The Nature of Capital.

With each passing year the question of wealth distribution assumes a more aggravated phase. Under a system which leaves all to chance or the interacting play of personal greeds, inequality in wealth progressively increases until it is evident to the most indifferent that the possible limit of inequality is not far off. Such justification of this condition as is attempted by conservative economists, finds the criteria of distribution inherent in the productive process itself, and in this they are followed by the various radical schools except certain utopians who would give to each according to his needs. But when the process of production is subjected to analysis, the utmost dissension prevails, not so much over the facts discovered, as over their ethical significance, the question of the proper distribution of wealth being at bottom of an ethical tenor. The facts are in the main not difficult. Land, labor and capital are the productive factors. The raw material, the subject-matter of industry, is furnished by land. Labor is the human exertion which molds it to human needs. Capital alone is an illusive and protean conception, concerning which no two theorists agree, and which each one defines only to unconsciously abandon his definition within a few pages.

One thing is clear and uniformly conceded—that capital is primarily a product of land and labor, and is therefore a form of wealth, using the latter term as descriptive of the entire fruit of industry. Another thing should be fairly evident—that if capital is to furnish a criterion of distribution, that is, the basis of a claim to wealth, it must be because it has a certain productive potency, so that by its use more wealth is created than could be without it. Examining, now, the various economic categories of wealth, such as goods in process of production, goods ready for consumption, etc., it does not take much reflection to show that the only form of wealth which, divorced from contractual obligations, possesses a productive potency is the implements or tools with which men aid their labors. Whatever strange forms these implements may take, whether the stone hatchet of the aborigines, the packing house of a beef trust, the milk cow of the dairymen, or the show cases of the merchant, it is to them alone, of all the forms of wealth, that a productive efficiency can be attributed, or a portion of the products of industry credited. In defiance, therefore, of popular usage, it is necessary to exclude from the economic conception of capital, the mere subject-matter of industry, such as raw material, merchants' stocks, etc., as also money paid in wages, and of course paper evidences of indebtedness, such as notes, bonds, and the like. Capital and the tools of industry are one and the same.

As a form of wealth, and as proceeding from land and labor, capital must partake of the characteristics of its origin, must, indeed, embody the sources from which it sprang. It is, accordingly, trite to speak of capital as "stored up labor," though it is a juster estimate to recognize in it a material substance, drawn from the land, and molded by labor to man's use. This description holds good even where, as in the case of domestic animals, vital forces, springing from nature, have been directed by man to his own ends. Indeed, this is one of the services of capital, that it enables man to harness natural forces for his use, as the furnace in which coal is burned beneath a boiler; and as the coal in which the force is dormant is also wealth, and as an agent in production, it, too, is capital. A part of the productive potency which resides in capital is therefore referable to the natural forces which, as a heritage from its mother, the earth, lie hidden within it. But there are implements of toil, mere tools, which embody no force in themselves, and yet have a productive potency since by their aid wealth is increased. The productive potency of these tools consists in the qualities of the material substances from which they are fashioned, the hardness of steel, the electric conductivity of copper, etc., and in the mechanical principles on which they are constructed, the wedge, screw, lever, etc. So that in a general way it may be said that the productive potency which resides in capital is due, first, to the forces of nature, second, to the qualities of matter, third, to the principles of mechanics; or, as Professor J. B. Clark tersely says: "The laws of matter, in short, make capital productive." (*Distribution of Wealth,* p. 135.)

All this seems simple enough, and yet it is a premise of the most crucial importance. However, before any conclusions are drawn from it, the idea that capital is "stored up labor" should be further examined. The labor of creating the implements of industry falls into two classes, that of invention, and that of actual construction. All capital embodies at least the latter. But the labor of creation, which is said to be stored up in capital, has nothing whatever to do with its productive potency. This is apparent when it is remembered that axes, horses or dynamite which fell from heaven or were called into being by a fairy's wand, would be just as serviceable and just as efficient aids to labor as if manufactured or molded by the hand of man. Yet while "stored up labor" does not account for the productive efficacy of capital, the idea it expresses cannot be cavalierly dismissed. Labor is the one source of wealth which is universally conceded to be personal and private possession, and therefore indubitably capable of conferring an individual title to property, or, in other words, of furnishing an unassailable criterion for the destribution of wealth. And the tools which labor creates are, therefore, private property. For the orthodox economist, title to them vests conjointly in laborer, landlord and, if a prior capital has been employed, in the capitalist. For the single-taxer, in laborer and capitalist. For the socialist, in the laborer alone. But in any event, and for all schools, the implements of industry are susceptible of private ownership. This much the "stored up labor" in them assures.

In this ethical susceptibility to private ownership, capital, according to the radical schools, differs from land, which is not created by any man's labor, but comes, a divine donation, to every creature by virtue of the mere fact of his existence upon the earth. Land is, morally, the common property of all. The effect of this is to deprive land of any function as a criterion of distribution, and to deny that its fruitfulness can furnish the basis of a private claim to any portion of wealth. The productive potency of land belongs *pro tempore* to the first appropriator, that is, to the laborer himself, and that portion of the product which is imputable to land is thus distributed not according to its theoretic genesis but according to the labor performed. In other words, access to land should be free to all and each should receive the whole product he may reap therefrom free from any claim to participation by the idle landlord. Private ownership of land and the exaction of rent to which it gives rise are morally indefensible, notwithstanding the conceded fact that land is a source of wealth. Such is the position of both single-taxers and socialists, to which, indeed, there seems no adequate answer.

The case of capital is not so clear. It may be stated in this way: An instrument of production, itself created by labor and hence the rightful property of its artificer, possesses a productive potency which is not, however, due to the labor of its manufacture, but is ascribable to natural qualities, principles and forces which it embodies. When employed in production, this instrument, by virtue of these qualities, principles and forces, will so assist the process that some portion of the product may fairly be ascribed to its use. How is this portion, which following the usage of economists, may be styled "interest," to be distributed? The answer of the orthodox economist is simple and positive; it goes to the owner of the instrument, the capitalist. In this answer the single taxer acquiesces. The socialist alone demurs.

In the first place, it seems entirely clear that the capitalist is entitled to have his property preserved to him unimpaired, and if its use has resulted in damage or deterioration, to be adequately reimbursed therefor. So much, his right of property, based on his initial labor, gives him a moral right to demand. But when his capital is returned to him in as good order as when he parted with it, the capitalist's property right, so far as it rests on his own labor, is satisfied. He has again all that his own labor produced. He is precisely in the same position in which his own labor originally placed him, with his newly created capital as the reward of his toil. True, he has been deprived of its use for a period, but the theory of "abstinence," as justifying a return to the capitalist, has been definitely abandoned by economists of all schools.

The capitalists' right of property being satisfied by the restoration of his capital in good order, what is to become of the balance of "interest," that is, of the remaining portion of that increment of wealth attributable to the use of capial? Remember, that interest is the product of natural qualities, principles and forces, themselves not created by any human agency, but as much a divine donation to all men as is the land, with which, in fact, they may readily be identified. "The laws of matter, in short, make capital productive," and the laws of matter surely are the common inheritance of all mankind. It seems impossible to escape the conclusion that, if the land is morally a common property, so also is the productive potency of capital; and if, in consequence, land cannot function as a criterion of distribution, neither can capital, except in so far as it does indeed represent and figuratively reproduce "stored up labor," a consideration of little practical moment. As the productive potency of capital is a natural resource, untrammeled by private preemption, the yield therefrom would go to the first appropriators of this potency, or, in other words, to the actual users of the instruments of toil. "Interest," like rent, is to be rendered to labor, which thus becomes the sole, valid criterion of distribution, and the only moral basis of the right of property.

A criticism of a practical sort may be briefly anticipated. The quantity of land is limited, and the exaction of rent therefor becomes practicable, being analogous to the tribute extorted by a monopoly. The quantity of capital is, however, practically unlimited, and the leverage by which the capitalist secures interest is not so plain. But while there is no natural limit on the volume of capital, there are effective bars to its general ownership discoverable in the development of the tools of an archaic industry into the giant plants of modern manufacture and exchange, which are not only beyond the financial reach of the generality, but require a collective operation by workers who, by the very terms of the case, must be without capital of their own. The exaction of interest thus becomes as feasible as that of rent.

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