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ARTICLE II.

THE RELATIONS OF CAPITAL AND LABOR.¹

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IF I understand the broad aim and purpose of Sociology it is to better the condition of mankind, especially the condition of the so-called working classes, by which is usually meant the wage-earners. One of the most prominent questions to consider, therefore, is the relations of capital and labor, of employer and workman. I shall not attempt an elaborate discussion on this topic, but shall indicate some of the practical difficulties to be overcome, and a few general principles which may be useful in guiding us to correct conclusions. If my treatment of the subject is in some points chaotic, it will not inaptly represent the present condition of the problem I am discussing.

The ideal of workmen, as voiced by their leaders, is on the one hand coöperation, and on the other, governmental paternalism. They would have coöperation in the ownership and management of mercantile and manufacturing enterprises, and governmental ownership and control of railroads, telegraphs, and all of the various corporations that are dependent upon special franchises from the public. On the latter subject I have no experience, and no special opportunities for observation, so I shall confine myself to the relations of labor to manufacturing and mercantile enterprises.

The reason for favoring coöperation is chiefly that the workman may receive larger emoluments for his labor, or, in other words, a larger share of the profits. This necessarily

¹ Paper read at the Oberlin Institute of Christian Sociology held November 14 and 15, 1894.

presupposes that there are profits to divide. The first difficulty that confronts us is that as a matter of fact a large number of business operations result in loss and not profit. It has been estimated that one-half of the men who go into mercantile or manufacturing business fail at some time during their business career. It is difficult to get accurate statistics on this point, but an examination of the failures reported through mercantile agencies will give us approximate results. The failures among the customers of the carefully conducted wholesale mercantile houses are about one-half of one per cent each year. Their risks, however, are selected with great care, and the merchants most likely to fail are refused credit. The report of Bradstreet and Company shows that the average failures of all mercantile and manufacturing houses for one year represents from one and one-fourth to one and one-half per cent of the actual number doing business. Allowing that the average business career of a man covers twenty-five years, it will be seen that during that time about one-third of the number fail in business. The importance of this factor in our discussion is perhaps better shown by the statement that the total number of failures reported each year in this country alone is from twelve to fifteen thousand.

The ratio of failures in railroads is much larger than that of merchants and manufacturers. This is due, however, not so much to the greater hazard of the railroad business as to the fact that railroads are often bonded for a much larger amount than their actual cost, and are, therefore, unable to earn the interest and dividends on their watered capital. This seems also to be a specially tempting field to the unprincipled speculator, and railroads are often wrecked for the profit to be made out of the reorganization.

In order to judge understandingly of coöperation we must carry our inquiry a little further, and ask, Why some succeed in business while others fail. If I were to give the

reason in a single sentence, it would be this: It is the difference between good management and bad management. There are some instances where conditions arise which no management can foresee or overcome, but such instances are rare and do not disprove the general rule. The so-called bad luck that many business men complain of is only another name for bad management. Their factory burns down when they discover that their insurance has just expired the week previous; or they buy too many goods, or at too high prices; or they sell to those who cannot pay their debts. Another difficulty more common than either is that they find their expenses are too heavy for the volume of their business, and so the profits are all consumed in expenses. Providence receives a large amount of blame for which it is in no way responsible, and which should be attributed to incompetent management. People are not willing to acknowledge their own shortcomings, and so in a cowardly manner they shift the fault upon Providence.

The question of profits in business is then largely a question of how to secure good management. Experience shows that this is more often accomplished by one man or by a small group of men with good judgment, than by many men. Our banks are among our most substantial business concerns, and these are chiefly managed by the president and cashier, though with the advice of a board of directors who meet from time to time. Our insurance companies, gas companies, mines, and many other large corporations are also managed in the same manner. The most successful mercantile and manufacturing enterprises have been managed either by one man, or at most by two or three men. The case of A. T. Stewart and Company, H. B. Claflin and Company, Marshall Field and Company, the Singer Sewing Machine Company, the McCormick Reaper, and the Standard Oil Company are marked illustrations of this principle.

Coöperation in this country has generally failed because

of the difficulty of securing wise and competent management. Men with ability to manage a large business successfully are very rare and are difficult to obtain, and when found they generally prefer to conduct a business for themselves rather than for others. They always command a high price in the market of the world, and coöperative societies are rarely willing to pay what is necessary to secure such a manager. The feeling of equality among workmen makes them opposed to any wide discrimination in wages, and they will not pay a salary of five or six times their own average wages, as they would have to do to secure a really competent manager.

Coöperative stores and manufacturing concerns are brought into direct competition with other large establishments owned by one individual, or by a company managed with all the skill that keen business shrewdness can command, and unless skill is matched against skill, the coöperative company as the weaker must go to the wall. There are a few successful coöperative stores and factories in this country, but it is where the conditions are exceptionally favorable, and when these are compared with the very large number of failures, they do not disprove the rule that the chances of success at the present time are against coöperation.

That success is possible with coöperation is proven by the experience of banks and stock companies, which are in reality coöperative corporations, and differ from labor coöperative companies chiefly in the fact that the stock is mostly held and controlled by business men, and not by inexperienced workmen. The ownership of the stock may be widely scattered, but the control is in the hands of those who know what good management is and are willing to pay liberally to secure those competent to direct their affairs successfully. The success of these corporations shows that the trouble is not with the broad principle of coöperation, but with the special difficulty of securing good management when the control of the company is in the hands of those who have

not the skill and experience necessary to direct its affairs wisely.

Coöperative shops in London, and I think in some other parts of England, have been more successful than in this country. This would lead to the belief that they may ultimately succeed here when the general principles necessary for success are better understood by the working classes, and when they are more willing to comply with them.

The large risk and doubtful profits of coöperation have led many to advocate in its place what is known as profit-sharing. In schemes of profit-sharing the management and the greater part of the capital is in the hands of one, or at most two or three persons. Regular wages are paid to the employees, and then at the end of the year a per cent of profits over and above the expense of conducting the business and paying interest on the capital, is divided among the employees, usually in proportion to the amount of their respective wages. This is in my opinion the best of the various plans which have been devised for giving to workmen an interest in the profits of the business. It is entirely consistent with independent and efficient management, and it has the advantage over the ordinary wage system that it gives the employee an interest in the business, and is an incentive to him to do his best work.

Profit-sharing, however, is not a principle which can be universally applied in business, for, as we have before stated, business is often run at a loss, and the workman is neither able nor willing to share with the capitalist in this loss. Profit-sharing, therefore, is only applicable to well established forms of business where at least a moderate profit may be confidently expected each year. Every new enterprise is an experiment for the first year or two; and workmen will not and ought not to be asked to share in this experiment. The right of the workman to his full wages cannot well be abridged. In fact these claims are so well recognized and established

that in most States wages are made a lien upon property to be paid in preference to all other debts.

The tendency of the times is towards large corporations. The smaller manufacturer with hand work or incomplete machinery cannot compete with the large manufacturer with his elaborate machinery and thoroughly organized plant. So also in all the large cities the smaller merchant is driven out by the large store with its numerous departments. The result is to be regretted on many accounts. It largely substitutes unskilled for skilled labor, and so deprives the workman of the higher wages and the opportunities of improvement which come from labor which calls the mental faculties into greater activity. It lessens the chances of individual effort and success, and so discourages the workman. It also tends to the concentration of capital in a few hands. Commercial success, however, is in its favor, and before this, all obstacles must give way.

The great factory and store are not, however, altogether without their compensation. It is the most economical method of doing the world's work, and therefore it makes commodities cheaper. It brings to the homes of the laboring classes as well as to all other classes many comforts and luxuries which they could not otherwise enjoy. The large store or manufactory also increases the chances of good management, and so lessens the proportions of failures in business.

The large mercantile and manufacturing establishments are the ones which are most suitable for the introduction of profit-sharing. There is more stability to the business and more uniformity in the yearly returns. There is ability and strength to compete with other large establishments. The presumption is also that the past management has been wise or so large a business could not have been built up, and it is easier to continue a successful business than to establish a new one, or to revive a waning one.

Profit-sharing in order to be successful must be put on an economic basis and not on a benevolent basis. It must bring positive advantages to the business, or it will not be generally adopted. If two factories are working side by side in the manufacture of the same article, one on the principle of individual ownership, and the other on the principle of profit-sharing, and the one with the individual ownership can put its goods upon the market five per cent cheaper than the other, then profit-sharing will be abandoned. The experience of profit-sharing, however, seems to indicate that in many lines of business it possesses advantages which will make it a commercial success. Workmen will perform more labor, use greater economy, and in many ways promote the interest of the business where they have a financial interest, more than where they have not.

Some plan of profit-sharing is already in operation in many forms of business both in Europe and America, and I should judge that it is making steady increase. It must not, however, be expected that it will speedily become of universal application, nor do I believe it is possible to hasten the introduction of profit-sharing, or any other system of coöperation by legislation, or by forcible interference of any kind. If it is better than the old plan, it will gradually win its way on its own merits. Haste is neither possible nor desirable. One pound of experience is worth more than a ton of theories. We have been six thousand years, at least, in arriving at the present advanced state of the capital and labor question, and we need not be discouraged if it takes several centuries more to reach that degree of perfection which we shall no doubt ultimately attain. In the meantime the greater part of those who find employment in the large firms and corporations of the country must continue on the wage system with all of its faults and shortcomings.

So far I have considered the interests of the workman only from the standpoint of increased wages. A larger share

of the profits of business is without doubt the chief object sought for by the wage-earning classes. But it is not the only thing needed, and I venture the assertion that it is not the most important. The cultivation of thrift, of economy, of the habit of saving, is even more important than the mere matter of the amount of wages. This subject is largely distinct from the question of wages; for my observation is that the desire and ability to save money is but slightly influenced by the amount of the wages received. If you talk with a person receiving four hundred dollars a year about saving, he will say he cannot possibly save on his present wages, but if it were increased to five hundred dollars a year he might lay up one hundred dollars. But when the increase comes his wants increase in the same proportion, and the whole amount is spent just the same. From my observation in the city of New York I am satisfied that among those receiving salaries of from one to two thousand dollars a year the proportion who lay by a part of their earnings, is no larger than among those receiving salaries from five hundred to one thousand dollars. Economy is dependent upon the training and mental make-up of the individual, and not upon the amount of salary.

Unfortunately the system of wage-earning does not tend to cultivate thrift and economy. Among our farming population, and among all classes who do business for themselves, the general rule is that they are thrifty and try to save a little money each year. On the other hand with the wage-earning class almost the contrary rule prevails. Any effort therefore to improve the condition of workingmen should look especially to training them in habits of thrift and economy. It is not the danger of their becoming paupers which is of the most consequence, though that is an important matter, but the danger is that they will become a menace to the state and country. There is nothing which contributes so much to good citizenship, self-respect, and all that makes for manhood as a bank account, or the ownership of property. If

every workman in the land owned his own home, or had one hundred dollars laid by as an investment, anarchy would be effectually stamped out of the country.

Another subject no less important is the education and broadening of the minds of the working classes, the filling of their lives with something besides the details of their daily tasks, with something more elevating than the current gossip of neighborhood quarrels and personal discomforts. Life is more correctly measured by the fullness of our minds and hearts than by the fullness of our pockets. Modern conditions of labor, as I have already explained, tend to impoverish the lives of the workman. With the introduction of machinery the work of the laborer is often little more than a part of the machine. We no longer have weavers, spinners, shoemakers, tailors, wagonmakers, and blacksmiths, but this work is subdivided into many parts, and a man learns to do a single portion only. The result is that there is little in his daily employment to educate and develop his higher nature. The whole practice of working in our factories or mercantile establishments tends to narrow the thoughts. The individual workman knows almost nothing about the policy of the house or its general business management. He has no responsibility except for the task assigned him. This condition of things will train up a very different class of men from those which have grown up during the past history of our country. The individual farmer, blacksmith, shoemaker, and wagonmaker is a man of affairs, who does his own buying and selling, who makes his own plans, and is an independent business man and business manager. In doing this he gets an experience and breadth of thought largely wanting in those who work in our factories, our mines, our railroads, or even in our counting houses. This is one of the inevitable evils of our modern economic system, and unless something can be done to counteract this tendency, the influence on coming generations will be unfortunate in the extreme.

So far as I can see, the corrective of this condition must be sought largely in the occupations of the workmen outside of business hours. Debating societies, men's clubs, girls' clubs, labor unions, when intelligently conducted, Chautauqua circles, reading clubs, art clubs, and the university extension movement, are a few of the agencies which may be used to develop the workingman, and to counteract the be-littling influence of piecework. As the business man finds rest from his engrossing cares by some outside avocation which gives a new direction to his thoughts, so the workers in our factories must be interested in those things which will fill up the blank in their lives that is left by the routine of their daily toil.

In the suggestions which I have made, I have not directly mentioned Christian duty or moral principles as affecting the relations of employer and employee. This has not been because I lightly esteemed Christian obligation, but because I wished to show the natural workings of economic causes in the relations of capital and labor. Any reform that is not based on sound economic principles will bring disappointment and disaster alike to the employer and the workman, to the philanthropist and the general public. On the other hand I believe that there is perfect accord between economic laws and the principles of Christianity and philanthropy. The same Divine Creator is the author of both, and there can be no discord in his works. Christianity teaches honesty as a moral duty. Sound business principles teach it with equal emphasis because "honesty is the best policy." No permanent business can be established on any other basis than that of honesty. This is so well understood that many men of bad personal character establish and carry on a business on the principles of strict honesty because it is the surest way to permanent success.

I know that a different impression from this often prevails. We even sometimes hear it said of a man who fails in

business that "he is too honest to succeed." It is not his honesty but his lack of foresight, prudence, and good judgment that has caused his downfall. On the other hand we see men who are tricky and dishonest acquiring great wealth and apparently living in prosperity. We recognize the dishonesty and so attribute their success to this, while we overlook the remarkable business tact and foresight which they also possess, and which are the real causes of their prosperity. They are successful in spite of their dishonesty, and not because of it. It is true that dishonesty may bring temporary advantage, but this is more than counterbalanced in the long run by the loss of the confidence of the community and the consequent loss of opportunity for acquiring new business. This is particularly true in manufacturing and mercantile affairs. The man who furnishes honest goods and sells them at a fair value and uniform price, if he also possesses foresight and business judgment, is almost sure to outdistance his competitor who is striving to overreach and swindle his customers.

What is true of honesty is also true of liberality and generosity. "There is that scattereth and yet increaseth, and there is that withholdeth more than is meet, but it tendeth to poverty." The employer who treats his employees not only with fairness, but with liberality, who pays the full market price for wages, who supplies every needed appliance for their health and comfort during the hours of labor, who encourages among them habits of thrift and economy by which they become independent and self-respecting citizens, who assists and stimulates them in every possible way to use their spare hours in self-culture and improvement, will secure for himself direct returns in improved service which will more than repay him for the outlay.

On the other hand the workman who does all he can to develop his skill and perfect himself in the knowledge of his craft, whose heart is in his work and who is ever on the alert

to advance the interest of his employer, will find his daily work has become a pleasure instead of a burden, and will greatly advance his own interests by the more efficient service which he is able to render.

The existing feeling of distrust and animosity between employer and workman is to be exceedingly regretted. The solution of this difficulty is not to be found in mutual hatred and recrimination, but rather in an honest effort of each individual to do his own duty in the responsibilities which are laid upon him. This is the economic solution and is also the Christian solution. Individual responsibility for his own acts is the basis of Christian obligation. The reign of good will upon earth is to be brought about, not by each one neglecting his own duty and criticizing the acts of his neighbor, but rather by charity for our neighbor and the rigid holding of ourselves to responsibility for our own actions. When Christ shall reign supreme in the hearts of all men, the labor problem will disappear, and all will work together for the common good of mankind and for the glory of the Master's kingdom.