

CHAPTER XII

DEFINITIONS

"We are in a temper to reconstruct economic society, as we were once in a temper to reconstruct political society, and political society may itself undergo a radical modification in the process. I doubt if any age was ever more conscious of its task or more unanimously desirous of radical and extended changes in its economic and political practice."—WOODROW WILSON, *The New Freedom*. Chap. I, p. 30.

SOME one has said that all education should begin with the teaching of political economy: the science of wealth. Usually this branch of knowledge is left until the scholar has entered the high school or the university. Why this should be is not easily explained, for the elements of political economy are so simple, the child in the kindergarten stage could learn them. It is, however, a rare thing to find a business man who can name the factors in production; it is rarer still to find one who can define the factors in production. Not that there is any mystery about it, not at all. The literature on the question is voluminous and many great minds have been at work during the past fifty years writing handy volumes dealing with the A B C of the subject. Now if we are to have a clear understanding of the misconceptions of Socialism, Syndicalism, and Toryism, we must get hold of the factors in produc-

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tion and have no doubt as to their precise definition. Creighton, in *Introductory Logic*, says:

“The remedy for the obscurities and confusions of words is to be found in clear and distinct ideas. We must endeavour to go behind words and realize clearly and distinctly in consciousness the ideas for which they stand. Now, the means which logic recommends for the attainment of this end is definition.”

The professional economists have been slow enough in clearing away obscurities and finding precise definitions. Socialist writers have not been alone in their troubles of separating land and capital and in making up their minds as to what is really wealth. The heroic service rendered by one of America's deepest thinkers, Henry George, is, however, now bringing forth fruit. Though business men in many parts of the world are putting his theory into practice, he has received scant recognition from those economists who teach the science of wealth in our great centres of learning. There should be no difficulty now in differentiating land and capital. It is a process in practice, performed regularly, by people occupying at least one half of the surface of the earth. Yet the socialist makes scarcely any progress, and still speaks of privately owned “capital” as an iniquitous thing. We still hear tirades against what they call the “capitalistic” system. In this respect they have scarcely travelled forward a yard beyond the time of Karl Marx. Let us therefore look at the terms for the factors in production and see if we cannot arrive at definitions that will stand the test of thorough analysis.

Political economy has to deal with three objects: matter, producer, and product. The first has been

named land; the second labour; and the third wealth. The primary factors in the production of wealth are labour and land. Men produce in order to consume, indeed the sole object of production is consumption. But we cannot very well understand the initial process of production unless we fix firmly in our minds what is the motive of mankind, for all political economy begins from that point. It is axiomatic that men seek to obtain the satisfaction of their desires with the least exertion. Now in order to satisfy their desires they must produce. The history of production has, however, been neglected by the economist. He has left it to be traced from its beginning by certain biologists and philosophers. Excellent historian as Marx was, his historical background, large as it is in the industrial sense, was at best only a very incomplete history of production.

Primitive man was a helpless creature, of all the animals the most helpless. Born without an implement he had to rely on wild fruits and fish. Scarcity and exertion drove him to invent and produce capital, an implement to lighten his labour and insure a crop of food. It was then that he discovered he was "lord of the fowl and the brute" and realized he was the only animal that could reproduce its food. Capital is therefore secondary to labour and land as a factor in the production of wealth, it increases the efficiency of labour and is used in the production of further wealth. Therefore, capital is wealth, but that part of wealth that aids in the production of further wealth.

Let me now set out the terms of the three objects with which political economy deals and define their terms according to Max Hirsch.

✓ Land comprises all matter none of the potential
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utility of which has been developed by labour. If this definition of land be the true one then capital cannot be land, nor land capital, for land includes all the free gifts of nature, all matter as it proceeds from the hand of nature, whether it is in the form of water, air, a bed of ore, or any part of the dry surface of the earth. One of the greatest misconceptions in the minds of millions of people is that of speaking of a farm as land. There may be some excuse for that notion in an old country like Britain where the greater part of the land has been used for centuries for agricultural purposes, but there is no excuse for the people of the United States and Canada calling a farm land. The farmer makes the farm. The building, the fences, the roads, the drains, etc., are the products of labour, and are quite distinct from the land that was there before the farmer proceeded to make the farm. Land is created, not produced.

✓ Labour comprises all human exertion, whether brain or muscle, or both, applied directly or indirectly to the development of the potential utility of matter. It does not matter whether the exertion is of the brain that plans and directs or of the hand that executes, so long as the object of the exertion is to develop utility in matter. It is the object, not the character, of the exertion which determines its economic classification. Just as we all produce to satisfy our desires, that is to consume, so is it with all human exertion that the object is the determining factor in economic classification. There are, however, numbers of men whose exertions aim, equally with labour, at the satisfaction of human desires, who cannot be included in the term labour. These men are of what is called the professional classes;

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they are teachers, lawyers, doctors, authors, actors, singers, etc., and they do not apply their exertion, directly or indirectly, to the development of the potential utility of matter, so they are comprised under the term "services." They render service to labour.

✓ Wealth comprises all matter the potential utility of which has been partially or fully developed by labour. All the real wealth which men can produce is divided into two classes, because these two classes differ from each other in their economic object and character. In the first class is that form of wealth which can directly satisfy a human desire. In this class will be found food, clothing, fuel, and shelter, with such adjuncts as furniture and ornaments, and certain simple forms of transport. In the second class we shall find those forms of wealth which cannot directly satisfy any human desire; they are forms of wealth which can facilitate production, and consist of roads, bridges, railroads, canals, factories, shops, warehouses, machines, tools, coin, and other similar products of labour. All the real wealth which men can produce is comprised in these two classes. Land is not wealth, but the source of wealth. Health, strength, and ability are not wealth. And from the category of wealth there must be excluded all documents and paper which confer a legal right, not to some particular wealth, but to wealth generally, of the value indicated in the document. Documents and paper are merely evidences of debt, and these evidences are bonds, shares, debentures, mortgages, banknotes, checks, bills of exchange, and promissory notes.

✓ Capital comprises all wealth (a) produced for the purpose of adding to productiveness of future la-

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bour; (b) produced for the ultimate purpose of satisfying some want or desire, but actually employed in adding to the productiveness of labour. The phrase, used by so many socialists, that the labourer's strength is his only capital, is according to this definition an economic absurdity. Furthermore, the notion which seems to be firmly rooted in the minds of many socialist orators, that capital is a primary factor in production, falls to the ground. Other economic absurdities of phrase used rhetorically by socialists are meaningless in the light of this definition; for instance, "Capital is the cause of the degradation of the masses," and, "it is capital that knows the secret of how to pluck the pigeons (labourers)."

I have named the factors in production and defined their terms. It is unnecessary in a work of this scope to enter into the detail of commerce and banking, for the detail is dealt with down to the veriest nicety in the thousand and one books published in recent years by writers of various schools of economic thought. All I presume to do is to remind the reader of the factors in production which I believe have to some extent been lost sight of, and to attempt to define clearly the economic meaning of the terms.

It seems to me that this is a fit and proper way to get back to the economic principles which I have no doubt Mr. Schwab has in mind. All the paraphernalia, the litter of detail, which is packed into so many works, so many articles written by socio-economic authors, only confuses the lay reader. A feeling of hopelessness is sometimes produced in the mind of the simple student who has to wade through these works when in search of instruction. I have just heard of the experience of three young men from

two universities, who have been so befogged by their teachers that they have sought advice as to whether it were worth their while spending any more time in attempting to find out what the initiatory processes of production were. I have the greatest sympathy for these young men. They are told about a "competitive" system, forsooth, which exists in a State which practises protection. Worse, they are told about the "competitive" system in a State which favours land-monopoly. It is then not to be wondered at, that their teachers denounce an "individualistic system" where individualism has ceased to exist. How there can be an individualistic age without natural rights is something that has yet to be explained. And so, loose thinking is rampant in the land; it runs through every department of life, from our universities and pulpits, through the counting houses, down to the courts and the labour lodges. To be perfectly frank it seems to me there never was a time in the history of the world, so far as I can learn from the records, when there was so much intellectual chaos in the spheres of economics and politics. This is not a consequence of the war; rather let it be said that the war was a consequence of it.

Yet the prospect is not as hopeless as it seems, for there are three men who have revealed to us in recent years the probability of a new era, or rather the return to the best of an old era. Before the war Henri Bergson in *Creative Evolution* gave us a new interpretation of philosophy. He has swept away all the lumber of the latter day Spencer. *Creative Evolution* marks a return to first principles. In it we have an exposition of the economic of biology. Bergson has laid a new thought foundation of the

essential things of life, and he has laid it firmly. Intellect with him is not the beginning and the end of all things. Intuition is again revealed as the prime moving impulse of our life.

Another man is Franz Oppenheimer, who in his work, *The State*, an epitome of his larger works, reveals a desire to return to first principles. *The State* is undoubtedly the most learned, the most thorough analytical treatise of the growth of the State that has been written. Oppenheimer, holding a high position as an economist in the University of Berlin, has had a singular experience in studying "the leviathan," as Thomas Hobbes called it, at close quarters. Oppenheimer is an optimist. He sees a better condition ahead of us where the land-free labourer will come into his own.

The third man is Dr. Nicolai, who was Professor of physiology at the University of Berlin. He is a Prussian of the kind almost unknown to the people of this day, an opponent of Prussian militarism, and one who protested openly when Germany invaded Belgium. He was incarcerated in the fortress of Graudenz. His book, just published, called *The Biology of War*, is one of the most valuable contributions to the thought of the world which has come out of this strife. It may be called the greatest work on the brotherhood of man that has been written since the Bible. Here again is a return to first principles, and the message of Dr. Nicolai is one of peace and joy. He says:

"How we formulate our morality, however, is no matter; all that matters is that we should bethink ourselves of ourselves and understand that man is an individual unit and at the same time a part of a superordinate organism. Whoever knows this, and realizes it not merely as a truth

which can be acquired, but as a living law in him and a feeling, is a human being indeed and in truth. But whoever does not realize this is no true human being, no matter how much he may outwardly resemble one, or, as Kant puts it, how civilized he may be; for he lacks that essential thing which differentiates man from all other living beings — the feeling of belonging to the *genus humanum*.

“Whoever is a human being at all is also a moral human being. In face of this truth no isolated occurrences have any importance save as phenomena, and so it is with war. If humanity wins, the death-knell of war will have sounded, but only then; for man cannot and will not break his sword in sunder so long as he does not know that a sword has neither part nor lot in the conception of mankind, but is merely a tool to be laid aside like any other.”

I recommend these works to all reformers. The first will enable socialists to correct many of the inaccuracies upon which their doctrines are based, particularly as to their notions of evolution. The second will assist them in arriving at a true estimate of what the State is and how it came into being. The third will teach them the evil effects of compulsion and show that mankind can enjoy natural rights to the full only under a system of *voluntary co-operation*. Let me quote a few more sentences from *The Biology of War*, which we all may take to heart.

“*Virtue can be taught, but only through self-knowledge.* This settles the subjective aspect of the matter, for there is no virtue which is identical for all. Every virtue, like everything else, is dependent upon the individuality of the one. But this subjectivism has its limitations. There is an objective and general principle of virtue that plainly proclaims that it is impossible for a virtue or even a characteristic to develop if the rudiment of it is not present in us. Out of this natural impossibility grows a positive demand. All men should recognize as clearly as possible the powers and potentialities that lie within them and develop them to their highest perfection. The individual man should

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consider how or by what means he can accomplish a maximum achievement and best serve mankind. . . . The modern Socratic theory of evolution does not require a man to remain permanently in the place where a rational or irrational destiny has placed him; it desires a man to seek out his place in the world in such a way that it will have meant progress to him."

He says, "When every one of us follows his in-born laws, he in his way best serves mankind." Then he deals with what he calls "the bond between individualism and objectivism," in two striking passages:

"What has been said applies to each one individually, but in a still higher degree to people in general. The latter are naturally more conservative, and it is more difficult to turn them into a new direction, because this requires a uniform variation of the majority. This, however, occurs only in very rare cases. Even the most many-sided nation can and will accomplish useful things only in the direction which conforms to its genius. A nation which attempts all things exhibits no virtue, but dilettantism.

"This principle of the division of labour, which from our present view of nature we accept almost as a matter of course, was vaguely foreseen by the genius of Socrates. It supplies the bond between individualism and objectivism; it permits unlimited individualism, but trains it in the direction of the most useful socialism."

Here we have a statement of the beneficence of a system of voluntary co-operation which is of great value. Unlimited individualism is what is essential if the cause of humanity, the brotherhood of man, is to triumph. That Socialism which is based upon the proposal: that the State shall control all the means of production, distribution, and exchange; for the equal benefit of all; and that the State shall have power to do what it wills with persons, their faculties, and their possessions, is a system of compulsory

co-operation in which the individual is denied natural rights and will become the puppet of the State. Such a system cannot be other than a reversion to the worst form of despotism the world has known.

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