

From the book:

The Foundations of Freedom: The Land and the People / 1912

HENRY GEORGE : THE REASON WHY.

By Arthur H. Weller

"First recognise what is true: we shall then discern what is false, and properly never till then."—Thomas Carlyle.

In Book I of "Progress and Poverty," Henry George sets out on his great enquiry into the reason "why, in spite of the increase of productive power, wages tend to the minimum of a bare living," and, as stated in the Preface, it was necessary for him to clear away the errors commonly taught in the name of Political Economy before he could build up the true principles of that much-abused science.

In Chapter I he examines the current doctrine "that wages are fixed by the ratio between the number of labourers and the amount of capital devoted to the employment of labour, and constantly tend to the lowest amount on which labour will consent to live and reproduce," and he shows that this theory does not tally with facts. If it were true that wages depended upon the ratio between the number of labourers and the amount of capital devoted to their employment, then high wages would be accompanied by low interest, and reversely, low wages would be accompanied by high interest. That that is contrary to fact may easily be recognized, but Henry George gives examples to show that where wages have risen or fallen, there has been a similar rise or fall in interest. This important fact points to a harmonious relationship between labour and capital, instead of one of opposition, as is so generally believed. Having demonstrated the unsoundness of this theory of wages, Henry George proceeds to show how it arose, viz., that it is a deduction from the previously assumed theory that wages are drawn from capital, and he sets himself to prove that, on the contrary, wages are drawn from the product of the labour for which they are paid.

In the following passage our author draws attention to what seems

to have been generally overlooked by Political Economists, viz.: "The fundamental truth, that in all economic reasoning must be firmly grasped and never let go. is that society in its most highly developed form is but an elaboration of society in its rudest beginnings, and that principles obvious in the simpler relations of men are merely disguised and not abrogated or reversed by the more intricate relations that result from the division of labour and the use of complex tools and methods." Bearing this in mind we can see that each individual taking part in production and exchange, under whatever state of society, is really obtaining from Nature, by the exertion of his labour, the satisfaction of his desires.

Before proceeding further, Henry George, in Chapter II, deals clearly and exhaustively with the meanings of terms. This chapter is of the utmost importance, and deserves the careful study of all who desire to understand this enquiry into the cause of the persistence of poverty in the midst of increasing wealth, for as Henry George truly says, "Indistinctness in the use of terms roust inevitably produce ambiguity and indeterminateness in reasoning." He emphasises the need for a clear and intelligent use of terms, by giving many examples of the confusion that has arisen through the use of contradictory and self contradictory definitions by orthodox Political Economists, and lays down definite meanings to the following terms:—

The term "Land" includes not merely the surface of the earth, as distinguished from water and air, but the whole material universe outside of man himself, and therefore embraces all natural materials, forces, and opportunities.

The term "Labour" includes all human exertion in the production of wealth and the satisfaction of human desires.

"Wealth" consists of natural products that have been secured, moved, combined, separated, or in other ways modified by human exertion, so as to fit them for the gratification of human desires. Nothing which nature supplies to man without his labour is wealth, nor yet does the expenditure of labour result in wealth unless there is a tangible product capable of ministering to human desire.

The term "Capital" covers that part of wealth that is used for the procurement of more wealth, as distinguished from wealth used for the direct satisfaction of desire; or, as elsewhere defined, capital is wealth in course of exchange.

"Wages" includes all reward for the exertion of human labour, not omitting the reward of the self-employed and the professional man.

The greater part of this chapter is devoted to the term capital, not because that term is essentially more vague than others, but because so much confusion has arisen through the contradictory definitions of other writers, and also because many false theories are based upon misapprehensions as to what is and what is not capital. In concluding the chapter, Henry George tells us he is not writing a text book and that his definition of capital is not important. He is attempting to discover the laws which control a great social problem, and only desires his readers to form a clear idea of what is meant when that term is used in subsequent chapters. "It makes little difference," he says, "what name we give to things, if when we use the name we always keep in view the same things and no others."

Henry George then proceeds, in Chapter III, to deal with the theory that wages are drawn from capital, and shows with great wealth of argument and illustration that wages expended in production are in reality a part of the produce of the labour for which they are paid. As labour precedes the payment of wages there is not even a temporary advance made to the labourer, and to whatever form of production labour is applied, whether in gathering the eggs of wild birds, the building of a steamship, or the construction of a tunnel, there is a constant increase in the amount of capital resulting from the labour, over and above the wages paid for its production, though that capital may be changed in form. Because some kinds of production cannot be undertaken without capital, it is commonly supposed that at least in such cases industry is limited by capital. We are shown, however, that though capital is required, it is not in order to make advances to labour, but for the purpose of accumulating the products of labour, and that, therefore, it is never as an employer of labour that a producer needs capital, but only as a merchant or speculator in the things produced by labour.

One other stumbling-block remains, which is dealt with in Chapter IV—the assumption that the maintenance of labour is drawn from capital, and Henry George shows this to be as fallacious as the theory that wages are drawn from capital. It is one of the errors resulting from the loose and incorrect meanings commonly given to the term capital, which is made to include the food on the breakfast-table of the labourer and the clothes on his back, and it is supported by the belief that before a work which will not immediately result in wealth available for subsistence can be carried on, there must exist such a stock of subsistence as will support the labourers during the process. The truth is, however, that under normal conditions, consumption is supported by contemporaneous production. The worker upon a great steam engine is, through a thousand intermediate exchanges, exchanging his labour with the labourers who elsewhere are producing the food and clothes he needs, because "the demand for consumption determines the direction in which labour will be expended in production." Hence every man, though his labour be devoted to only one kind of production, produces all the things he purchases with his wages, as truly as though he spent part of his labour in making clothes, part in growing wheat, and part in digging coal. "The series of exchanges which unites production and consumption may be likened to a curved pipe filled with water. If a quantity of water is poured in at one end, a like quantity is released at the other. It is not identically the same water, but is its equivalent. And so they who do the work of production put in as they take out—they receive in subsistence and wages but the product of their labour."

We then come, in Chapter V, to a consideration of the real functions of capital, which are thus summarized:—

- (1) Capital enables labour to apply itself in more effective ways.
- (2) Capital enables labour to avail itself of the reproductive forces of nature.
- (3) Capital makes possible the division of labour, thus increasing the efficiency of the human factor of wealth, and calling in the powers of the natural factor at their highest.

Capital does not supply the materials which labour works up into wealth. Neither does it supply or advance wages, nor maintain labourers during the progress of their work. Capital does not, therefore, limit industry, though it may limit the form and productiveness of industry. But though Henry George admits such a limitation to be possible, he does not think production ever suffers from a lack of capital, except by accident or as a passing phase. In countries where it might be said that a larger use of capital would increase productiveness, it is generally found that abuses of government and insecurity of property are the causes which prevent the accumulation and use of capital, and that the real limitation is in these things, and not in the want of capital. "No greater amount of wealth will be used as capital than is required by the machinery of production and exchange that under all the existing conditions . . . best suits the people."

Having clearly established the real functions of capital and cleared away the false theories and fallacies about wages and capital that are taught in the name of Political Economy, we are brought to practical conclusions "so important as to amply justify the pains taken to make sure of them," and we are irresistibly led to follow our author with increasing interest into the next book, always remembering what he told us in his introductory remarks, that what we are considering is the great enigma of our times— the association of awful poverty with progress—described by him as "the riddle of the Sphinx of Fate, which, not to answer is to be destroyed."