

ditions. In this greater complexity nothing is changed. Here is Friday with his Labor, Crusoe with his Capital, in the shape of tools he had already fashioned or recovered from the wreck, and the land from which both must live, and from which wealth and capital may be produced. This is all there in the Political Economy of Crusoe and Friday, or that of Crusoe and Friday multiplied a million times. To attempt to persuade their pupils that there is something vastly different between them, the New School for Social Research is pretending to something that may seem to add to their magnitude and importance. But we assure them that they are needlessly multiplying difficulties. The discovery of the island of Juan Fernandez and the coming of Man Friday is not essentially different from John Jacob Astor's discovery of the island of Manhattan and the coming of innumerable Man Fridays. No different relations are established; the elements of Political Economy are all here in the social and economic relations on the two islands.

But the New School for Social Research is now launched. All questions concerning man's social relations are now in a fair way of being solved. We rejoice at the announcement that "There will be an attempt at factual rather than normative generalization," and that "An attempt will be made to explain the implicit assumptions involved in the prevailing technical treatment of such subjects as frequency distribution, types and averages, measures of dispersion, homogeneity and heterogeneity (alas for Herbert Spencer, whom ever saw the use to which his collocation was destined to be put by men who do not possess his power to think clearly and to express themselves clearly!), index numbers, correlations, etc."

On Thursdays the Course (which is 42 on the programme), includes:

"Relation of the theory of errors to statistical theory. Theory and technique of the mathematical treatment of statistical frequency curves. The statistical problem of two variables. Linear and non-linear correlation. Importance of the equations of the regression lines as representing empirical laws. Infrequency of the linear law in statistical material. Correlation with time. Elimination of spurious correlation due to secular trend. Method of variate differences. Empirical laws of growth. The problem of three or more variables. Multiple and partial correlation. Simple cases of non-linear, multiple and partial correlation."

We lay down this announcement. Perhaps our levity will seem unpardonable, but we felt like Artemus Ward:

"We busted into tears and resolved to lead a different life—not necessarily a better life, but different."

"WHAT is wrong with our management of affairs when a man who is willing to support his family is denied the means of providing for them?" asks Edna K. Wooley. It's a good question, Edna; let's have your answer to it.

—H. M. H.

## Fundamental Economics

### SECOND PAPER

FINALLY, I come with considerable trepidation, to consider those who say, that not less government, but more, is what we need. Not to shake government loose from human activities, but to put all human activities into the hands of the government. I refer to our friends, the socialists.

We are dependent, say the socialists, in th's modern age, upon accumulated capital; that a very few people, the capitalists, control all this accumulated capital, which enables them to exploit the masses of the workingmen who have to use it; that the workers in addition to producing what is necessary to maintain their health and strength, produce a surplus value which is stolen from them by the employing capitalist; that this is the cause of the poverty, misery and want in the land, and that the only remedy is for society, in the name of all the people, to take charge of these means of production and distribution that are now under the control of the capitalist, and to operate them for the good of all the people.

The socialists are just as honest and intelligent a body of men and women as can be found anywhere, and I do not mean to disparage them in the slightest when I say, that in my opinion, they have not touched the fundamentals of the questions of economics.

### SOCIETY DEPENDENT UPON ACCUMULATED KNOWLEDGE

Society is not dependent upon accumulated capital, but upon accumulated knowledge. Capital is but a form of general wealth production, and labor, basically considered, is not dependent upon capital either for employment or for compensation. Labor and land are really the only necessary factors in the production of wealth. It is land and not capital that supplies the material to labor, both for sustenance and machinery. It may be better for the individual to be under the benevolent tyranny of the bureaucracy, than under the selfish tyranny of employers, but because experience has shown, that in some instances, the government can obtain results with less expenditure of human efforts than can the individual, it does not necessarily follow that it can do the same in every case. Numberless articles of comfort and luxury can always be made to better advantage in individual shops—stamped with the craftsmen's individuality. The modern tendency seems to be turning in this direction. The scale of labor is actually fixed by what labor can earn under the simplest conditions, and not by what it can earn under the most complex. Labor in the nature of things is not dependent abjectly upon capital, for over three-fourths of the farm products are produced today with appliances of the simplest, and in some cases almost primitive, character. The poultry crop of last year about equaled the wheat crop, and the hay crop doubled the value of the cotton crop.

### SOMETHING WRONG WITH THE WORLD

In addition to these classes there are a large number of persons who insist with Browning, "God's in his heaven—all's right with the world." Say these people, "Wages are increasing—comforts and luxuries are being enjoyed by the poor—labor has better food, clothing and shelter than had the nobles of just a few years ago."

This sounds plausible, but what a contrast to actual conditions as shown by the Walsh report, made after the most exhaustive investigation into labor conditions that has ever been undertaken. Says this report: "Two-thirds of the families of the wage-earners are living below the standard of decent sustenance, while about one-third live in a condition of abject poverty. In New York City, one out of every twelve persons who die is buried in Potter's field. One third of the male workers of the United States earn less than ten dollars a week. One-half of the women workers earn less than six dollars a week. The babies of the poor die at three times the rate of the babies in the families of the well-to-do. Sixty-five per cent. of the people earn but five per cent. of the wealth, while two per cent. of the people own sixty per cent. of the wealth."

God may be in his heaven, but all is far from being right with the world.

If, therefore, these reforms are not fundamental, what is fundamental?

In the first place, let us establish these facts: Labor is not necessarily dependent upon capital. Labor is not paid by any fund accumulated for its employment, for every laborer helps to create the very fund from which he is paid—his wages being but a draft upon the wealth that he has already created and that is stored in the markets of society. There is no natural competition between laborers for employment, for every increase in the number of laborers makes possible a more minute subdivision of labor, and a consequently greater production of wealth. Increase of population should, therefore, make conditions better instead of worse, and the Malthusian theory, that population tends to press upon the means of sustenance, has no foundation in fact.

### THE SIMPLE LAWS OF POLITICAL ECONOMY

Political economy, the laws governing the production and the distribution of wealth, are, in reality, based upon a few simple propositions:

1. There are but three factors in production: Land, labor and capital.

2. All wealth is divided into three parts: Rent of the landlord; wages to the laborer; interest to the capitalist. The condition of society is dependent upon the manner in which this division takes place.

There are no other factors in the production of wealth; it can be naturally divided in no other way.

Before we consider the laws that govern the distribution of wealth it will be necessary to define the terms. Half of

the conflict that arises in a discussion of any proposition is by reason of a misunderstanding of the terms. The terms that we have to define in this instance, are: Land, labor, wealth, capital, rent, wages and interest.

1. Land includes all material on which and out of which wealth is produced. It embraces the surface of the earth, and cannot be increased or diminished a single yard. It includes the sites of railroad tracks, farms, factories, coal-beds, and mineral deposits, in fact, all the products of the earth as they lay unused and untouched by the hand of man.

2. Labor is human effort, both mental and physical, applied to material things for the purpose of producing wealth. It includes the work of the brain in organizing, inventing and managing. It includes the work of the employer as well as the work of the employee.

3. Wealth is any material thing produced by human toil which gratifies a human desire, such as food, clothing, buildings, machinery, ships, etc. Nothing else, in the economic sense, is wealth. The fact that a thing may be bought and sold and wealth obtained for it does not make it wealth. Stocks, bonds, and notes, are but the promises to pay wealth previously borrowed, and if all these evidences of ownership were destroyed, the real wealth of the world would not be lessened one cent. Land is not wealth.

4. Capital is that portion of wealth that is used to produce more wealth. An ax in the hands of a laborer is as much capital as a dredging machine. Capital includes all instruments, simple and complex, that are used in producing more wealth. Capital is something the use of which makes labor more productive and more effective. As land is not wealth, it can, of course, never be considered capital.

5. Economic rent is what is paid for the use of land without regard to the improvements upon the land. It is what both capital and labor pay for the privilege of producing wealth. It is what is paid for access to the storehouse of nature. It is the price paid for the opportunity for employment.

6. Interest is what is paid for the use of capital.

7. Wages is what is paid for services rendered by labor in the production of wealth.

### WHAT IS INTEREST?

Interest is the share of the produce going to capital, and wages is the share going to labor. Wages includes the highest officials' salary, as well as the amount that is paid to the laborers and clerks.

It is admitted by everyone that labor should be compensated, but there is considerable objection to the payment of interest. The objection, however, should be directed against interest as commonly understood and not against economic interest.

A vast amount of interest is paid on indebtedness incurred, not for assistance rendered to labor in the production of wealth, but for articles that are immediately consumed; powder blown from the cannon's mouth, and immense warships creeping toward the junk heap. Most important of all is the fact that a large proportion of in-

terest that is paid is for indebtedness incurred in the purchase of land or for the use of land. Interest paid on indebtedness of this kind cannot be regarded as wages paid to labor, since it is not for the use of appliances produced by labor which assist in the production of wealth.

The conclusion therefore is, that interest is what is paid for the use of wealth employed as capital in the production of more wealth; that it is the reward for thrift and self-denial; that its payment is inevitable owing to the inherent differences in the abilities and tastes of mankind; that it is but the deferred payments of wages to labor; that its payment works no hardship on labor nor does it lessen the portion of the product that labor would otherwise receive, since but for its payment, there would be no incentive to provide labor with the use of labor-saving appliances.

Now that we have defined the terms, what are the underlying laws? We have said that in every enterprise the produce is divided into rent, wages, and interest. The whole question for political economy is to discover the natural laws that underlie the division of the produce into rent, wages, and interest. Production in its simplest condition has but two factors: land and labor. The basic law, therefore, is the one that defines the relationship between land and labor.

#### WHAT MAKES WAGES LOW?

It is the difference in the desirableness of land that divides wealth into the two funds of wages and rent. Labor naturally applies itself to that land, from which, all things considered, the most wealth can be produced with the least expenditure of labor force. Such land is the best. So long as the best land exceeds the demand for it, laborers are upon an equality of opportunity, and the entire product goes to each of them as labor in proportion to the labor force they respectively expend. But when the best land falls below the demand for it, some laborers must resort to land, where, with an equal expenditure of labor force, they produce less wealth than those who use the best land. The laborers thus excluded from the best land naturally offer a premium for it, or, what is the same thing, offer to work for its owners for what they might obtain by working for themselves upon the poorer land. Thus we have the differentiation of rent from wages. Rent goes to the landlord as such irrespective of whether he labors or not. Wages go to the laborer as such, irrespective of whether he owns land or not. Wages fall and rent rises, as demand for land forces labor to land of lower productiveness. "Wages for a given expenditure of labor force, are no more, anywhere, for any great length of time, other conditions being the same, than the like expenditure of labor force will produce from the best land to be had for nothing—rent takes up the difference."

#### TWO-THIRDS OF THE WORLD UNUSED

It is this law that induces people to grab all the land that they can secure, and keep it out of use, creating a legal scarcity and an artificial demand, to force up rent and the resulting land value. It is this law operating all over the

world that induces the private owners of the earth's surface to keep two-thirds of the world unused. This law does not apply to agricultural land alone; every business, every activity of life, is dependent on some land—city, town, or country. Says Henry George:

"Land is the source of all wealth. It is the mine from which must be drawn the ore that labor fashions. It is the substance to which labor gives the form. And hence, when labor cannot satisfy its wants, may we not with certainty infer, that it can be from no other cause than that labor is denied access to land?"

"When in all the trades there is what is called a scarcity of employment; when, everywhere, labor wastes, while desire is unsatisfied, must not the obstacle that prevents labor from producing the wealth it needs, lie at the foundation of the industrial structure? That foundation is land. Milliners, optical instrument makers, gilders and polishers, are not the pioneers of new settlements. Miners did not go to California and Australia because shoemakers, tailors, machinists and printers were there. Those trades followed the miners. It is not the storekeeper who is the cause of the farmer, but the farmer who brings the storekeeper. It is not the growth of the city that develops the country, but the development of the country that makes the city grow. And, hence, when through all trades, men willing to work cannot find an opportunity to do so, the difficulty must arise in the employment that creates a demand for all other employments—it must be because labor is shut out from the land."

These laws are natural and basic; they cannot be changed without changing the nature of man, and the fundamental law of his nature, that every individual seeks to gratify his desires by the least exertion.

#### OUR FAILURE TO RECOGNIZE SIMPLE LAWS

It is the failure to recognize these simple laws that has brought about most of the troubles of society. The failure to prevent the increased land value, caused by the growth of population, improvements in the arts and sciences, and division of labor from going into the pockets of private individuals instead of into the coffers of the society that produced it. The failure to recognize the fact that to permit private individuals to gamble on the future effects of the invariable law of rent, has kept a vast continent unoccupied; has kept banks bursting with capital and laborers crying for work, while unused opportunities for the employment of both labor and capital lay at their very door. The failure to see that the artificial scarcity of natural resources and the irresistible law of rent will grind the wage-earner to the position of a medieval serf—it has already done so, even in this supposed land of the free. Under present conditions the tendency of wages to fall can be resisted only by trade unions, or by a public sentiment that favors the payment of a living wage. The struggle against advancing population and the artificial scarcity of land, must, however, finally prove a hopeless one. Strikes, boycotts, riots, can accomplish little in the end against the

irresistable law of rent. The wages of a constantly increasing class of laborers must ultimately fall to the starving point as the price of unused land increases. There is absolutely no hope for the average working man under the present conditions.

#### THE EVIL DOES NOT FOLLOW FROM THE LAW OF RENT

The evil does not follow from the law of rent, but from the results of the private appropriation of rent. The rental value of land alone arises from the presence and activities of the public, and to the public alone it belongs. Here is a small city. The wages are about the same as they are in other places in the country. The return to capital is about the same and the value of land is low. Come back to this city in twenty years. It can now boast a million people. Wealth pours into it in a never-ending stream until in its granaries, and store-rooms, and factories, is wealth beyond the dream of avarice. Have the wages of the workmen been increased? Comparatively not one cent. Has the interest of those whose capital is invested in the many industries been increased? Very little if any. How about the value of land? The same naked, unscratched soil that was worth a few dollars an acre now commands hundreds of dollars a square foot—Why? Because the golden stream has been diverted from the pockets of those who produced it into the insatiable maw of the class that owns the earth.

Divert this rental value of the land from private to public hands, and you have begun to solve the problem. It would mean that millions of acres of farm land, forest land, mines and coal land, would be thrown open for the employment of labor and capital. It would mean that the conflict between labor and capital would cease, as capital would be unable to take advantage of workmen who had the means at hand for employing themselves. It would mean that cities would grow naturally, and that every additional worker would mean additional wealth and not lower wages. It would mean that every increase in the wealth producing power of the people would go to labor directly in wages, or indirectly, through its absorption by the public and its expenditure for the people's need. All dissensions and the multitudinous "isms" would vanish, as there would be no further need for them. We would have no need for protection, for we could produce enough to exchange our products with every nation on the globe without any fear of their competition. We would have no need for a petrified theology to keep men good, for with want removed, justice and righteousness and the feeling of brotherly love would be the natural growth of the human heart. We would hear no call for anarchism, for under such a government we should have a government of co-operative freemen filling all the essential demands of the ultra individualistic philosophy. We would have no demands for the socialistic state, for with the proper division of wealth which a recognition of these laws would bring about, there would be no need for the annihilation of private industry

except in those things that are in their nature public and monopolistic. To quote Henry George once more:

"This revenue arising from the common property we could apply to the common benefit as were the revenues of Sparta. We would not establish public tables; there would be no need for it. But we could establish public baths, museums, libraries, gardens, lecture rooms, music and dancing halls, theaters and universities, technical schools, shooting galleries, playgrounds and gymnasiums. Heat, light, and motor power as well as water, might be conducted through our streets at the public expense; our roads lined with fruit trees; discoverers and inventors rewarded; scientific investigations supported, and in a thousand ways the public revenues made to foster the public benefit. We should reach the ideal of the socialist but not through governmental repression."

#### REGULATING OUR RELATIONS BY A KNOWLEDGE OF SCIENCE

The advantage of a knowledge of any science is simply that it will enable the people to regulate their lives so that they can live in accordance with the laws of nature, reduce friction to a minimum, and assist in increasing the happiness of the human species here on earth. The knowledge of the science of political economy will have the same result. It will cause people to see the folly of permitting unrestrained speculation in the basic element of production. It will induce them to recognize the injustice of permitting private individuals to levy toll upon all labor and capital in the world. It will open people's eyes to the folly of taking the wealth created by the individual, for the purpose of supporting the government, when the government, by its own activities, has created a fund of its own. It will cause people to see that the exploitation of labor by capital is impossible, so long as labor has access to the material from which capital was in the first place created. It will cause people to realize as they never have before, that land grabbing, the desire to own men by owning the earth upon which they live, has been the cause, since the dawn of history, of internal conflicts, bloody reprisals, labor conflicts, oppression, high rents, slums, panics and half the ills to which humanity is heir; that it has overthrown nations and peoples and even entire civilizations, and that it has smothered the best instincts of humanity under the blasting shadow of the dead hand. It will awaken people to the fact that the only real cure for the ills of society is to declare the rental value of land to be the common property of all and to do so by the simple and natural expedient of compelling every owner of every foot of ground in the nation, to pay its rental value every year into the public treasury for public uses. A simple expedient that will unlock the portals of a new continent whose millions of acres of fertile soil and virgin forests and mines and water power could keep a world in comfort. It will make it possible for labor and capital to co-operate in the production of wealth. It will destroy the congestion of the city; lessen vice and poverty and crime. It will create a new earth.