IV

THE REAL TROUBLE WITH BUSINESS

By EMIL O. JORGENSEN

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The Problem

What's the matter with business?

Why are industries stagnant, factories closed, mills shut down, railroad cars idle and hundreds of thousands of workingmen unemployed?

Most men would give their right arm to know.

Yet the answer is very simple—the people are not buying enough goods. They're not buying enough food; they're not buying enough shoes and clothes; they're not buying enough building material for homes; they're not buying enough luxuries—in a word, they're not buying enough goods or commodities of any kind. That's all there is to it.

"Oh," you exclaim, "everybody knows that. But the great question is 'Why aren't the people buying more?' Don't they want more goods?"

Certainly, they want more goods. Everybody wants **more** goods. But they don't demand **more** goods simply because they haven't got the money—or rather the **purchasing power** to buy them.

Not Low WAGES, but High PRICES

"Well," you ask again, "Why haven't the people got the purchasing power? Aren't wages and salaries high enough?"

Sure, wages and salaries[1] are high enough—no doubt about that. But the trouble does not lie with wages and salaries: the trouble lies entirely with **price.** The price of goods and commodities of all kinds **are too high**—FAR TOO HIGH. This is the reason, and the only **reason**, that the people can't and don't buy more things.

"But business men can't red——"

Hold on now! Business men are not responsible for high prices. The fault isn't theirs. The earnings of capital and labor, i. e., the profits of manufacturers, merchants, farmers and all other producers have now been driven down, by the power of competition, to as low a level as they can possibly go. And any further reduction in the margin of this profit will merely cause them to suspend activity, or force them into bankruptcy.

"No question about that," you agree. "But where, then, if not with capital and labor—with business and industry—does the responsibility for the present excessive price level lie?"

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[1] "Wages and salaries" are, of course, here used in the sense of "nominal" or money wages only.—AUTHOR.

The "Loose Screw"

It lies with the enormous and ever-advancing value of that passive and non-competitive factor in wealth production which we call "land." In plainer terms the abnormally high altitude of commodity prices now prevailing is due primarily to the **rise of ground rent—to the increase in speculative land values.**

Productive Power 100 Years Ago

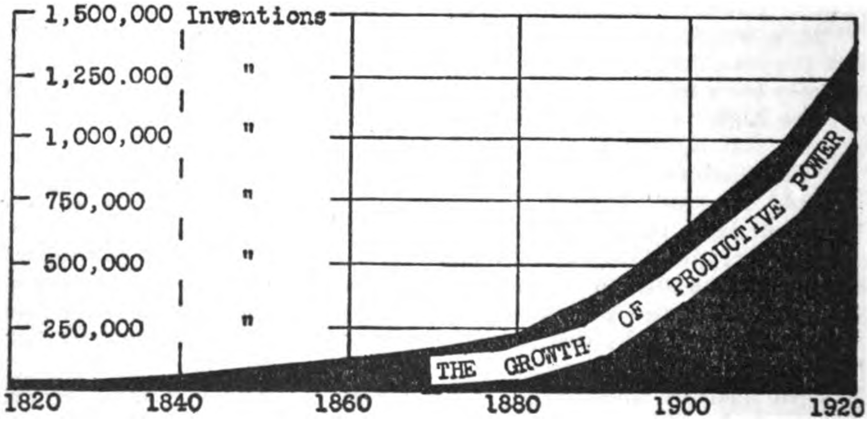
Let us see if this is not true.

A hundred years ago, to go back no further, prices in this country, as history shows us, were **extremely high.** This was natural. The productive power of the people was exceedingly low. Population was scattered, unorganized and unlearned. Labor was ridiculously inefficient. Not a mile of railroad had been built and a locomotive had never been heard of. There were no labor-saving machines worthy of the name, no propelling force except the human hand and the ox, no roads or highways fit to travel on, no bridges, no subdivision of industry, no technical knowledge, no mechanical power, no science—in short, nothing by which the necessities, comforts and luxuries of the people could be produced except at an enormous cost in time and expense.

Productive Power To-day

Since this time however, there has been a phenomenal—a marvelous increase in wealth producing power. (See Fig. 1.) Every department of industry and branch of human activity has been revolu-

Fig. I—**WITH THE MARCH OF MACHINERY, PRICES OUGHT TO FALL**
(From "Report of the Commissioner of Patents," 1920. Washington, D. C.)



tionized. Hand and foot power have been supplanted by the mechanical forces of steam, gas and electricity. Ignorance has given way to knowledge; inefficiency to science and intelligence; diversification of effort to minute subdivision and specialization of labor. Discovery has succeeded discovery and invention has followed invention. Not only thousands, but tens of thousands of intricate mechanical devices and giant labor-saving machines, operated by the mere turning of a lever, have been brought into existence, so that today, according to investigations (See Table I) a man can produce in eight hours from

RAPIDITY OF THE MACHINE METHOD OF PRODUCTION AS EMPLOYED IN 1895, OVER THE OLD HAND METHOD EMPLOYED PREVIOUS TO THAT TIME

(See Thirteenth Annual Report of the Commissioner of Labor, Washington, D. C. 1898. Vol. I.)

TABLE No. I

Article	Quantity	Time required under: Hand method		Time required under: Machine method (1895)		Ratio in favor of machine method
		Hours	Min.	Hours	Min.	
Boots: Men's	100 prs.	1,436	40	154	5	9 to 1
Shoes: Women's	100 prs.	1,025	20	80	22	13 " 1
Sheeting: Cotton	500 yds.	5,605	..	52	45	106 " 1
Thread: Cotton, sewing	100 lbs.	2,895	..	39	17	74 " 1
Hose: Cotton, seamless	12 prs.	488	..	1	44	279 " 1
Mittens: Men's woolen	144 prs.	1,080	..	15	25	66 " 1
Skirts: Woolen	12 prs.	240	..	3	11	76 " 1
Carpet: Brussels	1,000 yds.	4,047	30	509	1	8 " 1
Knives: Butchers'	144	708	..	24	18	29 " 1
Milk pans: 6 quart	144	72	..	2	18	31 " 1
Soap: Laundry	25,000 lbs.	482	..	21	37	20 " 1
Boards: White pine	100 M ft.	16,000	..	272	44	58 " 1
Marble Slabs: 8 ft. x 4 ft. x 1 in	25	6,000	..	11	10	539 " 1
Iron pipe	100 ft.	84	22	4	47	18 " 1
Bolts	500	142	51	8	37	16 " 1
Nails	20,900	286	25	1	49	129 " 1
Screw Posts: Iron	10,000	1,250	..	..	18	4,098 " 1
Paint: White lead	100 gal.	383	20	22	18	17 " 1
Twine: Hemp	500 lbs.	882	8	8	12	119 " 1
Ruling paper, 14 in. x 17 in.	100 rms.	4,800	..	2	45	1,745 " 1
Pin settings, gold	100	250	..	1	..	250 " 1
Cord: ¼-in., twisted sash	500 lbs.	562	30	3	32	160 " 1
Hammers: Nail, 1 lb.	12 doz.	1,020	..	38	3	27 " 1
Plows: Landside	10	1,180	..	37	28	32 " 1
Pitchforks: 12-in. tines	12	48	..	3	3	15 " 1
Average increase in productive power, above commodities						*321 to 1*

ten to five thousand times as much goods as the man of a hundred years ago could produce in the same length of time.

Prices Should Have Steadily Declined

This enormous increase in wealth-producing power should naturally have resulted (See Fig. 2) in an equally enormous decrease in prices. For that is the purpose of technical knowledge, of mechanical forces and of labor-saving machinery—to lower the cost of production and thereby reduce prices. Goods of all kinds, therefore—extremely dear as they naturally were a hundred years ago—should since this time have constantly grown cheaper. Not only the products from the farm, but more especially the thousand and one products from mine, forest, oil field, mill and factory, should today cost the consumer only a small fraction of what these same goods cost a century back.

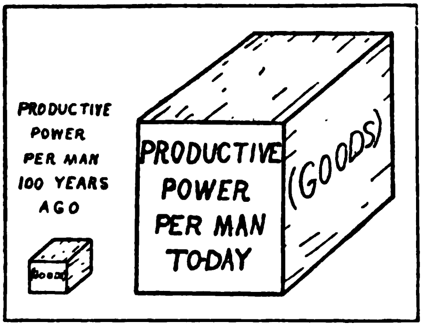
Machinery Has Not Reduced Prices

But what are the facts? Are goods any cheaper? Are average prices any lower?

NO; NOT IN THE LEAST!

Despite the hundred and in many cases a thousand-fold greater producing ability per man today, the average price of food, clothing, shelter and luxuries remains at the same high altitude at which it soared in the days gone by. (See Fig. 2.) Indeed, official figures gathered for thirty-three agricultural products over a period of one hundred and seventy years; together with forty standard mine, forest and factory products gathered over a period of eighty years (See Table II), shows that the average price level is even higher today than it was in the beginning when the productive power of capital and labor was at its lowest point.

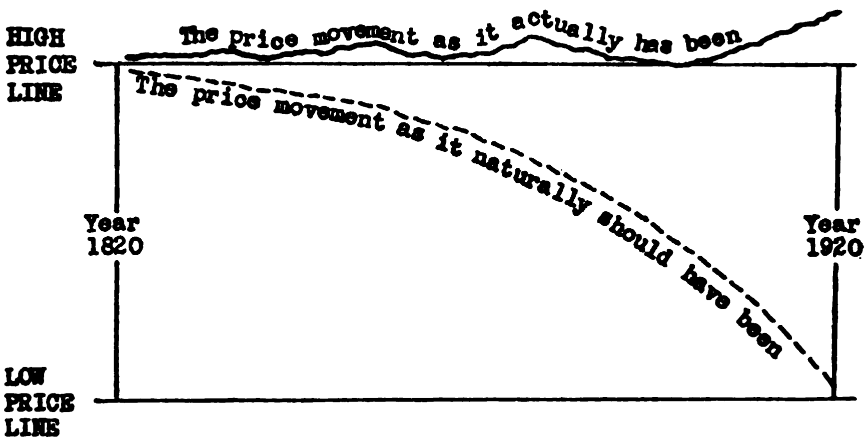
PRODUCTIVE POWER—PAST AND PRESENT



The "Larger Population" Fallacy

Now, this astonishing failure of prices to fall with the onward march of machinery and invention cannot be explained by any such hollow and unscientific theory as "increase of population." Of course population has greatly increased, but the increase in the number of consumers has been accompanied by an identical increase in the num-

Fig. 2.—THE FAILURE OF MACHINERY TO REDUCE PRICES



ber of producers, so that the ratio of producers to consumers is precisely the same today as it was in the time of Benjamin Franklin. Not only this but each producer's ability to supply, is, as we have seen, greater now by tens and hundreds of times than it was before. As an explanation therefore of the prevailing high price level, with its train of closed factories, idle freight cars, and hundreds of thous-

AVERAGE WHOLESALE PRICES OF FORTY STANDARD COMMODITIES SINCE 1840

(*Compiled from the Senate Finance Report of 1893, and the U. S. Bureau of Labor Statistics Bulletin No. 181*)

TABLE No. II

Commodity	Quantity	Average price for ten year period				
		1841 to 1850	1851 to 1860	1881 to 1890	1901 to 1910	1911 to 1915
Coal: Anthracite, Stove	ton	$ 3.85	$ 4.21	$ 4.11	$ 4.65	$ 4.95
Coal: Bituminous	ton	..	3.76	2.84	2.66	2.71
Spelter: (Pig zinc)	lb.	.05	.05	.05	.05	.06
Lead: Pig	lb.	.04	.06	.04	.04	.04
Copper: Ingot	lb.	.17	.28	.14	.15	.14
Petroleum: Crude	bbl.	..	..	.91	1.51	1.72
Hemlock: Boards, 1st Quality, 1-in.	M. ft.	9.07	7.80	9.46	18.46	22.27
Spruce: Boards, 1 inch	M. ft.	12.72	10.88	17.50	21.13	26.22
Oak: Boards, white, plain, No. 1, rough	M. ft.	..	10.83	38.90	46.04	57.16
Poplar: Boards, 1 inch, rough	M. ft.	..	12.08	30.00	48.96	61.39
Pine: White, clear, extra, 1 inch	M. ft.	24.00	24.20	42.50	80.67	101.47
Shoes: Women's solid grain	pair	..	..	.86	.95	1.07
Boots: Men's, brogans, split, leather	pair	..	..	1.17	1.05	1.14
Underwear: Men's, all wool, 18 gauge	doz.	..	..	25.85	24.84	27.00
Broadcloth: 54-in., made from XXX wool	yard	3.06	2.26	2.01	1.95	2.08
Flannels: Cotton, 3½ yds. to the lb.	yard	..	..	.06	.06	.07
Denims: Amoskeag	yard	.12	.13	.12	.11	.14
Sheetings: Brown, 4-4, Indian Head	yard	.07	.07	.07	.07	.08
Drillings: 30 inch, pepperell	yard	.06	.07	.07	.07	.08
Shirtings: 4-4, bleached	yard	..	..	.08	.08	.08
Tickings: Amoskeag, A-C-A	yard	.15	.16	.13	.11	.18
Print Cloths: 28-in., 64x64, Metacomet	yard	.05	.05	.03	.03	.04
Thread: Cotton, 6-cord, 200 yds., Coats'	spool	..	..	.03	.03	.08
Cotton: Upland, Middling, New York	lb.	.08	.11	.09	.10	.12
Wool: Ohio, medium fleece, scoured	lb.	..	.65	.61	.49	.46
Furniture: Chairs, kitchen, spindle	doz.	4.50	4.50	4.20	5.18	5.81
Carpets: Brussels, 5-frame, Bigelow	yard	..	1.27	1.28	1.12	1.24
Carpets: Wilton, 5-frame, Lowell	yard	..	..	1.78	2.07	2.80
Brick: Common, domestic, building	1,000	4.27	4.59	7.06	6.40	6.09
Lime: Common	bbl.	.86	.87	.94	.87	1.06
Tar: Wilmington	bbl.	1.72	2.25	2.28	1.66	2.15
Linseed Oil	gal.	.72	.70	.58	.50	.67
Turpentine	gal.	.35	.46	.41	.53	.54
Doors: Pine, 2 ft. 8 in. x 6 ft. 8 in. x 1¼ in.	each	1.72	1.64	1.68	1.80	..
Window Glass: Single AA, 6x10 in.	50 ft.	2.85	2.14	2.86	2.87	2.57
Lead Pipe	100 lbs.	5.56	6.45	5.56	5.32	4.97
Copper Sheet	lb.	.24	.29	.22	.20	.19
Hammers: Maydole, 1½ lb.	each	..	..	.39	.45	.44
Chisels: Extra, socket firmer, 1-in.	each	..	..	.28	.32	.27
Rope: Manila, base size and larger	lb.	.10	.12	.18	.11	.11
Price Index, all commodities (base 100)		*100*	*106*	*103*	*105*	*109*

ands of jobless men and women, the "increase of population" theory is not only unsound, but ridiculous in the extreme.

Relation of Taxes to Prices

Nor can it be said that the increasing tax burden has been a fundamental cause of the failure of prices to fall.

The increasing tax burden has, it is true, had much to do with the maintenance of high prices, particularly that portion of the tax burden which falls on industry, personal property and improvements, as distinguished from that portion which falls upon land. But the part that the growing tax levies on human enterprise, personal property and improvements has played in the price situation, has been more to raise prices ABOVE the point that they were a century ago, than it has been in actually preventing them from falling BELOW this point. This fact in itself, however, constitutes one of the strongest reasons why such taxation should be abolished.

The Rise of All Land Values

Primarily, then, as we have already stated, there is but one logical and scientific explanation of the problem—namely, the reason that average prices have not declined is because speculative rent has risen—land has advanced in value, equally as fast as productive power has advanced. In other words, the owner of the land—the possessor of the earth—has absorbed in ever-higher rent and ever-higher land values all of the natural benefits that greater material progress and greater productive power should have conferred in **lower prices** upon all the people.

The Proposition Illustrated

Take the price of good farm land, for instance, as it existed in the year 1830—$2.50 an acre. Upon this land wheat was sown by hand, cut with the scythe and harvested with the flail, yet sold with a profit to the farmer at a dollar a bushel. As new and better modes of production appeared the farmer should have been able to sell his wheat at a profit for seventy or eighty cents a bushel. But how could he do it when the speculative value of the land was raised, by reason of these new and better modes of production, to $75 or $100 an acre?

As still superior methods of production were discovered or invented, such as the reaper, the threshing machine and the tractor—the farmer should have been able profitably to market his wheat for forty or fifty cents a bushel. How could this be done however, when the owner of the land, because of these same superior methods of production, fixed the ground rental on a valuation of $200, $300 and even $400 an acre, as he frequently does today?

Coal Land Values and Coal Prices

Or take the price of the best coal land as it stood a hundred years ago—a price per acre that rarely exceeded the cost of a slab of sow-belly bacon or a pair of buckskin breeches. Upon such land coal was dug with pick and shovel, hauled by wagon through roadless forests and across bridgeless streams and marketed at a profit to the producer for three dollars a ton.

With the introduction however of swifter methods of production and transportation—high explosives, pneumatic tools, giant hoisting machinery, steam railroads and thousands of other improvements—the coal miner should have been able to sell his coal to the consumer with a good profit to himself at a price not over fifty cents or a dollar a ton. Yet how was this possible when the owner of the land, merely because of the swifter means of production, elevated the price of his coal land to $10,000, $25,000, $50,000 and even $75,000 an acre!

City Land Values and the Price of Goods

Or again, take the value of the best city land as it was three or four generations back—a value that seldom amounted to more than a few thousand dollars per lot. Upon such land men's ordinary shoes, every inch laboriously stitched by hand, was sold at a liberal profit to both manufacturers and merchants for $3.15 a pair. Similarly a calico shirt was sold at a profit for 80c, a woolen suit of clothes—a product of the spinning-wheel—for $18.35 and a woolen cap for 90c.

But with the rapid march of productive power—with the invention and improvement of the epoch-making cotton gin, the spinning-jenny, the power loom, the sewing machine, the locomotive, the telegraph, the telephone, the motor truck and countless other wonderful labor-saving devices the like of which the world has never before dreamed, the price of these goods should naturally have greatly declined. Merchants and manufacturers therefore should now be able to sell these same goods with a satisfactory profit to themselves at a mere fraction of what they formerly cost. Yet what are the means by which this could be done, when, as fast as the ability to supply advanced, rent—the value of land—was pushed up and up until today it has reached an altitude of $10,000,000 an acre in Los Angeles, $18,000,000 an acre in Chicago, and $32,000,000 an acre in New York!

Rise of All Other Land Values

And as with farm and coal and city lands, so with lands of every other kind—oil, gas, peat, fishing, timber, waterpower, harbor, transportation, terminal, phosphate rock, potash, sulphur, granite, marble, slate, limestone, lead, zinc, copper, iron, etc.,—as rapidly as productive ability has increased the rental of the land has been raised—the capital value has been boosted—with the result that a small patch of ground, which, in the hand power era, was worth little or nothing, is today frequently worth to the possessor a colossal fortune. In short, **all the benefits of the cheaper processes that capital and labor have been able to devise, have gone, not to the people in lower prices, but to the holders of the earth in higher and higher rental charges.**

Strange as it may seem this fundamental relation between high rents and high prices, or more accurately, this fundamental relation between the advancing value of land and the failure of prices to fall has never been clearly recognized—a fact which accounts in the greatest measure for the utter confusion and bewilderment into which the minds of the people have been thrown with regard to true economic knowledge. Notwithstanding this, however, the fact that landowners tend to raise rent—to boost the value of land—as rapidly as productive power and material progress increase, and hence to absorb all the advantages of advancing civilization, has been known to every economist of repute for more than one hundred and fifty years.

What the Masters Have Said

As Dr. Adam Smith, the "father of political economy" wrote in his great work "The Wealth of Nations" (Book I. Chap. XI), published in 1776:

> **"Every improvement in the circumstances of the society tends either directly or indirectly to raise the real rent of land, to increase the real wealth of the landlord, his power of purchasing the labour or the produce of the labour of the people."**

Or as John Stuart Mill ("Principles of Political Economy,") (Book V, Chap. II, Sec. 5) has put it:

> **"The ordinary progress of society which increases in wealth is at all times tending to augment the incomes of landlords; to give them a greater amount of the wealth of the community independently of any trouble or outlay incurred by themselves. They grow richer as it were, in their sleep, without working, risking or economizing."**

Similarly Prof. Thorold Rogers ("Six Centuries of Work and Wages"):

> **"Every permanent improvement of the soil, every railway and road, every betterment in the general conditions of society, every facility given to production, every stimulus supplied to consumption, raises rent."**

And so Prof. J. E. Cairnes ("Some Principles of Political Economy Newly Expounded"):

> **"The large additions to the wealth of the country have gone neither to profits nor to wages, nor yet to the public at large, but to swell a fund ever growing, even while its proprietors sleep—the rent-roll of the owners of the soil."**

From a point not exceeding a few hundred million dollars at the beginning of the nineteenth century (see Fig. 3) the total speculative value of all bare land in the nation—coal, oil, mineral, timber, water-power, harbor, urban and agricultural—has ascended to the dizzy height of $145,000,000,000!

The Harvest

Is it any wonder that prices are abnormally high? Is it any wonder that people can't buy enough goods? Is it any wonder that business is stagnant, that factories and mills and freight cars are idle, that store-shelves are loaded with unsold products, and that the nation is strewn with the wrecks of bankrupt merchants and manufacturers? Is it any wonder that armies of jobless men are roaming the streets in the vain search for employment and that women and children are starving in our cities because they can't buy food, while the impoverished farmer, on the other hand, is burning his corn because he can't sell it?

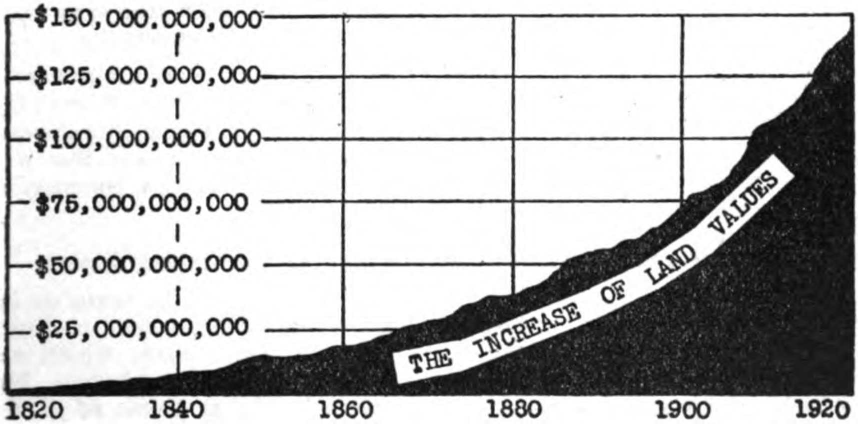
The Present Tendency

Now these conditions cannot be allowed to continue. **Much less can they be allowed to grow worse.** Yet this is the very **tendency** that is now going on. We are inventing fifty thousand new labor-saving devices every year. We are effecting improvement after improvement in the industrial sciences and in the mechanical arts. We are making discovery after discovery in the laboratory, adding technical knowledge to technical knowledge in the work room, and multiplying the productive power of capital and labor immeasurably faster than ever before.

Yet all this is having no effect in lowering prices. It is not making it possible for the people to buy their food, clothing, luxuries and other products of industry one whit cheaper, and thereby in larger quantities than in the past. It is only enabling the owners of the earth to collect more tribute, only enabling them further to push up rents,

Fig. 3—WHY PRICES HAVE NOT DECLINED WITH THE INCREASE OF PRODUCTIVE POWER

(Estimated from census reports, government documents and the best information available.)



only enabling them to boost still more the speculative value of their land. According to the last census report and the best information available the value of the bare ground in the United States is now racing upward at an average rate of $4,000,000,000 to $6,000,000,000 a year.

What of the Future?

Search as we will, there is no escape from this fact. So long as our economic system remains unchanged conditions can only grow, with temporary interruptions, from bad to worse. So long as landowners—the non-producers of the earth—are allowed to absorb in ever-higher rents and ever-rising land values, all of the benefits and advantages of greater improvements, wider knowledge, new inventions, new discoveries, and superior modes of production—benefits and advantages that should in the natural order of things go to the people in lower prices and lower cost of goods—so long as landowners are allowed to do this, just so long will capital and labor be crowded to the wall with increasing rapidity. Just so long will manufacturers, jobbers, merchants and farmers be forced into bankruptcy in constantly growing numbers, and men and women thrown out of employment in ever-enlarging multitudes!

The Way Out

WHAT IS THE SOLUTION?

There is but one solution: **We must reduce ground rent; we must stop the speculative rise in the value of all land, whether coal, oil, mineral, timber, waterpower, urban or agricultural.**

HOW?

By the only method in which it can be done—the method of taxation. As Theodore Roosevelt (Century Magazine, Oct. 1913) has pointed out:

> **"The burden of taxation should be so shifted as to put the weight upon the unearned rise in the value of the land itself rather than upon the improvements, the effort being to prevent the undue rise of rent."**

Here we have it. Here is the great key that will permit prices to drop from the abnormally high altitude at which they are today; the great key that will give the people a wider and larger purchasing power; that will put every wheel of industry in motion; and that will stimulate into full and vigorous life the dormant business, commercial and agricultural interests of the nation.

Lower Taxes on Industry Means Larger Purchasing Power

Does it sound impossible? Not at all. Get rid of the taxes on industry—the corporation taxes, income taxes, sales taxes, personal property taxes, improvement taxes and like taxes—taxes which not only obstruct business and industry at every angle of production, **but which are always passed on to consumers in higher prices of goods,** and you at once put into the hands of each family in the nation from $300 to $400 annually of new purchasing power.

Lower Rent Also Means Larger Purchasing Power

But more than this. Place the burden of taxation upon land according to its value and, while furnishing the government with ample revenue, **you also lower rent.** This is inevitable because such taxation necessarily falls upon ground which is **vacant** as well as upon ground which is **improved.** Land speculators therefore will be compelled either to use their land properly or sell it more cheaply to those who will. Rent consequently will not be raised by reason of such taxation, but, on the contrary, will be largely reduced, and in being reduced will put into the hands of the average family for spending purposes from $100 to $200 a year more.

Add, then, the amount that each family will save in lower prices **by repealing all taxes on industry, improvements and personal property,** to the amount that each family will save in lower rent **by rea-**

son of the forcing of vacant land into use, and you have a total increased purchasing power per family amounting from $400 to $600 a year.

Conclusion

Think what such an enormous addition to the present purchasing power of the people means to the depressed industries of the country! Think what it means to the tens of thousands of business men and the millions of farmers now on the verge of bankruptcy! With a hundred million consumers in every nook and corner of the nation crowding the retail stores demanding more and better food, more and finer clothing, more and nicer luxuries—in a word, more and superior goods of every conceivable kind, producers everywhere—merchants, jobbers, manufacturers, miners, lumbermen and farmers—would be literally flooded with orders. The now idle or half-closed factories, mills, shops and plants would have to be opened up to full capacity; the rusting transportation and communication lines called into active play, the increasing multitudes of unemployed men and women summoned back to work, and the present state of stagnation turned into a state of commercial and industrial activity greater and more lasting than the nation has ever before known.

A DIFFERENCE OF OPINION

—Tad in the Newark Evening News.