee or by the capitalist himself; these functions produce no values when performed by the

capitalist, and they produce no values when performed by an employee. The capitalist, consequently, must now pay for them out of his surplus. This is another means by which the surplus of the capitalist, and, accordingly, his profits, are lowered. Of course, the capitalist charges the wages he pays to these employees – officials, directors, superintendents, etc. – to the costs of production and enters them under the head of wages to labor.

While the growth of an enterprise forces the capitalist to relieve himself by the employment of lieutenants, it at the same, through the increasing surplus it yields, makes the thing easy for him. The larger the surplus the more functions can the capitalist transfer to employees, until finally he relieves himself of all his functions and reserves only the care of how to invest profitably that portion of his profits that he does not need for personal consumption.

Stock Companies Appear, and the Usefulness of the Capitalist Ends

The number of concerns in which this final stage has been reached grows from year to year. This is shown clearly by the prodigious increase of stock companies in which even the dullest intellect can see that the *person* of the capitalist cuts no longer any figure, and the only thing of importance is his *capital*.

There have been people silly enough to imagine that they saw in the rise of stock companies a means whereby to render accessible to the small holders the benefits of large production. This is a fallacy equal to that entertained by uncritical minds with regard to credit. The stock company, the same as credit, of which it is but another manifestation,

is, on the contrary, a means of placing at the disposal of the large capitalist the property of small holders.

Just as soon as a branch of industry can dispense with the person of the capitalist every one can engage in it whether or not he knows anything of the business, provided only he possesses the necessary funds to buy stock. Owing to this fact a capitalist is enabled to unite in his own hands industries that are wholly disconnected. Stock companies are the easiest to acquire by a large capitalist; all he needs to do is to put himself into possession of the majority of stock, and the concern becomes dependent upon him, and subject to his interests.

Finally, it must be observed that the large capitalists grow faster than the small ones: the larger the capital, the larger also, other things being equal, will be the size of the profits, namely, the revenues which it yields, the smaller proportionally will be the quantity which the capitalist will use up personally, and the larger the portion which he can add to his previous investments as fresh capital. The capitalist whose business yields him a yearly income of \$10,000, will be able to live but modestly according to capitalist ideas. He may esteem himself happy if he succeeds in laying by annually, say, \$2,000 – a *fifth* of his profits. On the other hand, the capitalist whose business is large enough to yield him \$100,000 annually, may, even though he were to spend upon himself five times as much as the previous one, add annually \$60,000 – three-fifths of his profits – to his previous capital. And so on increasingly. While the small capitalists are compelled to struggle harder and harder for their existence, the large accumulations in the hands of the

large capitalists swell ever faster and faster until they reach immense proportions.

To sum up: The growth of large establishments, the rapid increase of large fortunes, the steady decrease in the number of small establishments, the steady concentration of several concerns in one hand – all these make it evident that the tendency of the capitalist system of production is to concentrate in the hands of an ever smaller number the instruments of production which have become the monopoly of the capitalist class; that the final result must be the concentration of all the instruments of production in the hands of a few persons or stock companies, who use them as private property and dispose of them at their will; and that the whole machinery of production will be turned into a gigantic concern, subject to a single master. The private ownership of the means of production leads, under the capitalist system, to the pass where, with a single exception, all are propertiless. In other words, the capitalist system leads to its own destruction; its development takes the ground from under itself; the contradictions inherent in it grow more and more glaring in proportion as it expands. The moment the wage-workers, the exploited, constitute the bulk of the consumers, the products, in which the surplus lies locked up, become unsalable; the surplus itself becomes valueless.

Small Capitalists are Dependent on the Large Ones

In point of fact, a state of things such as here outlined would be as preposterous as it would be impossible. It will not, nor can it ever, quite come to that. The mere approach to such

conditions would increase to such an extent the sufferings, antagonisms, and contradictions in society that they would become unbearable, and society would fall to pieces, unless a different turn were timely given to the development. But although such a condition of things will never be completely reached, we are steadily steering in that direction. At the same time that, on the one hand, the concentration of separate capitalist undertakings in few hands is progressing rapidly, on the other hand the interdependence of seemingly independent concerns increases as the inevitable result of the division of labor. This mutual dependence becomes, however, ever more one-sided in that the small capitalists grow ever more dependent upon the big ones. The same as most of those workers who are now engaged in home industries and who seem to be independent are in fact wage-workers under some capitalist, so also is many a small capitalist, who apparently enjoys independence, tributary to other capitalists; and many a seemingly independent capitalist concern is in fact but an appendage of some gigantic capitalist establishment. This dependence of the small upon the large capitalist proceeds probably at a much more rapid pace than the actual concentration or several concerns into one. Already our industrial mechanism is in the last analysis virtually controlled by a few giant capitalists; the combination of these under a few firms is but a question of time.

At the same time that the economic dependence of the bulk of our population upon the capitalist class is on the increase, there is also an increasing dependence within the capitalist class itself of a majority of its members upon a small set, whose numbers become smaller, but whose power, through its wealth, becomes ever greater.

But, the same as with the proletarians, the small traders and producers, and the small farmers, the dependence of one capitalist upon another intensifies the uncertainty of livelihood. The experience of the former is that of the latter. With their dependence increases also the uncertainty of their situation. Of course, the smaller capitalists suffer most, but even the largest accumulations of capital afford no absolute certainty.

Result Of Competition among Capitalists for the Market

The increasing sensitiveness of the mechanism of production to the slightest disturbing influences has already been mentioned as one of the causes of uncertainty in the capitalist system. There is still another that should be noticed. In proportion as it draws sharper the antagonisms between the classes; in proportion as it swells ever more the masses which it arraigns against each other; in proportion as it places in the hands of each more and more powerful, though different weapons – the capitalist system of production increases the opportunities for disturbances, and increases the damages which these disturbances occasion. It is not only the surplus, withheld by the capitalist, that the growing productivity of labor increases: it also increases the quantity of goods that are thrown upon the market, and of which the capitalist must rid himself. Hand in hand with the exploitation of labor grows the competition among capitalists, and this competition is turned into a bitter contest by each producer against all. Furthermore, a steady revolution is going on in the technical methods of production; new inventions and discoveries are incessantly made which render valueless existing machinery, and which

render superfluous not only individual workers, not only individual machines, but often whole establishments, yea, even whole branches of industry.

No capitalist can build upon the future; none can say with certainty whether he will be able to keep what he has, or to leave it to his children.

The capitalist class itself is splitting up into two sets. The one, which increases steadily, is wholly superfluous to industrial life; it has nothing to do but to squander and spend in riotous living the growing quantity of surplus which flows into its hands; differently from the idle class under the previous systems of production, it cultivates neither the sciences nor the arts; the objects upon which it lavishes its wealth are either immoral or stupid. The other set, which consists of those who have not yet become superfluous in their establishments, decreases steadily, but in proportion to this decrease the cares and burdens or their situation grow heavier upon them. While the former set is rotting in moral and intellectual idleness, the latter is wearing itself out in the competitive struggle.

To both the spectre of uncertainty is a growing menace. The modern system of production does not allow even the exploiters, even those who monopolize all its tremendous advantages, to enjoy their booty in peace.

Chapter VIII

Industrial Crises

Great as is the uncertainty of a livelihood for all classes under the existing social conditions, the uncertainty is further increased by the crises, which are periodically brought on with the certainty of doom the moment production reaches a certain stage.

The important effect of these crises upon the body economic during the last decades, together with the general confusion of thought that prevails upon the subject, requires special attention.

The extensive modern crises, which convulse the world's markets, arise from overproduction, which in its turn arises from the planlessness that inevitably accompanies the modern system of production.

Overproduction, in the sense of more being produced than is actually needed, may occur under any system. But such could as a matter of course, cause no injury so long as the producers produce for the satisfaction of their own wants. It, for instance, in generations gone by, a farmer's crop of corn happened to be larger than he needed, he stored up the surplus against poorer years, and when his barn was full he would feed his cattle with the residue, or, at worst, let it lie and spoil.

Sources of Industrial Crises

It is otherwise with the modern system of production. In the first place, in its well developed form, no one produces for himself, but for someone else; every one must buy what he needs. Moreover, the total production of society is not carried on in a planful way: on the contrary, it is left to each producer to estimate for himself the quantity of the demand there may be for the goods which he produces. In the second place, just as soon as the modern system of production has outgrown its first stage, no one except the producer of coinable metals can buy before he has sold. These are the two roots out of which the crisis shoots up.

For the illustration of this fact, let the simplest example possible serve. At a market place, let there come together an owner of money, say a gold digger, with twenty dollars in gold; a wine merchant with a cask of wine; a weaver with a bundle of cotton cloth; and a miller with a load of meal. To simplify the case, let the value of each of these goods be equal to twenty dollars, and let it be assumed that each has correctly estimated the needs of the other: the wine merchant sells his wine to the gold digger, and with the twenty dollars which he receives therefor purchases the cloth in the hands of the weaver; and lastly the weaver invests the proceeds of his cloth in the purchase of the load of meal. Each will go home satisfied.

Next year these four meet again, each calculating upon the same demand for his goods as before. Let it be assumed that the gold digger is as partial now as he was last year for the wine merchant's wine, but that the latter has either no need of cloth, or requires the money to pay a debt, and prefers

wearing a torn shirt to purchasing new material. In that case the wine merchant keeps in his pocket the twenty dollars and goes home. In vain does the weaver wait for a customer; and for the same reason that he waits, the miller is also expectant. The weaver's family may be hungry; he may crave for the meal in the miller's hands; but he has produced cotton cloth for which there is no demand; and for the same reason that the cloth became "superfluous," the meal also is rendered "superfluous." Neither the weaver nor the miller has any money; neither can purchase what he wants; what they have produced now appears as excessive production; and, furthermore, the same is the case with all other goods that have been produced for their use, and which they stand in need of. To carry the illustration a little further, the table produced by the joiner and needed by the miller, the shoes produced by the shoemaker and needed by the joiner, etc., etc., all of these remain unexchanged, unused – they are "overproduced."

Why the Crisis is Unknown in the First Stage of Production for Sale

The leading features of an industrial crisis are all present in this illustration. Of course, in reality, the crisis does not manifest itself at such a primitive stage of production. At the first stages of the production of merchandise, of production for sale, every producer produces more or less for self-consumption; production for sale constitutes, in each family, but a part of its total industry. The weaver and the miller of the illustration given above are each possessed of a patch of land and some cattle, and they can patiently wait until a

purchaser turns up for their commodities. If the worst came to the worst, they could even manage to live without him.

Furthermore, in the first stages of production for sale, the market is still small; it can be easily sized up; year in year out, production and consumption, the whole social life of a community, keep on the even tenor of their ways. In our small settlements of a generation and more ago, every one knew everybody, and was well informed upon his wants and his purchasing capacity. In most cases, the industrial mechanism of such places remained substantially the same from year to year: the number of producers, the productivity of labor, the quantity of products, the number of consumers, their wants, the money at their disposal – all of these changed but slowly, and each change was promptly observed and taken into consideration.

All this takes on a different aspect with the appearance of commerce upon the stage of the world's history. Under its influence, production for self-consumption is crowded ever more to the rear; the individual producers of goods for sale, and to a greater extent the dealers, are more and more thrown for their support upon the sale of their goods, and, what is most important, upon their quick sale. A delay in the sale of a commodity, and, worse yet, the prevention of the sale of a commodity, now becomes ever more disastrous to its owner; it may even cause his ruin. Together with this condition of things, the danger of a block in the wheels of commerce grows apace.

Relation of Modern Commerce to Industrial Crises

Through commerce, the several and distantly located markets are brought together, but thereby the general market is greatly extended, and it becomes correspondingly more difficult to control. This inconvenience is still further enhanced by the appearance of one or more middlemen, who squeeze themselves between the producers and the consumers as a requirement of trade. Finally, commerce, acting hand in hand with the development of the means of transportation, lends wings to merchandise; to-day these can be brought together in large quantities on any spot upon the slightest provocation. All these causes combined render more and more uncertain the work of estimating the demands for, and the supply of, commodities. The development of statistics does not remove this uncertainty. The whole economic life of society becomes ever more dependent upon mercantile speculation, and the latter becomes ever more risky.

The merchant is a speculator from the start; speculation was not invented at the exchange; it is a necessary function of the capitalist. By speculating, that is to say, by estimating in advance the demand for a commodity; by buying his goods where he can get them cheap, namely, where their supply is excessive; and selling them where they are dear, namely, where they are scarce, the merchant helps to bring some order into the chaos of the planless system of production carried on by individually independent concerns. But he is liable to error in his calculations, especially as he is not allowed much time to think. He is not the only merchant in the world; hundreds and thousands of competitors lie in wait to profit by every favorable opportunity; whoever first

espies this carries off the prize. Under such circumstances, quickness is a necessity; it will not do to reflect long, to inquire much; the capitalist must venture; nothing venture, nothing have! Yet may he lose. As soon as there is a great demand for a commodity in any market, it flows thither in large masses, until its quantity exceeds the digestive powers of the market. Then prices tumble; the merchant must sell cheap, often at a loss, or seek another market with his goods. His losses in this operation may be large enough to ruin him.

Wherever the modern system of production for sale is well developed and prevails, any given market is either excessively or insufficiently supplied. Capitalist economists pronounce this to be a most wise and admirable provision. Common sense holds differently. However that may be, the thing is inevitable from the moment production for sale reaches a certain degree of perfection and is kept in force. But this “wise” provision may lead to the result that, in response to some extraordinary cause, the overstocking of a market becomes so excessive that the losses of the merchants may be extraordinarily heavy, and a large number of them become unable to meet their liabilities – that is to say, they “fail.” Under such circumstances, a first-class commercial crisis is on the tapis.

So long as small production was the leading form of industry, the extent and intensity of commercial crises could be but limited. Whatever the call, it was not then possible to increase rapidly the total amount of wealth at any one place. Under the rule of small industry, production is not capable of any considerable extension; it cannot be extended by the employment of a larger number of workmen. Under ordinary circumstances, it employs all the members of a

community that are at all able to work. It could be extended only by making heavier the burden of toil borne by the worker – lengthening his hours of work, depriving him of holidays, etc.; but in the good old days the independent mechanic and farmer, who were not yet crowded by the competition or large production, did not banker after this sort of thing; and finally, even if they submitted to such imposition, it made little difference to production – the productivity of labor was trifling.

This changes with the rise of capitalist large production. It not only develops all the means that enable commerce to swamp any market with goods to a degree never dreamt of before, it not only expands the separate markets into a world's market that embraces the whole globe, it not only multiplies the number of the middlemen between the producer and the consumer, but it enables production to respond to every call of the trade as well, and to extend and increase with leaps and bounds.

At present, the very circumstance that the workmen are wholly subject to the capitalist – that he can, virtually at will, lengthen their hours of work, suspend their Sundays, and eat into their night rest – enables him to increase production at a more rapid pace than it was formerly possible. But, furthermore, to-day one single hour of overwork means, with the present productivity of labor, an increase of production immensely larger than in the days of manufacture, Nor is this all. To-day, the capitalist is in a condition to extend his concern upon short notice. Thanks to credit, capital has become a very elastic quantity. A brisk trade increases confidence, draws money out upon the street, shortens the time requisite for the circulation of

money, and, accordingly, increases its effectiveness. But most important of all: *capital has permanently at its disposal a large reserve army of workmen – the unemployed.* The capitalist is thus able at any time to expand his establishment, to employ additional workmen, to increase his production rapidly, and to profit to the utmost by every favorable opportunity.

It has been shown that under the rule of large production industrial capital steps ever more to the front, and takes control of the whole capitalist mechanism. But within the circle of capitalist production itself, special branches of industry take the lead, as, for instance, the iron and spinning industries. The moment any of these receives a special impetus – be it through the opening of new markets in China, or the undertaking of extensive railroad lines – not only does it expand rapidly, but it imparts the impetus it has received to the whole body economic. Other capitalists enlarge their establishments, start new ones, increase the consumption of raw and subsidiary materials; new hands are taken in; and, simultaneously with all these, rent, profits, and wages go up. The demand increases for all sorts of goods; all sorts of industries begin to feel the industrial prosperity; and this finally becomes general. At such times it looks as if every undertaking must prosper; confidence becomes blind; credit grows boundless; whoever has a share of the increasing profits and rent seeks to turn a portion thereof into capital. Industrial giddiness takes possession of one and all.

Mechanism of an Industrial Crisis under Capitalism

In the midst of all this, production has increased prodigiously, and the originally increased demand in the market has been satisfied. Nevertheless, production does not stop. One producer does not know what the other is about. Although, at some lucid interval, doubts and misgivings may arise in the mind of some capitalist or another, these are soon smothered by the necessity he is under of profiting by the favorable opportunity that seems at hand, and not to be left behind in the competitive chase; he knows that "the devil takes the hindmost." In the meantime, the disposal or the increased quantity of goods becomes ever more difficult, and grows slower; the stores fill up; yet the hurly-burly goes on. Then comes the moment when one of the mercantile establishments must pay for the goods which were received from the manufacturer months before. The goods are yet unsold; the creditor has the goods but no money; he cannot meet his obligations, and fails. Next comes the turn of the manufacturer; he also has contracted debts that fall due; as his debtor cannot pay him, he, too, is done for. Thus one bankruptcy follows another; a general collapse ensues; the recent blind confidence turns into an equally blind fear; the panic grows general; and the crash is on.

At such times the whole industrial mechanism is shaken to its very center; every establishment that is not planted upon the firmest ground drops. Misfortune overtakes not the fraudulent concerns alone, but also all those which in ordinary times managed to keep their heads above water. At such seasons, the expropriation of the small farmers, small producers, small dealers, and small capitalists goes on

rapidly. Nor is it the small fry alone that is swept overboard; many a big fish goes along; there is hardly any one certain of not being dragged down in the general ruin. As a matter of course, those among the large capitalists who survive derive a rich booty. During a crisis two important things take place: first, the expropriation of the “small fry;” secondly, the concentration of production in fewer hands, and thereby the promotion of the accumulation of large fortunes.

As few, if any, can tell whether they will survive the crisis, all the horrors of the modern system of production are then experienced in an intensified degree; the uncertainty of a livelihood, want, prostitution, and crime reach at such times alarming proportions. Thousands perish with hunger and cold – wonderfully to say, because they have produced too much clothing, food, and other wealth! It is at such seasons that the fact becomes most glaring that the modern productive powers are becoming more and more irreconcilable with the system of production for sale, and that private ownership in the means of production is growing into a greater and greater curse for everybody – first for the class of the propertiless, and then for that of the property-holders themselves.

The Crisis Becomes Permanent

With the fuller development of the capitalist system, that is to say, with the increased concentration of all wealth into fewer and fewer hands, aided greatly by previous crises, the crisis has ceased to be a “periodical occurrence” in the strict sense in which it was so before. At one time, and that not long ago, one-quarter of the failures that now occur regularly every year would have created public consternation; to-day,

a much more swollen and ever-swelling register of bankruptcies passes unperceived by the public, but they are not, therefore, the less felt by the innumerable victims; the hemorrhage is now chronic; *the crisis has become permanent*, and with it all its horrors.

It is probably owing to this circumstance, to wit, that the phenomenon of the crisis has ceased to be “periodical,” that some uncritical, feather-brained political economists have declared the trust would do away with the crisis. This is false.

The regulation of production by large syndicates or trusts presupposes above all things their control of all branches of industry and the organization of these upon an *international basis* in all countries over which the capitalist system of production stretches itself. Until now, no successful international trust has yet appeared in any leading industry; so far, the Standard Oil Trust is the nearest approach to one. International trusts are difficult to organize, and more difficult to hold together. More than forty years ago, Karl Marx pointed out that not only does competition promote monopoly, but monopoly promotes competition. The larger the profits that accrue to a trust, the greater is the danger of an outstanding and powerful capitalist setting up a competing concern to pluck some of the profits himself; and, furthermore the more business prospers, the greater is the temptation of every member of the trust concern to escape the restrictions imposed by the trust and to withdraw from it. When prices go down, the anxiety for trustification is great; when prices go up, every producer strives to improve the opportunity to his utmost, and to throw upon the market as many goods as possible. But this has its limits, and a point

is finally reached when the Trust becomes permanent. The trust will in most cases fail to check overproduction. With regard to overproduction, the principal mission of the trust is, not to check it, but to shift its evil consequences from the shoulders of the capitalists upon those of the workmen and consumers. It is intended to aid the large capitalists in weathering the storm of the crisis; temporarily to restrict production; to discharge workmen, and cut down expenses all along the line, without considerably affecting profits. Within the boundaries of one country, the difficulties that beset the formation and preservation of the trust are very considerably lessened; the trust can and does flourish there; It is different, however, with an *international trust*.

International Trust does not Abolish the Crisis

But let it be assumed that eventually the leading industries shall have been successfully organized into international trusts, under such strict discipline that they will resist the dissolving effect of good times. What were then the result? Competition among capitalists would be removed only on one side. The more completely competition disappears among the producers in one and the same branch of industry, all the greater becomes the antagonism between them and the producers of other commodities who depend upon the products of the trust. In the measure in which hostilities cease between the producers engaged in the same branch of industry, they become bitterer between the producers and the consumers. It so happens, however, that every producer is also a consumer. The cotton mill owner, for instance, is a consumer, apart from his private and personal needs, of cotton, coal, machinery, oil, and the other requisites of a cotton mill. In short, complete, international trustification would cause the capitalist class to be divided,

no longer into separate individuals, but into hostile clans, who would wage war to the knife against one another.

To-day every single capitalist is eager to produce as much as possible, to throw upon the market all the goods he can, because, other things being equal, the more goods, the more profit; only his estimate of the capacity of the market and his own capacity to enlarge his capital limit the extent to which he will produce. On the other hand, when the system of trusts shall have become general we shall not then find a better regulation of production and with that a discontinuance of the crisis, as some whitewashers of our present social order would make us believe; what we shall find is the general eagerness of each separate trust to produce as little as possible, because the smaller the supply the higher the price. The practice, formerly, and even to-day not infrequently, resorted to by merchants, of destroying a portion of their goods when the market is overstocked, with the view of securing profitable prices for the rest, would then, in a manner, become general. It is evident, however, that society could not then continue to exist. If every trust strains for underproduction, all others would strain to force those trusts whose products they need into a state of overproduction. The ways of doing this would be many. The simplest would be for a trust to retrench its own consumption more than the other trust retrenches its production; another way would be to call upon science to supply the want of the article whose production is trustified and retrenched; still a third would be for the trust concerns whose consumption is thus affected to undertake, themselves, to produce what they need.

Imagine that the copper mines are trustified, that the production of copper is thereby reduced, and that prices are run up. What would be the result? Among those producers whose business uses up copper, some will close down and

await better times; others will go in search of some other metal that may take the place of copper; and still others will themselves purchase copper mines or promote their sales, and thereby free themselves from dependence upon the "Copper Ring." The end of all this is the bursting of the trust and its bankruptcy, and then we have another crisis.

The trust does not abolish the crisis. The only influence it would have in that direction would be to give the crisis another form – but not a better one. Bankruptcies would not be at end; the only difference would be that they would extend their spheres; they would not fall upon the capitalists separately, but upon whole sets of them at once, and with them, of course, ruin the large mass whose existence is dependent upon them. Accordingly, the trust cannot do away with the crisis; what, on the contrary, it can do is to bring on such sorts of crises as will be more devastating than anything mankind has yet experienced.

Only when that point should have been reached that all trusts are joined into one, and that the whole machinery of production of all capitalist nations is concentrated into one single hand, namely, only when private property in the means of production shall have virtually come to an end, only then could the trust have for its effect the abolition of the crisis. But, contrariwise, from a certain stage on in the industrial development, the crisis, either in the "periodical," or present "permanent," or in some other and more aggravated term, is inevitable, so long as private property continues in the means of production. It is simply impossible to remove the shadows cast by private property in the instruments of production and yet to preserve the thing itself.

Chapter IX

Chronic Overproduction

Along with the periodical crises and their permanent manifestations, along with the recurring periods of overproduction and their accompaniments of loss of wealth and waste of force, overproduction increases steadily, becomes chronic, and human forces permanently go to waste.

Relation of Increased Productivity of Labor to Overproduction

The revolution in the machinery of production goes on uninterrupted; the fields that it invades are ever more numerous; year after year, new branches of industry, new fields, are conquered by capitalist large production; and, consequently, the productivity of labor grows incessantly, and at an ever-increasing rate. Simultaneously with this, the accumulation of new capital proceeds without interruption. The intenser the exploitation of the single laborer and the larger the number of exploited toilers, the larger also grows the quantity of the surplus and the mass of wealth that the capitalist class can lay by and apply as capital. It is, consequently, not given to the capitalist system to remain stationary; its constant expansion and the constant expansion of its market are matters of life and death to it; for it to stand still is to die. While formerly, in the days of handicraft and of the small farmers' system, the country produced year in year out a quantity of wealth which, as a rule, increased only with the increase of population, the capitalist system, on the contrary, is from the start

predicated upon an incessant increase of production; every stoppage denotes a social distemper that is all the more painful and unbearable in proportion to its length. Together with the periodical incentives to increase production, brought on by the periodical extensions of the markets, there is a permanent pressure upon production to stretch itself out. This pressure is inherent in the capitalist system of production itself, and instead of being brought on by the extension of the markets, compels the latter to be pushed ever further.

Relation of Commercial and Territorial Expansion to Overproduction

But there is a limit to this extension of the markets. During the last twenty years it has not been accompanied with the favorable results of former times; true enough, the markets are extended ever more; but while, on the one hand, the tendency of production is to increase at an ever quicker, on the other hand, the extension of the markets is accomplished at an ever slower pace.

True enough, again, the field over which capitalist production can extend itself is immense; it leaps over all local and national boundaries; it has the whole globe for its potential market. But capitalism has virtually reduced the size of the globe. Only a hundred years ago, the market for capitalist industry was comparatively limited and was almost wholly monopolized by England. But such was the activity and vigor of the capitalists, their aiders and abettors, and so gigantic were the means at their disposal, that since then almost all countries on earth have been forced open, not by the products of England alone, but by those of all capitalist nations, so that to-day there are hardly any other

markets left to be opened, except such from which there is little else to be fetched besides fevers and blows.

The wonderful development of transportation renders from year to year a completer exploitation of the market possible; but this tendency is counteracted by the circumstance that the market steadily undergoes a change in those very countries whose population has reached a certain degree of civilization. Everywhere the introduction of the goods or capitalist large production extinguishes the domestic system or small production, and transforms the industrial and agricultural workers into proletarians. This transformation produces two important results in all the markets that are counted upon to absorb the surplus products of capitalist industry; first, it lowers the purchasing power of the population, and thereby counteracts the effect of the extension of the market; second, and more important than the first, it lays there the foundation for the establishment of the capitalist system of production by calling into existence the class of the proletariat, a class that did not previously exist in such localities.

How Capitalism Digs Its Own Grave

Thus capitalist large production digs its own grave. From a certain point onward in its development, every new extension of the market is tantamount to conjuring up a new competitor. At present, capitalist large production in the United States, which is not quite a generation old, is engaged not only in the work of freeing itself from its European competitor, but in a frantic endeavor to seize upon the market of the whole American continent. The still more youthful capitalist industry of Russia has started in to be the

sole purveyor of the whole extensive territory owned by Russia in Europe and Asia. The East Indies, China, Japan, Australia are developing into industrial States, that sooner or later will be able, industrially, to supply their own wants. In short, the moment is drawing near when the markets of the industrial countries can no longer be extended, and will begin to contract. The moment this effect shall begin to be felt, it will be the signal for the wholesale bankruptcy of capitalist society – a cataclysm, which, unless forestalled by the Socialist Revolution and the establishment of the Socialist Republic, will engulf the world.

For some time past, the extension of the market has not held pace with the requirements of capitalist production; the latter is, consequently, more and more hampered, and finds it increasingly difficult to develop fully the productive powers that it possesses. The intervals of strong industrial activity become ever shorter: the length of the crises becomes ever longer, until these have virtually become continuous; – overproduction becomes daily more and more a permanent feature of the present system.

Hence the quantity of the means of production that can either not be sufficiently turned to use or is forced to remain wholly unused, is on the increase; the quantity of wealth that goes to waste, accumulates more and more; the quantity of labor-power compelled to lie idle, becomes ever more appalling. Under this last head do not belong only the swarms of the unemployed, who are rapidly growing into a threatening social danger. Under it must also be numbered, first, that ever-increasing crew of social parasites, who, finding all the avenues of productive work closed to them, try to eke out a miserable existence through a variety of

occupations, most of which are wholly superfluous, and not a few injurious to health – such as the small middle-men, peddlers, saloon-keepers, agents, drummers, pimps, and the like; second, that stupendous lump of humanity that may be designated as the slums from the physical abodes of some of, and mental abodes of all, its members – such as the cheats and swindlers of high and low degree, the well and the poorly clad criminals, the prostitutes for a living in “upper” as well as lower ranks of the social body, together with their innumerable dependents for existence; third, the swarms of those who fasten upon the possessing classes in the capacity of “professional” and personal servants—such as butlers, lackeys, footmen, coachmen, “chefs,” private watchmen, and maids, and no inconsiderable number of lawyers, physicians, secretaries, “tutors,” and others of like stripe; finally, the increasing private army of capitalism, generally known by the name of “PINKERTONS,” and which would have been a social impossibility were it not for the existing overproduction that has rendered so many unnecessary for industrial purposes. Capitalist society has begun to smother in its own superfluities; it has reached the point where it is unable to promote the further and fuller development of the productive forces which it has called into being; lest it fall to pieces, it is bound to consign to idleness an ever larger quantity of productive forces, and to allow the wasteful squandering of an ever larger quantity of products.

Capitalist Class has Carried out Its Historic Mission

The introduction of the capitalist system (that is to say, the substitution of capitalist large production, where the implements of labor became the private property of a few

individuals, and whose workmen were turned into propertiless proletarians, for small production, where the implements of labor were the property of the individual workers) was the means whereby the productive powers of labor were to be increased prodigiously and were to be emancipated from the narrow bonds that fettered them under the system of small production, both in industry and agriculture. To carry this out was the historic mission of the capitalist class. It did its work by inflicting untold sufferings upon the masses of human beings which it expropriated and exploited; but it fulfilled its mission. It was as fully a historic necessity as the two cornerstones upon which it rose: first, the production of merchandise – the system of production for sale; second, the private ownership of the implements of labor.

But, however necessary both the capitalist system and its foundations were once upon a time, they are no longer necessary to-day. The functions of the capitalist class devolve ever more upon paid employees. The large majority of capitalists have now nothing else to do but to consume what others produce; the capitalist is today as superfluous a being as the feudal lord had become a hundred years ago.

Nay, more. The same as the feudal lord a hundred years ago, so has the capitalist of to-day become a hindrance to the further development of mankind. Private ownership in the implements of labor has long ceased to secure to each producer the product of his labor, and to guarantee him his freedom. To-day, on the contrary, society is rapidly drifting to the point where the whole population of capitalist nations will be deprived of both property and freedom. Thus, what was once the foundation of society itself, the means,

originally intended to stimulate the development of the productive powers that were latent in society, have now turned into a masterkey that forces society, in an ever-increasing degree, to squander and waste its productive powers. Thus, the system of private property in the instruments of production has wholly lost its original character; it has become a curse, not only to the small producer, hut to the whole of society; instead of being a spur to social development, it has become the cause of social decline and impending bankruptcy.

The Socialist Republic Inevitable

To-day there is no longer any question as to whether or not the system of private ownership in the means of production shall be maintained. Its downfall is certain. The only question to be answered is this: *Shall the system of private ownership in the means of production be allowed to pull society with itself down into the abyss; or shall society shake off that baneful burden, place the land and the implements of production in the hands of the people, to be operated collectively, for use and not for profit, and then, free and refreshed, resume the path of progress, which the evolutionary law prescribes to it?*

Such is the question and such the alternative. Our generation stands where the roads fork. One road leads, through ruin, back to barbarism; the other leads onward to the Socialist Republic.

All political parties in the United States, with one exception, drive us on to the former road.

The Socialist Labor Party, and it alone, points the way to the latter road.