

The Survival of Capitalism

By RICHMOND F. BROWN

*Americans are always moving on.
It's an old Spanish custom gone astray,
A sort of English fever, I believe,
Or just a mere desire to take French leave,
I couldn't say. I couldn't really say.
But, when the whistle blows, they go away.
Sometimes there never was a whistle blown,
But they don't care, for they can blow their
own
Whistles of willow-stick and rabbit-bone,
Quail-calling through the rain.
A dozen tunes but only one refrain,
"We don't know where we're going, but we're
on our way!"¹*

STEPHEN VINCENT BENET

I

AMONG THE LARGE industrial nations of the world only Belgium, Holland, Switzerland, Sweden, and the United States are still clinging to the essentials of a system of free enterprise, or capitalism. In France, with twenty five per cent of the voters backing the Communist party and the rest behind various socialist groups; in England, where the socialist labour government feels sure of its power for another five years; and in Russia, where the Communist party is the only party considered in elections, capitalism and the system of free enterprise has fallen. In all but the smaller countries of eastern and western Europe mentioned above, free enterprise is either gone or on its way out. The question is forcefully put to us—what is wrong with capitalism? What, if anything, can be done to improve it, and, on the other side of the ledger, what is wrong with the highly touted socialism and communism as described by Marx and his followers?

Basic among the socialist's doctrines is the theory that the

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worker is exploited by the capitalist, that the worker produces much more value than is returned to him by his employer, the capitalist. Despite the wide acceptance of this doctrine among the liberals of the world it is completely fallacious in a truly competitive economy where there is a free labor market and competition among employers for employees. In order to be true this doctrine must assume an essentially monopolistic economy.

In a truly free system of free enterprise wages are determined, not by a minimum subsistence wage as the socialist would have us believe, but by the amount that the marginal worker in any industry adds to the production. The actual operation of wage determination is extremely complicated, and requires a good many pages to explain all its ramifications, but the basic idea may be presented in a few words. Any manufacturer will employ persons up to the point where the last worker adds to the production in dollars just slightly more than he is paid. All workers of the same ability will receive this wage. The capitalist will hire this worker because he receives more by hiring him than if he did not hire him. He will not hire any more workers because receive this wage. The capitalist will hire this worker product as the last worker hired. (Each person added to a given amount of land and capital will add a little less to the total product than the previously hired worker did.) The worker will be paid this wage because for any less wage other employers would want him. Just as the wage earners compete for jobs the employers will compete for the workers.

If, due to improvements in methods of manufacturing, the marginal worker produces more goods in all industries, this marginal worker will receive just that much more in wages, and while in any given industry improvements in methods of production may not give rise to an increase in wages among the workers in that factory (since there is no

competition for the wage workers from other industries which have not improved their methods of production and who cannot, therefore, afford to pay workers any more) none the less an overall increase in productive efficiency will increase the average wages of all workers. Where then has all this excess of money gone? The workers' salaries have not increased as fast as they should considering the overall increase in productivity. Where has all this excess wealth gone?

The Socialist and the Communist maintain that the capitalist, the man who gets his income from property receives this excess. What is included in the term property? The usual answer is land and capital, capital being all property other than land which is used in the production of goods. There is usually no distinction made between income from these two sources, yet the methods by which they are obtained are radically different. Income from capital is earned in the same sense that the income of a worker in a factory is earned.

Capital is obtained by some member of a community producing more than he consumes over a period of years. In this way others are allowed to work at tasks other than producing necessities such as food and clothing. They produce instead machines and factories and other tools of production which no one wants for themselves but which aid in the manufacture of such things as automobiles and radios, bread, milk, and clothes. Except for this production by some of the people of more goods than are consumed, there could be no capital, no tools of production.

But these tools of production add to the output of goods in nearly every industry. The farmer can raise hundreds of times as much food when aided by plows, tractors, threshers, and reapers, to name only a few farm implements, as he could with his hands alone. His orchards too are capital, made available only by his excess of production over con-

sumption. Similarly in the automobile industry, large machines are necessary for the production of nearly all the parts of an automobile. Hand made parts (which still use capital in the form of hand tools) are fantastically expensive. In a very real sense, then, capital increases the productivity of industry. The total product available to the public is larger as a result of the presence of this capital. The saving of some individuals has made the community richer, and they in return have received a portion of this wealth in the form of interest. Surely there can be no doubt that interest on capital is justified.

But is the rent received by virtue of the ownership of land justified? What does the owner of land add to the total product of the community that would not be there were it not for his possession of a piece of earth? Who is allowed to produce goods who would not be if the owner did not own the land? The answer inevitably arrived at is that there is no product added by virtue of the ownership of the land by some individual. The payments of rent made to a landowner are not paid because the landowner has brought something into existence that would not have been except for his labor. In truth the payment of rent is a sum paid to the owner for permission to use something which logically belongs as much to the renter as it does to the owner, for the value which any piece of land has is due either to the natural resources in it or under it, or to the number of people who live near it.

No one would say that the land under the Merchandise Mart in Chicago is worth no more than a piece of land of comparable size in a small Illinois town, yet the land is the same, and the chances are that the owner of the land in the small Illinois town has done more to improve the land that he owns than the owner of the land under the Merchandise Mart. The difference between these two pieces of land then

is, basically, that around one live millions of people, and around the other live a few hundred. The value of the land is dependent on its position relative to population, and is not dependent on anything done by the owner. Capital put on the land by the owner, increases the value only by the cost of the capital, but the return to the owner will be not only the interest on the capital which he put on the land but also rent of the land, which was not created by any work done by the owner.

We must conclude, then, that while interest on capital is an earned income, earned as a result of producing more goods than are consumed, and saving this difference by investing it in one way or another, the rent of land is unearned, and paid only because some persons own the earth on which we live and have the power, in effect, to force some of us off of the earth if we will not pay as much for using their earth as they want us to.

The socialist and communist offer us a planned economy. The Fabian socialist offers one in which those who are controlled by the planning are also the planners, a democratic socialism in other words. Forgetting for the moment any inconsistencies in basic socialist theory, what is likely to be the result of a totally planned economy? In any system in which planning is total, capital must be accumulated under law and not by free enterprise, unless of course a regular rate of interest is paid, as it is now, by the various concerns using capital, even though these concerns are managed by government. But such a plan is nowhere mentioned in any socialist doctrine, and must be considered revisionist in nature if it is socialistic at all. The orthodox conception of socialism, however, leads us to a system where all productive property is controlled by government. This means a compulsory rate of saving or (which amounts to the same thing) wages low enough to allow a surplus for capital construction,

and government control of this capital. In a democratic socialism there would be a strong temptation on the part of the office seeker to promise to reduce taxes or increase wages during his term in office by reducing the amount of capital accumulation. Probably few voters would understand the issues involved, and the desire for higher wages would be strong. The result of such a policy for a period of a year or so would be barely noticeable, but over a period of years the effects would be disastrous.

Distribution and production of goods would also be a problem. In our country goods are produced according to the desires of the people. If there is a shortage of wheat one year the profits will be abnormally large and the next year more persons will raise wheat and fewer will raise something else, but in a planned economy where prices, wages, interest, and rent are determined by government, all this must be carefully planned out. As under the N. R. A. and A. A. A. in the United States, but to a far greater extent, the individual must be told how much of what he may produce and must produce. This is a restriction on individual freedom. Regardless of the economic results which may be obtained in this way it means a restriction of freedom for a large number of persons. Compulsory saving is similarly a restriction of freedom, for in effect the government is saying "What you used to earn and spend as you pleased we now take from you and spend as we see fit." For better or for worse that is the inevitable result. Total planning must mean total control.

The socialist believes that by planning he can cure most of the wrongs of the present system. This seems unlikely on the basis of past experience. Anyone who takes the time to check back over the bills passed in the Congress of the United States during the last fifty years will discover that many of the bills did not accomplish what they were intended to. Can we assume that with the advent of a planned economy

the law makers will suddenly become more intelligent? Shall we assume that the Congresses of the United States, which have made all manner of mistakes, should be allowed not only to run the government of the country but also all the businesses in the country? It must be remembered that such a procedure would mean that the citizens of the country would be paying the salaries of the managers of all of the large concerns in the country, whether or not these managers were running their businesses well. Their control, while existing, would be so indirect in all but a few cases as to be almost nonexistent.

II

WHAT THEN can we do with our present system of free enterprise to make it really free, and better than any regimented system both as to efficiency and as to that intangible, freedom? There are now four basic difficulties to our system. Some are generally recognized as problems, some are not.

It will be recalled that in discussing the Marxist contention that interest on property was not earned, it was argued that while interest on capital was earned, rent on land was not earned. While several methods have been devised for taking this unearned increment, by far the best to use in a free country such as ours is taxation of the land according to its value. If all, or nearly all, the rent is taken by the government there will be no unearned income left for the owner of the land. The value of the land, given to it either by nature or society, will be taken by society for use of all its members. Other benefits to society will follow.

For example, if land is taxed for its full rental value, no land can be held out of use by speculators, for they would have to pay the full amount of rent whether or not they received this rent. In order to sell the land to someone who would use it, they would quickly lower their prices to a reasonable figure, and this figure would be lower than it

would have been before the tax was levied, for the sale price of land is determined by its capitalized value.

Let me illustrate: if a piece of land rents for \$100.00 a month, the sale price of that land, if the interest rate for capital at that time is about 3 per cent, will be \$3333.33, but if a tax takes all but \$1.00 a month the sale price will fall to \$33.33. Ownership of land will become much more prevalent. Tenancy in farms would be greatly reduced. Interest on capital will increase, too, for two reasons: first, by taxing land heavily there will be less need to obtain money from other sources so the tax on capital can be reduced, and second, since speculators will be forced to put their land into use, workers and capital will both have more land to work on and their efficiency will increase, resulting in a greater productivity for capital with resulting increase in interest and also higher wages for the workers.

There are no flaws in the theory. The landowner cannot shift the burden of the tax to anyone else; he must absorb it all himself. He cannot increase the rent on his land any more than he could now get twice as much for the land as he is getting. If the owner attempts to get more rent for his land it will not be rented. If all owners try to get more for their land than they did before the tax was levied, people will tend to bunch up and use less land. Some land will not then be in use, and the consequent competition among land owners to rent their land will force the rent down to what it had been before the advent of the tax, or even less. This idea of a land value tax was first expressed by Henry George in his book, "Progress and Poverty," and has received wide recognition since that time, especially in Australia and New Zealand where many of the cities now obtain all their revenue from this source. The Fabian Socialists, lacking any conception of economic principles, feel that they have "outgrown

the single tax.” It is unfortunate for England that they feel that way.

The recurrence of depressions Marx attributes to overproduction and underconsumption. He ignores the fact that even the very wealthy usually spend their money for something, and rarely bury it in a hole in the ground. He seems to take the attitude that if the poor can't spend the money no one can. It may conceivably be true that some people now have so much money that they can't spend it within their lifetimes, and it certainly is debatable whether anyone should have that much money when others are starving, but none the less, in normal times the money that they can't or do not spend is usually invested directly in some industry where it is used to produce capital, or placed in a bank which invests it in some industry.

The cause of depression is not to be found here. It is to be found instead in the effects of a varying amount of money in circulation in the country. In the United States, the Federal Reserve Banks control the entire banking system of the country. They can, therefore, control the amount of money in circulation in the United States at any time. The effects of this control are not generally understood. If the Federal Reserve Banks, by any of several different methods which they can use, suddenly put into circulation in this country a few billion dollars in new money, the people who have this money will quickly spend it in one way or another. That is, they will either bid for consumer goods, or they will invest the money directly or through their banks in the production of capital goods. In either case they will promote business expansion. While it is true that eventually prices will rise to the point at which this new money will no longer have any stimulating effect, none the less for a short while prices will remain at or near their former levels, and there will be active buying on the part of the people receiving the new money.

Conversely, if the Federal Reserve Banks take money out of circulation, people will have less to spend; prices, though they will eventually fall, will remain for a time at or near the same level as before, and people will be disinclined to buy consumer goods or to invest in capital production. This causes business depression. The usual way for the Federal Reserve Banks to take money out of circulation is to restrict credit by increasing rediscount (interest) rates. This was done shortly before the last two major depressions in the United States, and to a lesser extent before various minor business "recessions." Furthermore, similar actions on the part of the banking systems of the other major countries of the world have preceded depressions in these other countries.

There are of course other evils connected with fluctuating price levels. With an expanding circulating medium lenders lose and borrowers gain, and with a decreasing circulating medium lenders gain and borrowers lose. In general, persons with fixed incomes tend to lose during inflation and gain during deflation. It is necessary, therefore, for a country to be prosperous all the time, that the price level be stable. Is there any reason to believe, if we do not even have intelligence enough to control our price level, that we could better try to control the economics of the whole country as the socialist would have us do?

As nearly everyone now knows, monopolies cannot be tolerated in a country which has an economic system based on competition. While there are not now more than a few industries which are near monopolies, these few must be broken up or regulated, depending upon which system is best under the circumstances surrounding the particular industry. Anti-trust legislation must be enforced. The attitude that competition is a thing of the past because of the few large industries that now exist instead of the many small ones that

previously existed is not justified however. Mere size does not make for monopoly unless there is an advantage in having all plants producing similar goods under the same management or in using materials from a common store. Fortunately, there are few cases like this at the present time. In those industries where they exist the industries must be regulated or the monopoly broken up and competition enforced.

Because of unwise policies carried out over a period of years by the government and the Federal Reserve Banks, as well as our failure to eliminate unearned incomes from monopolies and from land, certain persons have accumulated huge fortunes which they obtained, not through productive work, but by accident and exploitation. An appropriately graduated inheritance tax would help to cure the resulting inequality. While a small inheritance from parents is often a good thing, enabling their children to obtain an education and a start in the business world, still it would seem unwise to allow fortunes of millions of dollars to be passed on from generation to generation, and especially to distant heirs, fortunes which were not earned by those receiving them.

With these reforms put into practice, it is the author's contention that the system of free enterprise would be better than any other system that could be devised. But if no reforms are made in the present system it is questionable whether the present system can survive.

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