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- Capital and labor  
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# CAPITAL AND LABOR

By JOHN A. RYAN, D. D.

NATIONAL CATHOLIC WELFARE COUNCIL  
SOCIAL ACTION DEPARTMENT



Our Sunday Visitor Press  
Huntington, Indiana





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# CAPITAL AND LABOR.

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By John A. Ryan, D. D.

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## Methods of Cooperation and Harmony.

“The great mistake made in the matter now under consideration, is to take up with the notion that class is naturally hostile to class, and that the wealthy and the workingmen are intended by nature to live in mutual conflict. So irrational and so false is this view that the direct contrary is the truth. . . . Each needs the other. Capital cannot do without labor, nor labor without capital.”

These words occur in the encyclical of Pope Leo XIII, “On the Condition of Labor.” They are not only true in general, but they have a specific bearing upon the strained relations now existing between large sections of the employing class and large sections of the class of wage-earners. They can be logically denied only by the Socialist. In the mind of the man who believes that the wage system is doomed to inevitable destruction through irrepressible class warfare, there is evidently no room for the doctrine that capital and labor have common interests. With this theory we do not mean to deal in these pages, except to write down our conviction that it is wrong morally and unsound economically. We hope to show that Pope Leo’s statement is not only true in the abstract, but capable of fruitful application to present industrial conditions. The formula of industrial harmony can be translated into effective rules for the guidance of employer and employee.

At the outset we must frankly and exactly recognize that the formula has strict limitations. The interests of capital and labor are identical in a general way and in the long run, but not at every point of their mutual relations nor at every moment of time. In general, it is to the common interest of capital and labor to make their joint product as large as possible; for the greater the dividend, the greater will be the shares of both. This proposition is true of every case in which

the *proportion* of the *whole* product obtainable by labor is fixed at the outset of the productive process. If the wage contract is such that labor will receive, say, neither more nor less than one-half the total product of a given enterprise or job, or one-half the product turned out within a given time, labor will obviously do well to raise its daily or weekly output to the maximum.

### Restriction of Output.

There are some cases, however, in which labor's proportion of the product is not thus fixed beforehand, but is dependent upon its daily or weekly output. For example, if only ten million dollars will be expended in the construction of buildings in a certain city during a certain season; if the workers in the building trades will be unable to find any other employment for the portion of the season that might remain after the building operations are completed; and if their remuneration is fixed by the day,—it will be to their temporary and present interest to prolong these operations as far as possible. The longer the time occupied in the erection of these buildings, the greater will be the earnings of this group of laborers for this season. As a matter of historical fact, laborers in the building industry have more than once taken advantage of this situation, and restricted their daily output accordingly.

Sometimes this seasonal gain by the laborers has been at the expense of the employing capitalists. The latter have made smaller profits, have obtained a smaller share of the product, of the amount of money paid for the erection of the buildings, than would have been theirs had the laborers turned out a reasonable measure of product per day. In all such cases the laborers increase their share of the total product by decreasing their daily productivity. In such cases it is not to labor's immediate interest to make the daily product as large as possible.

Guided by experience, however, the employing capitalists will in the majority of instances have foreseen the restricted labor output, and increased their contract price sufficiently to offset the higher labor cost, and to assure themselves the nor-

mal margin of profit. Here it is the persons who pay for the erection of the buildings primarily, and the users of the buildings ultimately, in other words, the consumers,—who provide the extra compensation obtained by the laborers through the practice of “slowing down” their work. While it still remains true that this practice is to the immediate interest of labor, the cost of the practice is borne not by the capitalist, but by the consumer.

Therefore, the “lump of labor fallacy” is not always a fallacy. It is not a fallacy in the case of any group of workers who can increase their seasonal earnings by artificially stretching out their seasonal employment. Were the laborers assured of continuous employment they would gain nothing by decreasing their normal productivity. When they are without such assurance, they can, if they have a monopoly of the local labor market, increase their yearly earnings by decreasing their daily output, at the expense either of the employing capitalists or of the consumers. On the other hand, the capitalist is always interested in raising the product to the maximum during any period of time. This is true even when he has foreseen and discounted the practice of output restriction by his employees. The sum of the matter is that in exceptional instances the interests of labor and capital are not identical as regards the desirability of turning out a maximum product.

The word “monopoly” appears in the last paragraph. It is the key to the exceptional situation that we are now discussing. The laborers in the building trades whose case we have been considering are pecuniarily interested in a restricted product for the same reason that the owners of a monopolized commodity are interested in diminished sales. That is, they can obtain greater total returns, greater net gains, from a smaller than from a larger volume of output in a given unit of time. It is no answer to object that if the building laborers were to perform a normal day's work the cost of building would be reduced, more buildings would be erected, and the laborers might still find employment throughout the whole season. This might or might not be true in any given case. It is not necessarily true, nor generally true, to any greater

extent than in the field of commercial monopoly. The same argument may be plausibly used to show that the monopolizers of petroleum or sugar would make more money by reducing prices and increasing sales than by following the opposite course. Yet the commercial monopolists have remained unconvinced. The labor monopolists can make out quite as good a case for their skepticism and their selfishness.

Nevertheless the practice of restricting the labor output is profitable only in the case of those skilled and specialized groups of workers who exercise unified and monopolistic control over their kind of labor. They are in a position to increase artificially their remuneration at the expense of the consumers, including all the non-monopolistic groups of wage-earners. The latter are unable to retaliate by having recourse to the practice of restricting output. And they are the vast majority of the wage-earning population. Were they all to secure monopolistic control of their kind of labor, and to obtain an increase in money remuneration by restricting output, they and the whole laboring population would be reduced to a lower level of living, owing to the greatly diminished product available for distribution.

Therefore, we come back to the incontestable proposition that the workers as a whole and in the long run have the same interest as the capitalists in turning out the largest possible product. And this outcome is likewise to the interest of the general public.

The interests of labor and capital are not identical in the *division* of the product. The greater the share received by labor, the less will be the share of capital. This is a mathematical fact. Neither the fact nor its practical implications can be annulled by benevolent phrases or irenic aspirations. The antagonism of interests in this department of industrial relations has been well described by Professor R. M. MacIver, in a series of questions:

“Is there identity between cost and profits? Is not business run for profits, and is not labor a cost from that point of view? Does not the worker seek to enhance that ‘cost’ by securing as high wages as he can? Does not the ordinary



capitalist seek to minimize it, like other costs, by employing the cheapest grade that will serve; by getting through long hours, low wages, and intense application, as much out of every unit as he can; by substituting for it machine power whenever it pays to do so; and in general by making for it only such provision as brings an economic return?" ("Labor in the Changing World," pp. 28, 29.)

### The Principles of Justice.

Inasmuch as the material interests of capital and labor are identical in some respects and opposed in other respects, the duty of every lover of peace and justice is to emphasize and extend as far as possible the field of common interests, and to reduce to its lowest attainable dimensions the domain of antagonistic interests. The most effective means to this end would be religion; for, as Pope Leo XIII declares, it reminds "each class of its duties to the other, and especially of the obligations of justice." Nor is the objection well taken that the teaching of religion concerning justice and the other social virtues is of no practical efficacy, since both parties to the industrial controversy profess devotion to these ideals. For the most part such profession is mere lip service, and confined to the realm of abstractions. Only a minority of either capitalists or laborers ask themselves sincerely and searchingly the question: "What does justice require of me in this controversy with the other party to the industrial contract?" The great majority content themselves with a militant assertion of their rights. They give little deliberate thought to the limitations of their rights, and still less to their reciprocal duties. And the content of their rights they interpret in the light of their desires rather than upon the basis of religion or morals.

In practice this attitude is equivalent to a flat rejection of the moral element. Were capitalists and laborers to take seriously the proposition that their mutual relations are subject to the moral law, each one would ask himself these questions: "What are my just claims? What are the *limits* of these claims, that is, just how far may my claims be rightfully

extended? What are the rightful claims of the other party? What, therefore, are my duties?" The man who honestly puts to himself these questions, and takes a reasonable amount of time and trouble to answer them in the light of the best information that he can obtain, will find that the principles of justice as applied to industrial relations are by no means empty platitudes. So long as men fail to weigh and consider in some such fashion the application of these principles, the fault is with themselves, not with the principles.

### Mutual Understanding.

In an address delivered a few weeks ago at a meeting of the American Institute of Mining Engineers, Herbert Hoover declared that we must "re-establish through organized representation that personal co-operation between employer and employee in production that was a binding force when our industries were smaller." This statement indicates at once the main economic cause of industrial friction and the main economic method for its reduction and ultimate removal. In the typical industrial concern of today, the employer, whether individual or corporative, is physically unable to keep in personal contact with more than a small fraction of his employees. Therefore, he can have no adequate knowledge of their individual merits, their viewpoints or their grievances. He is compelled to treat them as a collection of productive units. The manifold ways in which this condition provokes mutual lack of human consideration, of understanding and of trust, are too plain to need specification.

How can this lost personal relationship be restored? Not by such direct methods as the attempt of the individual employer or the officers of a corporation to become intimately acquainted with and to maintain continuous contact with every one of the employees. This is feasible only in relatively small establishments. In the larger concerns the desired contact between masters and workers can be obtained only through organization and the device of representation. The individual employer can meet regularly and frequently the

comparatively small number of persons who are necessary to represent the whole body of employees. A small number of representatives of the management and the stockholders can perform the same function for a corporation. In this way the views and grievances of the employees can be brought promptly and fully to the notice of the employer or the corporate management, while the views and interests of the latter can be carried back to the employees by men who are able to give first-hand knowledge on the subject, and in whom the employees have confidence.

### The Labor Union.

There are various forms of such mutual contact by representation. The oldest is the labor union, or trade union. Unfortunately a large and powerful element among American employers is still antagonistic to effective organizations of this kind. The President's Industrial Conference which met last October to devise methods and policies for the promotion of industrial peace, was a failure because the majority of the employers' group in the Conference refused to accept the principle of adequate collective bargaining. This group declined to concede the right of employees to be represented always by persons freely chosen by the employees. Yet such freedom of representation is fundamental, and indispensable to the common interests of the two parties. To quote again from the address of Mr. Hoover, "the attitude of refusal to participate in collective bargaining with representatives of the employees' own choosing, is the negation of the bridge to better relationship."

In his encyclical, "On the Condition of Labor," Pope Leo XIII discussed at considerable length the subject of labor associations, and summed up his observations in this sentence: "We may lay it down as a general and lasting law, that workmen's associations should be so organized and governed as to furnish the best and most suitable means for attaining what is aimed at; that is to say, for helping each individual member to better his conditions to the utmost in body, mind and property."

This great principle means in practice that labor organizations should be accorded the right to choose freely, without restriction by employers, the persons who are to represent them in their dealings with the employers. No lesson of industrial history, no conclusion from industrial experience, is better established than this rule of practical policy. As compared with capital, labor has always been the weaker party in negotiations about wages and other conditions of employment. To attain a position of approximately equal bargaining power, laborers must act as a body, and the individuals who represent them in the bargaining process must be the most effective that they can find. Such representatives are generally the officers of the unions. These have superior bargaining skill because of their experience in the process, and they have superior courage to uphold the claims of their clients because they are not on the payroll of the employer with whom they are dealing, and consequently are in no fear of jeopardizing their livelihood. The employer who refuses to deal with such representatives, and who insists that the spokesmen of labor shall be chosen from among his own employees, puts the latter at a disadvantage which in the great majority of cases is unfair because it leaves them unequal in bargaining power. This is the whole case for collective bargaining through the freely chosen representatives of the workers.

The employer group was not alone in taking an unreasonable position at the President's Industrial Conference. For several days the labor group demanded that the Conference recognize the right of collective bargaining through the representatives of *trade unions*. Had this demand been fully conceded those labor organizations which are confined to a single shop or a single industrial concern, and unaffiliated with any of the national unions, would have been deprived of representation in collective dealing with employers. Members of such associations would have been compelled to join a regular trade union in order to get the right of collective representation. At least, that would have happened in establishments where the regular unions had enrolled any of the employees. The object of the demand was to discourage the formation of the so-

called "shop unions," or "company unions." In some degree it was an attempt to do just what the majority of the employer group sought to accomplish; that is, to dictate the choice of representatives for certain groups of workers. Happily the labor group in the Conference receded from this position, and in the closing days of the Conference merely contended for freely chosen representatives of the workers through whatever form of organization should be preferred by the workers themselves. In this attitude the labor group was joined by the group which represented the general public in the Conference, so that at the end only a majority of the employer group denied the right of adequate representation to the workers in the process of industrial bargaining.

While the national trade union, or labor union, is still necessary for the protection of the workers, it has certain definite and considerable limitations. Chief among these is the fact that it does not adequately protect those interests which are common to employer, employee, and the general public. It is essentially a fighting organization. Its function is to defend the interests of the employee *against* the aggression or the obstinacy of the employer. Owing to its traditions and its methods, it emphasizes the idea of combat, and minimizes the idea of cooperation. It struggles for higher wages, shorter hours, and better working conditions generally,—all of which are, at least to a considerable extent, contrary to the interests of the employer. Of itself, primarily, formally, the labor union is not concerned with a larger product or a better product. As explained in preceding paragraphs, particular unions may even find it temporarily profitable to reduce the daily output of their members; and the progressive demand for a shorter workday can easily become detrimental both to the employer and to the public. Today, more than ever before, the great and immediate need of society is for more and better products.

This need cannot be met except through the willing and earnest cooperation of the workers. How shall this cooperation be obtained? Not through methods of compulsion, such as over-driving, "speeding up," and threats of discharge, for

the efficacy of these is always slight, and today is negligible because of the scarcity of labor and the power of the unions.

### Arousing the Interest of the Worker.

The indispensable first step toward a larger product is to make the worker more interested in his work, in its planning, its processes, and its results. His industrial position must be so modified that he will find himself in some degree a partner in the enterprise, rather than a mere executer of orders, or animated instrument of production. Inherent in every normal person is the desire to exercise some controlling power over his material environment. Every normal person possesses some directive, initiating, creative capacity. Unless this capacity receives some opportunity for expression, the wage-worker, like all other persons, remains uninterested in his task, and relatively inefficient. When the worker is enabled to exercise his directive and creative faculties, his interest is aroused and his efficiency is increased. The man who directs a business always works harder and more efficiently than his employees.

This fundamental and withal obvious fact of human nature has come to be strangely and generally ignored by the masters of our great industrial concerns. They act as though the workers were made of different clay. "A good deal is said about the worker's psychology," says Dr. Meeker, the United States Commissioner of Labor Statistics, "as though the worker were some strange, wild beast with a peculiar psychology all his own, quite different from the psychology of employers and managers. It is because the psychology of the worker is the same as the psychology of the employer and the manager that strikes and lockouts occur with such distressing frequency." Applying these observations to the matter that we are now considering, the Commissioner continues: "A man will willingly work much harder, expend much more energy, and be much less fatigued working on a job which he has a part in planning, and for the results of which he is responsible. The present-day movement for industrial democracy is

a partial recognition of the fundamental psychological phenomenon that industrial fatigue is not simply an engineering question, to be stated mathematically in foot-pounds per hour, or even a physiological question having to do with calories burned up in the body. Work is hard primarily because it is uninteresting, or easy because it demands ingenuity or skill. . . . The worker must be called upon to use his head in planning as well as his hands and feet in executing his work if contentment is to be attained in industry." ("The Monthly Labor Review," Fed., 1920, pp. 3, 4.)

The problem of enlisting the interest and efficiency of the worker through the exercise of his directive and creative faculties has two distinct aspects. There is the question of individual technical interest, of stimulating the worker's ingenuity and initiative in relation to the particular industrial process or task upon which he is engaged. The object here is primarily to eliminate monotony, routine, and fatigue. While the question of securing and maintaining the technical interest of the worker is of fundamental importance, it will not be further considered in this pamphlet; for it is at once more difficult and less pertinent to our general subject than the problem of arousing the worker's managerial interest and capacity. The former is a technical problem, a problem for the industrial engineer; the problem of making the worker more interested in his work by enabling him to participate in the management of the whole shop or concern, is one that can be solved by the exercise of common sense and good will, and it has a direct and very great bearing upon the question of bringing about greater cooperation between capital and labor.

### **Participation in Management.**

In modern industry, where the operation of an industrial unit requires the concerted action of many persons, the exercise of directive capacity by the worker can be obtained only through organization and cooperation. The question is not whether the worker shall be an employee or the manager of a small shop or a small farm. It is whether he shall be a mere

executer of orders, or whether he shall *participate*, in common with his fellow workers, in some of the operations of management. "Participation in management" is, indeed, a vague phrase, and it means many different things to different persons. As we employ it here, it implies at once something less and something more than it conveys to the average man who has given the subject only passing consideration. As a rule, it does not and should not include either the commercial or the financial operations of a business. The workers are not competent nor eager to take part in the processes of buying materials, finding a market for and selling the product, borrowing money, or financing extensions of the enterprise. It is mainly in the industrial or productive department of a business that labor participation in management can become beneficial to employees and employers. On the other hand, it means something more than a share in direction of such matters as safety, sanitation, benefit funds, and welfare activities generally. In addition to these subjects, and in addition to the subjects of wages, hours, shop conditions and shop discipline, there are such questions as the engagement, transfer, and discharge of employees; the continuous application of shop rules and working agreements; the training of apprentices; the supply of work; the introduction of new machinery; the improvement of industrial processes and organizations; industrial experiments; and scientific management.

The first half dozen of these subjects have been brought to a greater or less degree under the control of the workers in many establishments which make no pretense of exemplifying labor participation in management. They all concern conditions of employment and relations with the employer. While they are an essential element in labor participation, they are not the more important and distinctive element. The last four or five activities mentioned in the list describe the greater part of what is new and novel in the conception. They involve some exercise of industrial and technical direction. And they differ from those devices for arousing the technical interest of the individual worker in his task, to which brief reference was made above, because they have to do with the productive or-



ganization as a whole. "There is a vast gulf fixed," says Commissioner Meeker, "between expressing an opinion about the shape of the handle of a shovel one uses for heaving slag, or the desirability of having a glee club rather than a debating society, and the planning and routing of work, devising methods and determining upon tools, machines and processes for making the finished product in a big plant." (Idem, p. 12).

The general principle underlying the demand for labor participation in management is that the workers should have a share in the control of all those conditions and processes which affect them directly or appreciably, and about which they possess some helpful knowledge. The latter consideration is almost as important as the former, and yet it has been strangely ignored by the great majority of employers. Proceeding upon the autocratic assumption that the workers are fit only to be dependent units, animated instruments, of production, they have deprived themselves of the technical advice and cooperation which they might have obtained from the rank and file of their employees. After all, the active contact of the latter with technical processes and shop organization may fairly be presumed to give them some distinctive competency and a distinctive viewpoint. These should have some value in the operation and management of the concern. "I insist that the management, even scientific management, has not a monopoly of all the brains in an establishment. . . . As a worker and a student, I feel that there is a tremendous latent creative force in the workers of today which is not being utilized at all. . . . Here is a vast source of industrial power which has been cut off, isolated, by the transformation of little business into big business. It will be difficult to tap this source, but tap it we must if we are to continue anything resembling the present industrial organization with its large scale production. The good will of the workers is a much more potent force making for industrial efficiency than all the scientific management formulas and systems of production. There is no inherent reason why the good will of the workers should not go hand in hand with scientific management. Until now the workers have had only antagonism for scientific manage-

ment because the scientific manager never asked them for their opinions or ideas,—he only told them what they were expected to do, and the workers promptly did something else. I have already said workers are not different from employers. That is precisely what ails them. If employers will only deal fairly and squarely with their employees, let them know all about the business except only those technical processes which much be kept secret, and take them into a real partnership, production will be enormously improved both in quantity and quality." (Ibid.).

Dr. Meeker might have added that those employers who have had any considerable experience with the scheme of labor participation in management, are practically unanimous in affirming its manifold advantages. After listening for more than two months to the testimony and opinions of persons representing every interest in the field of industry, the President's Second Industrial Conference made this statement: "The Conference finds that joint organization of management and employees, where undertaken with sincerity and good will, has a record of success."

The manifold benefits that may with assurance be expected from the arrangement can be thus summarized: The directive and creative faculties of the workers are brought into action; the workers acquire greater consciousness of their dignity and increased self-respect; with this energizing consciousness, and with the actual exercise of some control over the human relations and the industrial processes of the institution in which they spend their active lives, there comes to the workers some sense of responsibility, of accountability, for the welfare and progress of the business; their new status makes them not only more interested in their work, but more contented and more kindly disposed toward the employer; the merely business relation between employer and employee is supplanted by something like a human relation, which makes them more like partners and less like antagonists; **the employer** finds that both his pecuniary welfare and his peace of mind have been enhanced; and the whole community is the gainer through a larger and more efficient production.

## The Shop Committee.

The particular forms of organization through which labor participation in management is effectuated, exhibit considerable variety. The main types are about half a dozen. In all of them the essential and fundamental arrangement is the shop committee, which is composed of equal numbers of persons representing the employees and the management. This joint association meets regularly and frequently to deal with all matters of common interest in the productive department of the business.

The objections to the shop committee by employers are mainly two. One of these springs from an autocratic desire to "manage their business as they see fit;" that is, a disinclination to share the exercise of industrial control with anyone, least of all, with their employees. This attitude is logically impossible, since every employer's control is limited to some extent by the fact that his employees are not slaves, but freemen whose services he can obtain only by the method of contract. In these conditions the practical question for the employer is not whether he will exercise unlimited power over all the features of the business, but how much power it is wise to share with his employees. And the answer to that question is that an enlightened employer will permit and even encourage his employees to share in the management to whatever extent is conducive to the well-being of the business.

In the second place, many employers refuse to believe that the rank and file of the workers possess any capacity for participation in management. To this contention there are two replies. First, the theory that the industrial population is divided into two sharply distinguished classes, the supermen at the top who only are capable of exercising directive power, and the masses at the bottom who are utterly devoid of such ability, is as false in industry as in politics. It has been discredited in the latter sphere, and there is no sufficient reason for assuming that it is either true or destined to endure in the domain of industry. The difference between the ability required to govern politically and that needed to manage an in-

dustrial concern, is one of degree not of kind. In any case, it will not be permanently possible to maintain industry in a political democracy upon a basis of despotism and feudalism. The second answer to the employers' distrust of the managerial capacity of the workers is that only a small proportion of any labor force need be given the opportunity of participating in management, and that even these have to be educated to the function gradually. What is immediately desirable is not that the arrangement be introduced with any given degree of rapidity, but that it be deliberately and honestly accorded a sympathetic trial. Success will not come without the exercise of great patience by all persons concerned.

The shop committee ought to appeal especially to those employers who desire to be fair to labor, but who regard the trade union as a great source of friction and as an obstacle to the success of all attempts to arouse the interest of the worker in the welfare of the concern in which he is employed. A shop committee that functioned satisfactorily would necessarily compel the workers to regard with a friendly feeling and with some sense of responsibility the business in whose management they had some share. The consciousness of cooperation and common interests between them and their employer would become something real and vital.

From this consideration we are naturally led to consider the objections of the trade unions. They fear that shop committees will degenerate into "company unions"; that is, organizations dominated by the employer. One answer to this assumption is that no form of labor association can remain long under the control of the employer, or of any power other than the members themselves; a second answer is that the shop committee should be maintained in frank cooperation with the regular labor union. It is not a substitute for the latter. The labor union has distinct functions of its own; for example, the negotiation and enforcement of standard terms of wages and other conditions of employment throughout a whole industry. The shop committee deals only with employment relations in a single plant or establishment, is particularly concerned with details which cannot be effectively handled by the union, and

must hold sessions much more frequently than the joint conferences between the union and the employers for an entire industry. Therefore, there is no reason why the shop committee should intrude upon the field that belongs to the union, even in the matter of working conditions and employment relations. And the domain of labor participation in industrial management, the relation of the workers to industrial processes and organization, is entirely outside the scope of the union.

Some day the relations between capital and labor may have become so satisfactory that the shop committee and the larger industrial council will be the only form of organization required for the protection of the workers; but that day is still far in the future. Until it arrives, the shop committee can only supplement, not supplant, the union; and every true friend of the shop committee will frankly recognize the necessity of harmonious cooperation between the two forms of association.

## Statement of the President's Second Industrial Conference.

The declarations of the Conference on labor participation in management, under the title, "employee representation," are significant for several reasons. First, because the members of the Conference are in the main either employers of labor or professional men who have the viewpoint of the employer rather than of the employee; second, because the members were unanimous in making these declarations, and all others as well which appear in the Report; and, third, because of the strong approval given to the position that both employers and trade unionists ought to welcome labor participation in management. Following are the most significant paragraphs on this subject:

"It cannot be denied that unrest today is characterized more than ever before by purposes and desires which go beyond the mere demand for higher wages and shorter hours. Aspirations inherent in this form of restlessness are to a greater extent psychological and intangible. They are not for that reason any less significant. They reveal a desire on the part of workers to exert a larger and more organic influence upon

the processes of industrial life. This impulse is not to be discouraged but made helpful and cooperative. With comprehending and sympathetic appreciation, it can be converted into a force working for a better spirit and understanding between capital and labor, and for more effective cooperation. . . .

"The idea of employee representation has aroused opposition from two sources. On the one hand, in plants too large for direct personal contact, employers who still adhere to the theory that labor is a commodity, hold off from any form of cooperation with employees. This view is steadily disappearing and will, it is hoped, wholly disappear. On the other hand, a number of trade union leaders regard shop representation as a subtle weapon directed against the union. This thought is apparently based on the fear that it may be used by some employers to undermine the unions. Conceived in that spirit no plan can be a lasting agency of industrial peace.

"But occasional misuse of employee representation and the consequent hesitancy of organized labor to endorse it officially, are based on a misconception of the possible and desirable relations between the union and the shop committee. This relation is a complementary, and not a mutually exclusive one. In many plants the trade union and the shop committee are both functioning harmoniously. In some establishments the men are unionized, and the shop committees are composed of union men. In others, some men belong to the trade union while all belong to the shop organization.

"The union has had its greatest success in dealing with basic working conditions, and with the general level of wages in organized and partially organized industries and crafts. It has also indirectly exerted an influence on standards in unorganized trades. There is no reason to suppose that in the future this influence will not continue.

"Local problems, however, fall naturally within the province of shop committees. No organization covering the whole trade and unfamiliar with special local conditions and the questions that come up from day to day, is by itself in a position to deal with these questions adequately, or to enlist the cooperation of employer and employee in methods to improve production and to reduce strain. Except for trades in which the union itself has operated under a system of employee representation, as it does in shipbuilding and in the manufacture of clothing and in other trades, these internal factors are likely either to be neglected or to be dealt with in a way which does not make for satisfactory cooperation.

"The existence of employee representation in plants operating under union agreement does not necessarily reduce the scope of the union representative's work. But matters are more likely to come to him as questions of the application of an agreement rather than as mere grievances. In other words, he has greater opportunity for service in negotiation of an essentially conciliatory nature. The fortunate results of such develop-

ment have been evident in industries in which employee representation and trade unions have for some time been functioning harmoniously."

### Profit Sharing.

All the advantages of labor participation in management can be increased and supplemented by a system of labor sharing in surplus profits. These are the profits which remain after fair wages and all other expenditures have been paid, after sufficient reserves have been set aside to cover depreciation and maintenance, and after capital has received a dividend sufficient to provide the prevailing rate of interest and something in addition to meet the contingency of unprosperous years. This surplus should be divided between capital and labor on such a basis as would stimulate the interest and efficiency of the latter, without decreasing the efficiency of the management. The plan is economically sound because it does not begin to function until capital has received the normal or average return which is sufficient to keep the business solvent and to attract new investments. In view of this circumstance, the objection sometimes urged against profit-sharing, that it does not compel the workers to share losses as well as gains, is entirely irrelevant. The worker is not required to share *general* or average losses for the very good reason that these are already offset and discounted in the rate of interest which capital is permitted to take before any profits are distributed. He is required to share those *special* losses which occur whenever there is no surplus to distribute. In these circumstances he receives the same treatment as the capitalist,—neither gets surplus profits. Both, however, obtain their normal returns, respectively, the regular rate of wages and the average rate of dividend. The fund to be divided in a profit-sharing plan is not the general or average returns from a business, but the surplus that remains after all average charges are met. And this surplus would be in great part provided through the enhanced contentment and efficiency of the workers themselves.

The majority of profit-sharing schemes have been unsuccessful for various and sufficient reasons. Sometimes they were introduced as substitutes for decent wages; sometimes

they were used to keep the workers out of unions; and sometimes—frequently in fact—they have been so disproportionately favorable to capital as to yield the workers only insignificant additions to wages. In order to be effective a profit-sharing plan must presuppose a wage scale equal to the highest prevailing, no interferences with labor unions, and a more generous share of the surplus to labor than has been the general practice heretofore. The most liberal division is on the basis of the total fixed dividend payment and the total wage payment. The least liberal is that which takes the total investment as the basis of the share of capital, retaining total wages as the determinant of the share of labor. Another arrangement divides the surplus equally between capital and labor, regardless of the relations which capital investment bears to the payroll. This is more generous than the second plan, but less generous than the first.

As in the case of labor participation in management, so in the matter of profit sharing, the right of labor to organize and to bargain collectively must be honestly preserved. At least, such must be the policy for many years yet. Until these new institutions have become general, well established and successful, the workers cannot afford to give up the labor union.

The long discussion of these devices in the foregoing pages has been dictated by the conviction that a considerable change in the industrial status of labor and in the relations between labor and capital, is inevitable. Labor will insist upon the change, and capital will in the long run profit by willingly acquiescing. Society cannot afford to permit the indefinite continuation of the present conditions of industrial friction and uncertainty, inadequate production and social waste. Cooperation and partnership between the two great industrial groups must take the place of conflict and dependence. The most effective means to these ends seem to be labor sharing in management and in profits. They appear adequate to bring into operation and realization all those motives and interests which are common to labor and capital, and all those principles of action which will promote the common good. So far as we



can now see, the only alternative is some species of destructive radicalism.

### Antagonism of Interests.

So much for the common interests of the two industrial parties. As already noted, these apply only to those processes and relations which are involved in the *making* of the product. As regards the *division* of the product, the interests of capital and labor are mutually opposed. Obviously the problem of reconciling conflicting interests is more difficult than that of giving effect to common interests. While labor participation in management and profit-sharing would considerably soften the conflict over the division of the product, it would not and could not solve the problem. "So long as the capitalist regards wages as a necessary cost, so long as the worker regards interest, rent and profits as deductions from the wealth that he creates, that unsettled question is a flaming sword which cleaves their interests apart." ("Labor in the Changing World," p. 126.)

Moreover, some approach to a satisfactory adjustment of this problem would be a powerful impetus toward the adoption of the devices for more harmonious relations in the process of production. Unless men are fairly well satisfied with their wages, they will have little inclination for or faith in labor sharing in management and in profits.

On an earlier page the statement was made that the most effective means of diminishing the antagonistic elements in the relations between capital and labor is religion and the moral principles inculcated by religion, especially the principles of justice. This statement is particularly true of the division of the product. Since neither physical nor economic force is an acceptable rule of division, the only recourse is to the rule of right. How, according to this rule, should the product be divided between labor and capital? An adequate answer to this question will not be attempted, for two reasons: First, it would take up too much space; second, it is beyond the present writer's ability. All that we can do here, and all that is necessary, is to set forth some of the most fundamental and most evident conclusions of justice that apply to the situation.

## Wages, Interest, Profits.

In order to make the discussion as concrete as possible, let us consider a manufacturing corporation. The first and most fundamental moral principle to be kept in mind is that all persons have a right of access on reasonable terms and conditions to the earth's sources of livelihood. This is the primary right of property. Therefore, all the workers in this manufacturing establishment, from the day laborer to the executive officer, who perform a reasonable day's work have a right to at least so much of the product as will enable them to live decently, in a manner becoming to human beings. Because they are persons they have a *right* to live from the common bounty of God; because they are persons they have likewise a right to a *decent* livelihood from the common store. "If through necessity or the fear of a worse evil," says Pope Leo XIII, "the workman accepts harder conditions because an employer or contractor will afford him no better, he is the victim of force and injustice."

Some members of the working force have a right to more than this minimum of decent living. The executive officers, the superintendents, and in general all those who perform directive functions, have a just claim to something additional, for two reasons: First, because many of them have expended time and money in the process of fitting themselves for their present tasks; second, because they have become accustomed to a standard of living above the minimum, and would suffer undue hardship if they were compelled to decline to a lower level. Among the workers who do not perform directive functions, there are likewise some who have a right to something more than the minimum remuneration that will afford decent support: those who are engaged upon exceptionally disagreeable, arduous or hazardous tasks; those who produce more than the average worker; and those whose preparation for their present occupations involved the expenditure of time and money.

What about the stockholders who take no active part in the operation of the business, in the making of the product? In

spite of the difficulties which surround this question, we may answer for practical purposes that these stockholders may, for both social and industrial reasons, properly claim the prevailing or competitive rate of interest on their investment; that is, the rate which is obtained generally from investments subject to the degree of risk that affects this corporation. Those stockholders who are actively employed in the business have also a claim to this interest-return, in addition to the remuneration that they receive for their labor.

Suppose that the product is not large enough to satisfy all these claims; that is, living wages for all the workers, additional rewards for those who have special claims, as described above, and the prevailing rate of interest for the owners of capital. In such a case the claims of the stockholders to interest give way before the wage-claims of the active members of the concern. The stockholders have other means of livelihood than their interest-income,—they have their capacity to work. Therefore, the needs which they will satisfy through the receipt of interest, are less important in the moral order, in the human order, than the needs of workers, the needs which are dependent upon wages. If the workers are compelled to accept less than living wages in order that the stockholders may obtain the normal rate of interest, the elementary needs of the former, their need of food, clothing, and shelter, will be accounted less important than the desires of the stockholders to enjoy life's luxuries and superfluities. This is a manifestly irrational distribution of the common product among persons who are essentially equal in human dignity and in their claims to a reasonable amount of the goods and opportunities which God has provided for all His children. Therefore, justice requires that the owner of capital should not receive interest until all the workers have obtained remuneration equivalent to a decent livelihood.

Have all the employees a right to something more than mere living wages? Have all those who deserve extra remuneration on account of unusual hazards, productivity cost of preparation, etc., a right to something more than the surplus compensation which will exactly meet these special conditions?

We do not know how to answer either of these questions. If more than the equitable minimum is given to either of these classes, it will come from either the consumer or the capitalist. With regard to the former, it is impossible to lay down any general rule. It is impossible to show that the consumer is or is not obliged to pay prices sufficiently high to provide all the workers with something more than the equitable minimum. On the other hand, it seems reasonable that such extra compensation should not be given to the workers by depriving the capitalist of the normal rate of interest. If the capitalist is already in receipt of this measure of return, and there exists a surplus which might go to either the owners of capital or the laborers, it would seem that the latter ought to be preferred; for it is impossible to prove that the capitalist, merely as capitalist, ever has a strict right to interest in excess of the prevailing rate. A division of the surplus between all the workers and all the owners of capital would not be inequitable, and would be industrially and socially beneficial. The features and advantages of this arrangement have been set forth at sufficient length on preceding pages. Probably the ideal plan, from the viewpoint of both equity and efficiency, would be to distribute the whole surplus among all who perform labor of any sort in the operation of the concern, whether they are or are not at the same time stockholders. In this way the surplus gains would go to those who have labored to produce them, and the efficiency and productivity of all would be stimulated to the maximum.

### Other Working Conditions.

Closely connected with wages as a cause of divergent interest between capital and labor, is the length of the working day. Within certain limits, the capitalist is interested in a long day, the laborer in a short one. As a rule, the former makes a larger profit when the working day is ten hours than when it is six hours, or even eight, while the worker obtains greater ease and leisure from the shorter period. To this extent their interests in this matter are mutually antagonistic.

How can this conflict be reconciled on principles of justice? Perhaps a sufficient general answer will be found in the declarations of Pope Leo XIII ("On the Condition of Labor"): "daily labor should not be protracted over longer hours than strength admits;" this depends upon "the nature of the work, the circumstances of time and place, and the strength and health of the workman." In most urban industries these requirements would probably dictate a working day restricted to eight hours.

In the matters of safety, sanitation, and moral safeguards, the interests of the employer and of the employee again come into conflict. Adequate provision to meet these needs impose an expense upon the former, while the absence of such provision exposes the worker to physical and moral injury. Justice demands that the employer should furnish the appropriate protective devices in normal and reasonable measure.

### Arbitration.

Wages, hours, and shop conditions are, therefore, the chief sources of antagonism between the interests of capital and labor; and the principles of justice, as also of charity, are the fundamental and indispensable means of reconciling and composing these differences. When the two parties cannot agree concerning either the authority or the practical applications of these moral principles, there are two rational methods of adjustment which should be utilized before resort is had to either a strike or a lockout. One is direct negotiation between the authorized representatives of the employer and the employee, as already described in the discussion of collective bargaining. When this method fails the next step should be arbitration. An impartial tribunal can practically always be obtained if both parties are in a reasonable frame of mind. To reject arbitration is to assume that justice can be ascertained and established by the preponderance of economic force. In a lockout or a strike it is always the economically stronger party that wins, not necessarily the one that has a just cause. A

strike may fail or it may succeed; a lockout may fail or it may succeed: in all four events the question of justice remains quite as undetermined as before. Nor is there any merit in the objection that the method of arbitration sometimes results in a miscarriage of justice. So it does; but in the words of the Pastoral Letter of the American Hierarchy, issued a few months ago: "No human institution is perfect or infallible; even our courts of law are sometimes in error. Like the law court, the tribunal of industrial arbitration provides the nearest approach to justice that is practically attainable; for the only alternative is economic force, and its decisions have no necessary relation to the decrees of justice."

Until recently the method of arbitration was rejected more frequently by capital than by labor, for the simple reason that capital felt itself to be the stronger. Of late labor has shown a disposition to imitate this tactic, this general weakness of human nature, because labor thinks that the preponderance of force has passed to its side. Obviously this policy is no more reasonable now than formerly, no more reasonable in the hands of labor than in those of capital.

The elaborate plan of legally authorized arbitration recommended in the recent Report of the President's Second Industrial Conference seems admirably calculated to provide adequate methods of adjusting disputes. Both parties are assured fair and competent representation on the arbitration tribunals, and the public interests are safeguarded by the inclusion of as much compulsion as is feasible.

## Conclusion.

Pope Leo XIII closes his outline of the mutual rights and duties of employer and employee with this question: "Were these precepts carefully obeyed and followed out, would they not of themselves be sufficient to keep under all strife and all its causes?" (Encyclical "On the Condition of Labor"). In the preceding pages we have done nothing more than to attempt a more detailed application of the great Pontiff's pre-

cepts and principles, and to present a few practical methods of making them effective in the industrial situation of the United States. To these methods and recommendations we take the liberty of applying the question just quoted. Socialists, as we are well aware, would return a negative answer. Indeed, they would reject outright the Pope's assumption that the abolition of industrial strife is desirable. For they hold that there exists a necessary and irrepressible conflict between capital and labor, which can be ended only through the abolition of private capital. We who repudiate this social and economic philosophy believe that the interests of capital and labor are in part identical and in part antagonistic. We believe that their common interests can be emphasized and their diverse interests minimized to such an extent that both will in the long run reap from the policy immense advantages. We believe that this outcome is attainable through the exercise of a moderate amount of intelligence, good will, and mutual sympathy. It is easily possible for any employer and any group of workers to put into effect the principles and proposals described in the foregoing pages. In a few instances one or the other party would obtain less material advantages than through the methods of industrial warfare, but even these exceptional individuals and groups would be more than compensated in terms of the higher goods of life. In the great majority of cases, both capital and labor would be better off both materially and spiritually. The solid advantages that would accrue to the community as a whole do not require detailed statement.

The great obstacles to the acceptance of this program are ignorance and selfishness. A very large proportion of both employers and employees do not realize that the way of peace and mutual consideration is also the way of genuine expediency. They are ignorant on this point simply because they have never given the matter a reasonable amount of time and thought. Being human, both parties are selfish. Many capitalists want more power, regardless of the rights of labor. Many laborers want more income and more ease, regardless of the rights and welfare of employers. As stated in the closing

paragraph of the Bishops' Program of Social Reconstruction, the urgent need of the time is for a new spirit in the hearts of both workers and capitalists. "Changes in our economic and political systems will have only partial and feeble efficacy if they be not reinforced by the Christian view of work and wealth."



**Publications Social Action Department**  
**National Catholic Welfare Council**

1. *Bolshevism: In Europe and America*, by Rev. R. A. McGowan. Paulist Press, 120 West Sixtieth Street, New York.
2. *Capital and Labor*, by John A. Ryan, D. D., Our Sunday Visitor, Huntington, Indiana.

**NOTE**

General inquiries concerning all publications of the National Catholic Welfare Council may be addressed also to its National Headquarters at 1312 Massachusetts Avenue, Washington, D. C.





