

The President, after using the Gulf of Mexico for a new fishing hole for several weeks, has accumulated new confidence, if not new wisdom; and he proposes to hold the New Deal line and not back down—on the Court, Labor Law, power, AAA, or anything else. Is the President to be blamed for this confidence and determination? What, otherwise, did 27 million votes mean. The President's position here seems as strong as it was in sending to the universities for his brain trust. Now in both cases we, the people, are betrayed, not by our President, nor by the Administration, or the brain trust members, nor by Congress; nor, in fact, by the voters. We are betrayed by our system of education. First that system betrayed us in sending to the President people like Tugwell, Moley, and Wallace, fully educated in Marxism and ignorant of sound Jeffersonian economics. And now that system gives us the "public sentiment" that justifies the President in all his brain trust, socialistic plans.

Economics as Taught by the Professors

OR

CONFUSION WORSE CONFOUNDED

IN a recent number of *Harper's Magazine* Professor Edward L. Thorndike of Columbia University had an article entitled "The Psychology of the Profit Motive," Professor Henry Pratt Fairchild of New York University wrote a reply to this article and it appeared in the December number of the magazine in the Personal and Otherwise Department.

The burden of Prof. Fairchild's complaint is that Prof. Thorndike has not been careful in his use of words. He has not defined his terms—in short, he has used the term "profit motive" in a manner that does not meet the approval of Prof. Fairchild.

Prof. Fairchild says that Prof. Thorndike uses the term with a "breadth and vagueness" that no leader of importance in any movement to abolish profits would recognize or accept. He himself claims that the term as used in significant and active discussions of today has a definite and restrictive meaning, but that Prof. Thorndike confuses it with two entirely distinct motives—the acquisitive motive and the pecuniary motive.

The definite and restrictive meaning to which Prof. Fairchild refers is the income from the mere ownership of business. He says that even "the fuzziest-minded economist" would not admit that profits include wages, salaries, revenues—in fact money income of all sorts. So he proceeds to make the whole matter clear as follows:

All income may be divided into two great categories, (1) income that is derived from doing something and (2) income that is derived from owning something.

Ownership income in a modern capitalistic society has three forms, land rent, interest, and returns from the

ownership of business. (Returns from the ownership of business is an obsession with Prof. Fairchild.) He says that this is an idea "still so inadequately comprehended by economists that we have no standard word for it."

The income that is derived from doing something includes wages, salaries, and the earnings of professionals and purveyors of various services that are socially valued. Of course Georgeists call all of these incomes wages and that is what Prof. Fairchild evidently means, but to so designate them would be unprofessorial. He contents himself with declaring that there is not one single important social movement that proposes to abolish doership income, that is, wages, or any important section of it.

In regard to income derived from ownership Prof. Fairchild says that some social uplifters would allow various kinds and degrees of rent, and that some would even allow interest, but that all would wipe out, root and branch, the income that is derived from the ownership of business, for that is the "only true profit."

A profitless economy, the result of wiping out Prof. Fairchild's "only true profit," would intensify the stimulus to industry, the supposition being that the receipt of an income for mere ownership if large enough makes all economic activity unnecessary—it completely destroys the incentive to industry.

Then Prof. Fairchild makes a statement that is unassailable from our standpoint: "In a society where the only normal basis for receiving an income was rendering some socially valuable service, the stimulus to economic effort would be raised to the maximum."

But he has forgotten that he made his own definition of profit, "the only true profit" the income derived from the ownership of business. So a profitless economy that would intensify the stimulus to industry would be an economy devoid of income received for the mere ownership of business but since rent would still go into the pockets of the owner of land an income could still be obtained for the rendering of no socially valuable service, so the stimulus to industry would not be intensified very much, if any. All that would be necessary for a suitable income would be to get hold of land that industry could not do without and collect from those compelled to use it in order to live.

So what boots it for a so-called authority on economics to criticise a professor of psychology for not restricting himself to the narrow meaning of a term when he himself speaks with breadth and vagueness of profitless economics and income from ownership of business?

Professor Thorndike makes the retort courteous in the same number of *Harper's* by agreeing that Prof. Fairchild is correct in saying that he has used the term profit in a much broader sense than income from the ownership of business, that in as much as the idea of this sort of income is so inadequately comprehended by economists that we have no standard word for it; it would not have been wise to have written an article on the psychology

of it for the general reader. He then denies that he was careless or unfair to certain economists, and asserts that he used the word to mean that profit about which readers of *Harper's* did problems in school and which business men and others hope to make. He denies that his profit referred to income derived from the ownership of business, or *The Wages of Foresight in Dynamic Economic Situations*, or the reward for certain sorts of risk taking, or any other refined economic conception.

I wonder whether he is poking fun at Prof. Fairchild with that *Wages of Foresight*, but when he mentions the reward for certain sorts of risk taking and later on says that he is ready to relate what is known about the psychology of the derivation of income from ownership of business if any considerable number of persons demand such an article, I know that he is as much in the dark about true political economy as Prof. Fairchild.

It is very nice of Prof. Fairchild to group all income into two categories, income from doing and income from owning. It relieves him of the obligation of explaining the laws of production and distribution of wealth, without which no study of economics can be made. But to stick to his method of grouping I should like to show that his two categories make no provision for placing the incomes of thieves, racketeers, and plain parasites, all of whom receive without giving any service of social value. And such incomes run into millions, are a drain upon the national wealth, and cause the real producers to undergo greater economic activity in order to live with a minimum of comfort. The professor should not do this because he sees clearly the justice of a society where the normal basis for receiving an income is rendering some socially valuable service.

Let us examine this claim of an income for the mere ownership of business. Has it a leg to stand on? Where is there an owner of a business who receives an income for the mere owning of it? Because he has received a surplus after taking out his legal interest, his land rent if any, his wages, shall we call that surplus true profit? If we do we are ignoring the laws of production and distribution of wealth. At any time production is 100 per cent. The factors of this production are land, labor and capital. Land is the passive factor, labor the active factor, and capital a subsidiary of labor, owing its origin to labor and impotent without labor. Production is to be divided among these three, as wages, rent and interest. What part does the mere ownership of a business contribute to the production of wealth? Then what part may it receive because of its socially valuable service? Without the services of labor, and capital what part of the product could be attributed to ownership of the business? Then why speak of an income received by an owner of a business because of such ownership as profit? If it can not be attributed to personal services, use of capital invested, or of land used, then is it not wages that belong to the laborers but which have

been appropriated or taken as a tribute for the opportunity to work? But are these so-called profits not often rent withheld from the community? In the distribution of wealth the three factors mentioned receive the entire product, their combined income is 100 per cent. If some of this 100 per cent goes to a recipient not in the categories mentioned it means that justice has not been done, and there is less than 100 per cent to divide among the three factors. If an owner of a business receives an income it is not for mere ownership. The term profit is a fallacy. It is either wages, interest or rent, any two, or all three. Prof. Fairchild will find upon examination that the income he has in mind is a stolen income as much as the take of a racketeer, the swag of a burglar, the loot of a bank robber or hijacker or pirate. It is stolen from those to whom it rightly belongs and as such should have no place in a discussion of the incomes from service. It is not what is commonly known as profit. Furthermore profit is not an economic term and has no place in an economic discussion as such. It is this throwing of ambiguous terms into the study of economics which keeps it the Dismal Science. It also gives ammunition to those groups who prate of production for use and not for profit, and who denounce the capitalistic system. It takes the attention of the people from the only form of monopoly that can affect their daily lives, the private ownership of natural forces and the private appropriation of publically created values.

But in looking back over *LAND AND FREEDOM* I find that in February, 1932, Prof. Fairchild listed five factors of production, namely, land, labor, capital, organization, and ownership. Perhaps he still believes in the five though the form of his reply to Prof. Thorndike allowed him to sidestep that fallacy. It is regrettable that a man capable of speaking of a society where the only normal basis for receiving an income was rendering some socially valuable service can be so befuddled in his thinking.

When two saurians battle the river is stirred to its depths with mud through which no man can see. These two professors have so muddled the topic that one wonders why they wasted so much energy for so little return. But let us be thankful for that spicy bit of humor, *Wages of foresight in dynamic economic situations*, and let us gladly and cheerfully pay our life's blood to those whose forebears had the foresight to gobble up all of the sites for dynamic situations.—JOHN LUXTON.

THE poverty and misery, the vice and degradation, that spring from the unequal distribution of wealth, are not the results of natural law; they spring from our defiance of natural law.

HENRY GEORGE, in "The Land Question."

WE are becoming so civilized that we can't bear the sight of cruelty to any animal except man.

—From the Smithville, Missouri, *Democrat-Herald*.