LESSON

I

FACTORS IN THE PRODUCTION OF WEALTH AND DEFINITIONS OF TERMS

"The beginning of wisdom is the definition of terms."—SOCRATES.

"How many a debate could have been deflated into a single paragraph if the disputants had dared to define their terms."—ARISTOTLE.

"WE HOLD THESE TRUTHS TO BE SELF-EVIDENT, THAT all men . . . are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness"—so states our Declaration of Independence. Translating this into modern life, today we see Labor struggling to secure for itself surety of employment, a living wage and a voice in management. We find the business man struggling to keep his business from failure, to keep its income high enough to enable him to withdraw his living expenses from it, and to combat those regulations which take from him the control of his business.

Both the business man and his employee are striving to secure for themselves what the Declaration says is theirs. Are they succeeding? No! For as the years go by, the struggle becomes always more fierce instead of less so; not because people are lacking in sympathy for their fellows, not because some wish to injure and oppress others, but because the average man, being unfamiliar with economic principles, does not recognize the forces which led him into his present condition, and therefore does not know what needs to be done to bring him out of it.

In every civilized country today we find distressed, unhappy, discontented people, hoping for a change in their economic condition, but unable to see clearly what change they want, or how it can be brought about. Even in nominally democratic countries, we see the growth of state policies of wage fixing and price fixing, of regulation and regimentation, and of other policies which not only interfere with the liberty of the individual, but which interfere also with the operation of natural laws, and it is this interference with natural laws which is responsible for the problems which confront society.

Today the general public is as poorly informed regarding economic laws and principles as were our forefathers regarding sanitation, a century or two ago. Then, when an epidemic swept over a city, they would ring bells, beat drums, start large bonfires, have religious parades, etc., and would imprison, torture and even kill anyone who might be accused of being a witch or of having "an evil eye"—all with the hope of curbing the epidemic. They were not disturbed at all, however, by the common custom of throwing sewage into the streets; nor by the rats, fleas, flies, lice and mosquitoes which swarmed everywhere, and often were spreading the very epidemic they were trying to combat.

These foolish methods which our forefathers employed to check epidemics were no more fantastic, no more use-less, than are the methods employed today by our legislators and others in their efforts to remedy low wages, unemployment, business uncertainty, depressions and poverty. Our forefathers were working in the dark. Because they did not know the cause of the epidemics, they wasted their efforts on nonessentials and left the cause of the epidemics undisturbed. Today our leaders are working in the dark in their efforts to better social conditions. Because they do not know the cause of these conditions, their efforts likewise are wasted on nonessentials and the cause is left undisturbed.

We have made wonderful strides in the mechanical arts and sciences, but in the science of economics we have barely begun to creep. Instead of finding ourselves more nearly approaching a condition of liberty and plenty for everyone, as generation succeeds generation we find the general tendency to be in the opposite direction. We find employers as well as employees living in a state of constant fear. They fear their businesses may fail, or that they may lose their jobs; they fear they may not be able to meet the rent, or the interest, or the taxes; or that they may not be able to educate their children as they would like; or that they may become dependent in sickness or old age. Fear of some economic disaster lies constantly in the background of most minds. The fact that these problems become more acute shows that, in spite of all that is being done to solve them, their causes are not being removed. Until economic principles are understood, there can be nothing more than a blind groping for the cause of and the cure for economic distress.

It is sometimes contended that there are no underlying, fundamental economic principles; that our economic policies must be changed to meet changing conditions. When an engineer has a new problem to solve, does he contend that the multiplication table must be changed to meet the new condition? No! Engineers know that if a bridge falls, it is because some mechanical principle has been violated and they seek to find the violation and to correct it. Though the fact is not generally recognized, economic principles are just as exact and as unchangeable as are those of mathematics and mechanics. Not realizing this, many believe that to hope to find an economic policy, the application of which will lead to plenty for everyone, under all conditions and without the destruction of the liberty of the individual, is only a vain Utopian dream.

But for every effect there must be a cause. If we will but search for it thoughtfully, with open minds, the cause of our economic troubles is not difficult to find. Since political economy (economics) is the science which treats of the nature of wealth and of the natural laws governing its production by and its distribution among men living in society, and since we wish to discover what it is that prevents the full enjoyment of Life, Liberty and the pursuit of Happiness—what it is that causes our economic problem—it is to the science of political economy we must turn.

If anyone doubts that the problem lies somewhere in the field of production and distribution of wealth, let him consider these figures published by the life insurance companies. Given 100 men at age 20, follow their history for 40 years; at age 60 we will find that 35 of these will be dead (X); of the remaining, one (W) will be wealthy; four (O) will be moderately well-to-do; five (V) will be poor but self-supporting; and the other 55

(D) will be dependent on others for their support. Certainly we cannot believe that 55 men (or 60, if we include those who are poor) out of 65 have been so lazy or so incompetent that in 40 years, if given a fair chance, they could not have produced and saved enough to give

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them a competency for their old age. Why then are they dependent on others? If this is not due to something inherent in the men themselves, it must be caused by something in the conditions in which the men have lived and worked. Both our national wealth and wealth *per capita* ever increase. Why then does poverty increase with progress and advancing wealth?* This is the question we will answer in these lessons.

Since political economy is the science which treats of the production and distribution of wealth, it would

*Sometimes it is contended that wages are now higher than in previous generations; therefore if the present generation finds it more difficult "to make ends meet" it must be the fault of the individual. But consider:

If a man produced 25 and his wages were 20, he received 4/5 of his product.

If his son produced 50 and his wages were 25, he received 1/2 of his product.

If his grandson produced 100 and his wages were 33 1/3, he received 1/3 of his product.

If his great grandson produced 200 and his wages were 40, he received 1/5 of his product.

seem natural to expect this to be the most popular of all sciences, especially in times of economic distress when people are searching for a way out of their troubles. But the view expressed by Carlyle, that political economy is "the dismal science," is the view still held by the vast majority. Why should this be?

Probably the chief reason lies in the fact that in most books on political economy the terms used are not exact and self-limiting. It matters not by what term anything is called, though in a discussion the parties thereto must agree on a definition of any term used in order to know they are speaking of the same thing when that term is used. (It is equally important to have in mind exact definitions of the terms one uses in one's own thinking.)

If in the lumber business the term "board" sometimes meant a thin, broad, flat piece of lumber, but at other times it meant something like a barrel, or again something like a flight of stairs, any practical discussion of boards would be impossible. Yet this is the condition we find in most books on political economy. For instance: in one widely published book on the subject on one page the term "capital" is described as anything used by a capitalist; on another page as "anything owned by anyone which is used to exploit others"; still again, capital is "the means of production," and later, man's skill and abilities are said to be his capital and finally the author states that capital "is not a thing but a social relation between people." Is it any wonder that the study of economics is commonly thought to be confusing and beyond the comprehension of the average person? It is this lack of accurate definitions, and not any real complexity of the science itself, which leads men to think of economics as "the dismal science." Actually the science is a very simple one.

In order to avoid any such confusion in these lessons, we will begin our study by defining and analyzing the seven principal terms around which the whole of political economy is built.*

The story is told of a man who was shingling his roof in a fog so dense that he shingled six feet beyond the edge of the building without realizing it until the wind blew the fog away. If we would find the remedy for our economic ills, we must have something more than vague opinions about the subject, based on a lot of foggy ideas which can be dissipated easily by accurate reasoning. Therefore we will start at the beginning and build up, step by step, in order that each one may be able to judge for himself as to whether or not the foundations of the science are sound.

If there were so few people in the world that they did not come into contact with one another, there could be no political economy because there would be no society. Within the limits set by natural laws, each individual could do exactly as he pleased without infringing on the person or property of others because he would come into contact with no others. But there are two billion people in the world, and man is a gregarious animal. He not only likes to associate with his fellows, but he finds it to his material advantage to do so, since two

*Should other definitions be preferred for any of the terms herein defined, this need not interfere with anyone following the argument presented and judging it on its merits, for in that case one could substitute "X," "Y," "Z," or any other symbol in place of the term to which one objects. The important thing is not insistence on any given term, but discussion of the idea or concept for which the term used is but the label or symbol.

men working together can produce more than can the same two men with the same amount of labor, each working alone.

Each individual has certain needs and desires. First, of course, he must have some measure of food, clothing and shelter. But even before these desires are fully satisfied, we find him reaching out for comforts, luxuries and beauty.

Where will people get the things with which to satisfy these desires? There is but one source. Every one of the tangible things men want has its beginning somewhere in nature around us. Since we wish to determine how everyone can satisfy his desires for material things, and since these material things all have their start in nature, in beginning the study of political economy we must divide the whole universe into two parts, with man and his desires on one side, and the whole of the universe, excepting man, on the other.

"The whole of the universe, excepting man" includes the air, land, water, natural forests, wild animals, mineral deposits, electrical forces, the weather, cosmic waves—in fact, everything which would exist unchanged if man had never existed or should cease to exist. The term "nature" could have been used in political economy to designate these things, but, in economic discussions it has become customary to refer to them as "land." Therefore, in political economy the term "land" does not mean, as in geography, only the dry surface of the earth, but includes all of the natural resources of the universe.

LAND, then, is all of the natural universe excepting man—all that would be here if man had never existed.

By the term "man," we do not mean simply a physical body with whatever muscular strength it may have; we include also man's skills, intelligence, education, and abilities of all kinds. These things are all a part of man, and as incapable of acting separated from him as are his hands.

Here, then, is the great storehouse, land, containing everything of a material nature that man can want, and here is man with his desires and abilities. How is man to get the things he wants out of this storehouse? He must work—must apply his energies, both mental and physical, to the task. This application of human energy to land, or its products, to get these things, we call "labor," and the man who exerts the energy, "a laborer." Often there is a tendency to designate as laborers only those who do menial tasks, but mental energy exerted in producing objects men want is just as truly labor as is physical energy.

For instance: the president of a steel manufacturing company, in managing its affairs, is just as truly a laborer as is the man who digs ore from the ground. The company may not have more than one customer in a million who wants the iron ore in the condition in which it is taken from the ground. It is the duty of the president of the company to see that this ore is made into such things as are desired, and to get these things to its customers. The miner may use principally physical energy, and the president may use chiefly mental energy, but both are using their energies for the same purpose, both are working at the same job—to help satisfy human desires for things made of iron and steel. They are both laborers. So also are all of those helping them with this job: the superintendents of plants, the men at the blast furnaces, the office workers, the salesmen, the men on the railroads carrying the ore to the mills and the finished products away, and all others who perform any share of the task. One cannot separate mental labor from physical labor, because every form of exertion in producing wealth requires both, though the percentages may vary from one extreme to the other.

To use another illustration: an architect has been commissioned to build a bridge. He may go to his office and sit for hours with his feet on the desk and his eyes closed, considering the forces with which he has to deal —measuring in his mind's eye the stress and pull and balance of each part against other parts. Finally he decides what he wants, down come his feet and he starts preparing his specifications and blueprints. He was helping in the construction of that bridge just as truly while he was preparing his drawings and blueprints as when he later superintended the construction work itself. His blueprinting was part of the whole, just like the work of the riveter in fastening the plates together. The bridge could not have been built without the work of either man.

But energy spent which does not produce an object having exchange value is not labor. None of the "daily dozens" which are performed each morning are labor; they are not human energy applied to Nature's storehouse, land, to produce tangible objects. If the architect had spent his hours dreaming of a bridge he would like to build, but which he never attempted to bring into existence, this mental energy of his, spent in dreaming, would not have been labor.

There is exerted much energy which satisfies human desires, not by producing tangible objects from land or its products, but by working on man himself. Much of the work of doctors, lawyers, teachers, musicians, insurance men, and others, comes under this head. These people perform very useful personal service, but the energy they exert is not labor, for it produces no tangible object which men can exchange in the market place; therefore the work they do does not come within the scope of political economy, for this science treats solely of *the production and distribution of wealth,* not of its consumption.

LABOR, then, is human energy, mental and physical, applied to land or its products, to produce things (having exchange value) to satisfy human desires.

Suppose a man desires a desk. He goes first to the forest (which is land) and by his exertion (labor) cuts down a tree. The tree is cut into uprights and boards; these are planed, fastened together, and then the desk is transported to the place where it is to be used. But what is this desk really? Its form has been altered, its location changed, but still it is only a tree (a bit of land) which has been changed by human labor into something to satisfy a human desire.

Thus we see that when men apply their energies to land, they produce a distinct class of objects. These objects do not belong in the class of land, because they could not exist without man's help; nor are these objects labor (of course, no object could be that). These things have been produced by labor applied to land, and *if they have exchange value,* are called "wealth."

For not everything produced by human energy from land is wealth. Political economy is a science which deals with things, not in their relation to any one man, but with things in their relation to men living in society (Politico=relating to the body of individuals making up the commonwealth). Objects produced for which other men have no desire would not be wealth. To illustrate: in a certain asylum lives a feeble-minded man who feels his mission in life is to make mud pies. Every day, if permitted, he spends hours at this task which he sets for himself. It is not a haphazard task with him. Sometimes it takes him hours to get what he wants—the earth may be added by pinches, the water by drops. When his pie is finished and left to ripen, is it of any value to anyone else? It is land to which human energy, both mental and physical, has been applied, but it satisfies no desires of other men. If, however, the earth used by this man had been clay, a potter could have taken the same clay, the same water, and, without using any more energy, could have made from them bowls, platters, and objects of pottery which other people would like to have. Men then would gladly exchange the things they produced for the things the potter made, and because of this, the pottery would be wealth, while the mud pies are not wealth.

This is a measuring rod by which we can tell whether or not any particular thing made by man belongs in the class of wealth. Does it have a selling value? Will anyone give anything in exchange for it?

WEALTH, then, is defined as "any material thing, having exchange value, which has been produced by labor applied to land or its products."

There are many things often classed as wealth which at first may seem to be such but which careful thought will show to be not wealth at all—such as stocks, bonds, mortgages, notes and money. Take, for instance, a certificate for a share of stock, with a par value of $100. In certain conditions this certificate may be sold for

$100, but as wealth it is not worth even one cent. Its wealth value is no more than could be gotten for it if sold as old paper. When an individual buys a share of stock, what he really buys is a share in the ownership of some business. If the business has issued 1000 shares of stock to cover its assets, he who buys one of these shares is really buying a 1/1000th part of that business, and the certificate is but an evidence of his ownership. It may be burned, but its owner will own as much wealth as before (minus the value of the paper burned). While the certificate of stock may be an evidence of ownership of wealth, in itself it is not wealth. The same is true of bonds, mortgages, notes, and other evidences of ownership, all of which could be destroyed without the destruction of any of the wealth represented by them.

And much the same is true of money. Money is a tool which society has made for itself in order to make exchanges easier. To the extent of the actual market value of the paper, or of the metal, in the piece of money handled, it is wealth; beyond this, the value represented by that piece of money is only a credit value which reflects the faith its holder has in the soundness of the government which issued the money. A Confederate bill, for instance, may have some value as an antique, but as money it has no value at all because the government which issued it has disappeared. Or, take a bank note: if it has been printed as a $1.00 bill, it can be exchanged for $1.00's worth of wealth; if it has been printed as a $10,000.00 bill, it can be exchanged for $10,000.00's worth of wealth; but its own actual wealth value—the value of the paper in the bill—will be the same in either case.

In order for an object to be wealth, its production must have added to the total store of wealth as its destruction would lessen the total store.

The basic factors in economics have now been clearly outlined, and everything with which the science has to deal falls within the scope of one or another of these three:

LAND—The whole universe excepting man and what man makes therefrom which has exchange value;
LABOR—Human energy, mental and physical, applied to land or its products, to produce material things having exchange value;
WEALTH—Any material thing, produced by labor, from land or its products, that has exchange value.

These three are very distinct; each excludes the other two. Land never can be man, nor man's energy—labor; nor can it be wealth (which is produced from land). Labor can be neither land nor wealth. Nor can objects properly classed as wealth be either land alone or labor alone—wealth is always the result of labor applied to land or its products.

These distinctions between land, labor and wealth seem so simple and so understandable that one would suppose there never could be any question regarding them; but actually most of our economic troubles are due to the fact that the average man does not understand these distinctions nor do most of our lawmakers and economists. So long as slaves were thought of as wealth instead of as men, there was little chance of abolishing chattel slavery. We might say that the Civil War was caused, indirectly, by incorrect definitions, and the same is true of our economic problems of today.

The next term to be considered, "capital," is another regarding which there is much misunderstanding. What is capital and what is its function?

Primitive man went to land and got wealth for his own consumption, such as nuts, fruits, seeds, fish and roots. He lived, though his condition was not much above that of the other animals. But when he learned to make tools, such as baskets to carry food back to his home, nets to catch fish, or a sharpened stick for digging the ground—by using these tools he could produce much more wealth with the same labor than he could without them, and so raise his standard of living. These tools were wealth, as were the berries, nuts, fish, etc., when gathered, but after making these tools he did not wear them for clothing, nor burn them for firewood. He saved them to help him produce other wealth on the morrow. Wealth which is thus saved, and then used in producing other wealth, is capital. All tools are capital, as is any wealth, in any form, while being used to aid in production.

To illustrate: a farmer has an orchard which he has planted and raised. This orchard is wealth; but the farmer keeps the trees in condition by pruning, the saws and other tools used being capital. After the fruit is gathered, the farmer and his family may eat a part of it at once, and may store some for future consumption; but some of the crop may be used by the farmer in getting other products which he and his family desire, this part being sold in the market. If he makes cider from a part of his fruit to satisfy a demand for cider, he thereby produces other wealth (as manufacturers produce wealth by changing the form of the goods going through their factories). If he exchanges some fruit with a neighbor for potatoes, he gets, in this way, wealth which he himself did not produce. By exchange he has gotten potatoes for himself instead of apples. Some of the fruit he may take to market. He is still producing wealth simply by moving it from the orchard to the market, because it then is nearer to the point where it will satisfy the desires of other men (as the transportation of coffee from Brazil and tea from China increases production). Manufacture, exchange and transportation are all part of production. Production is the process of so changing the form, location or condition of something that comes from the land (and has exchange value), as to satisfy, or better satisfy, human desire.

Botanically the apple is fully produced when it is ripe; but from an economic point of view, the apple is not fully produced until it is in the hand of the person who is to eat it. The purpose of raising the apple is to satisfy a human desire for an apple, and every process which moves it toward the point where it will satisfy this desire is a part of economic production.

When the apple is delivered to the jobber, it is one step nearer its goal, as again it will be on reaching the retailer. At each step it is in process of being "produced" until it reaches the hand of the final consumer, to whom all wealth tends to gravitate.

By keeping in mind that wealth is capital only when it is being used to produce other wealth, it is not difficult to distinguish between wealth which is capital and wealth which is not capital. Land cannot be capital because it is never wealth; therefore the ownership of land does not make its owner a capitalist. Human skills, education, etc., cannot be capital, for they are never wealth—they are a part of man. Nothing can be capital that is not first wealth, and nothing can be capital that is not being used by Labor to aid in production.

As before stated, there *can* be production without capital; there *must* have been production without it, else capital could not have appeared in the first place; but human life without the use of capital would be extremely crude. Civilization, as we know it, could not exist. Probably civilization began when two primitive men overcame their fear of each other sufficiently to come together to exchange what they had produced. Our enormous possibilities of wealth production today are due to the fact that such a great percentage of the wealth produced is not consumed immediately, but is saved to be used as capital.

But, in spite of its inestimable value to Labor in producing wealth, capital is always a secondary factor in production, because production can take place without it (which is not true of either land or labor). Capital can be effective only when it is used by Labor. There may be wealth valued at millions which its owners wish to have used as capital, but if Labor cannot, or will not, use this wealth it can only decompose. We see this plainly when a strike occurs—when Labor steps out the wheels stop turning. Labor is always the initiatory factor in production; it is always Labor which uses capital. Capital never uses labor. A farmer may have a threshing machine, or a business man a factory, but neither serves its purpose until it is used. If a man uses his own capital he must do it as a laborer (he is then both a capitalist and a laborer); if he hires it to someone else, the borrower must become a laborer to use the capital. The only function of capital is that of aiding labor in production.

Our great economic problem of today is to discover why, in spite of our increasing ability to produce enormously, the making of a living for most of our people becomes more and more difficult, instead of less so. Many believe the answer to this problem lies somewhere in the relation between Capital and Labor. They believe that wages are paid out of capital, and that the rate of wages depends on the relation between the amount of capital available, and the number of laborers employed. But if this were so and if wages were paid out of capital, it would be logical to expect wages to be high when capital is abundant and low when capital is scarce. The extremely high wages made by the gold miners in the early days of California show us that the reverse can be true. During a depression we often see idle factories and dormant industries on every hand, yet Labor cannot find productive work at any wage.

The truth is that wages are not drawn from capital at all. The wages of the aborigine, gathering berries and seeds and eating them as he picks them, cannot be drawn from capital because he has no capital. Later, one of these men finds some stones and makes of them a crude mill with which he grinds his seeds into flour. In the morning he gathers seeds, in the afternoon he grinds them. His wages at the end of the day will be the flour he has that day produced; these wages did not come out of his capital, for his grinding stones are still intact to use another day.

But, it sometimes is contended, illustrations drawn from primitive times do not apply to our complex economic system of today. Instead, then, of the aborigine with his grinding stones, let us consider a great flour mill. Here is capital in one of its most complex forms. Is capital needed, or used, here to pay wages?

The capital in this mill at the beginning of any day consists of the buildings, all machinery and tools used in making flour, office fixtures, etc. (also, cash or money in the bank, which, though not itself capital can be exchanged for capital at will). If an inventory is taken in the morning, the wealth in this mill will consist of unground grain.

Now the men come to work and all day grain is ground, bolted and bagged. Let us suppose, in order to keep the illustration as simple as possible, that nothing is taken into the mill or out of it during the day. If another inventory is taken in the evening, after the mill has been running all day, will not wealth be found to have been produced there, by Labor, during the day? Instead of tons of unground grain there will be tons of flour ready for shipment—wealth more nearly prepared for the consumer, this being a step in wealth production (see "Production," p. 24). This difference will have been produced that day by the labor of the workers. If each worker is paid at the end of the day out of the flour he has that day produced, will the owners of the mill have any less capital at the end of the day than at the beginning? Or will the wages of the men in the mill have been dependent on the relation between the number of workers and the amount of capital owned by the proprietors? Another milling company may be working "on a shoe-string," but the men there will be paid the same wages as are the workers in the mill with vast amounts of capital at its disposal. The wages in both mills are produced each day by the men as they work. And this is true in every business—Labor *always* produces its own wages as it works.

It is probable that in the flour mill the wages will be paid in money and not in flour. This is done only because it is more convenient for everyone. But the amount paid in wages will not exceed the value of the flour which each man has produced by his labor during the day. When the proprietor pays his men in money instead of in flour, he is really buying from them the flour, which is their real wages. Our industrial system has been built up around the custom of having the employer earn a part of his wages by selling what has been produced in his plant. If the owner of the mill sells some carloads of flour, he must accumulate this flour before he can deliver it. If he pays his men in money instead of in flour, he can more quickly accumulate the flour he needs for his customers; but whether he pays his men in money or in flour, his capital, in either case, is not decreased by the payment of wages.

If each laborer, then, produces his wages as he works, wages cannot be diminished by any increase in the number of laborers. Quite the contrary. Since the greater the number of laborers, the greater their efficiency, if their work is well co-ordinated, it follows that the greater the number of laborers, the higher their wages should be. It is true that today it does not work out this way in actual experience—in later lessons we will show why. But the reason for any decrease in wages as the number of workers increases is not, and cannot be, because wages are drawn from capital.

Land, labor and capital—these three are necessary for the production of wealth in any but the most primitive society. There must be land before labor can be exerted. Labor must be exerted before wealth can be produced. Wealth must be produced before a part of it can be saved to use as capital. And in order for this capital to be of any service in the production of wealth, Labor must use it (to be precise, wealth is capital *only when actually in production;* "idle capital" is impossible).

What becomes of wealth after it has been produced? It passes to the consumer through the natural channels corresponding to the factors in production. That part which is received for permission to use the land used in producing the wealth, we term "rent" (if land is used in *consumption,* or is held idle, its rental value, though this should be treated in the same way as rent, is not true rent). We speak of "renting" a house or an automobile. What we really mean is "hire." True rent* is never received for permission to use anything made by man.

That part of wealth received for labor performed we call "wages"; and since labor consists of both physical and mental energy exerted in the production of wealth, wages are the wealth received by anyone for work which has resulted in the production of wealth. This may be called a salary, a commission, a bonus, a profit or something else. It matters not what it may be called in commerce; in political economy wages are anything received for human energy expended in producing wealth.

The return received by the capitalist for the hire of his capital is interest. Much of what is commercially

*The reason why anything commands price is that the demand for that thing exceeds the supply that can be gotten for nothing. Rent is the price paid for occupancy of land of a certain kind: therefore, the cause of rent is that the demand for a given kind of land exceeds the supply that can be gotten for nothing.

As stated above and on p. 165n, the site value of land held idle or of land used in consumption cannot be economic rent. Rent is one of the portions into which product is divided: if there is no product (which is the case when land is idle or used in consumption), there can be nothing to divide and therefore there can be no rent.

called interest is not true interest at all. It may be a payment for the replacement of capital, for insurance against risk, for obsolescence, or for something else, but these payments are distinct from true economic interest. Interest is only that which is received for the loan of capital. Money hire is not true economic interest. A man may borrow money with which to buy bare land, then speak of paying "interest" on the mortgage he gives. It is not economic interest that he pays, for it is not a payment for the loan of capital; it is payment for permission to use land, and, therefore, is rent (if the land is used in producing wealth, see p. 21).

All through the business world we find many things which are misnamed from an economic point of view; but if the economic definitions are kept clearly in mind, confusion will be avoided. In economics, rent is a return for permission to use that which has *not* been made by man but which is used in production. Interest is a return for the loan of things which *have* been made by man and which are used in production. Wages are the return man receives for the energies he exerts in production.

These seven terms: land, labor, wealth, capital, rent, wages and interest, are the foundation upon which the whole of political economy is built.

But what of "profits"? is this not an economic term? Do not profits as such take a part of the wealth produced? No. By "profits," business men mean an excess over cost, and this excess will consist of rent, wages or interest, or some combination of any two or all three of these. For instance: if a piece of land has been rented on a long term lease, and, during the term of the lease, increases in value so that it can be, and is, sublet at a higher rate, the profit is all rent. The profits of a business man may be all wages. The profit on capital borrowed at 2% and reloaned at 3% is all interest.

"Management" is not a separate factor in production; if the manager exerts energy in producing wealth, he "labors," and what he receives is wages.

ECONOMIC AXIOM AND DEFINITIONS

From		
LAND	produce	RENT,
does	WEALTH;	
LABOR	which, when produced,	WAGES
using	is distributed* as	and
CAPITAL		INTEREST

POLITICAL ECONOMY—The science of the nature, production and distribution of wealth.

LAND—The whole universe except man and the things produced by man that have exchange value.

LABOR—Human energy, however much it be physical, however much mental, exerted in producing wealth.

WEALTH—Any material thing produced by man from land or its products that has exchange value.

CAPITAL—Wealth, by the use of which labor is being applied to other wealth, or to land, in the production of wealth.

RENT—The landowner's share* of wealth for granting access to land from which, or on which, wealth is produced (whether or not the community be owner).

WAGES—The laborer's share* of wealth for labor performed.

INTEREST—The capital owner's share* of wealth for per-

*If the laborer uses his own land, then, being both landlord and laborer, he receives both rent and wages; if he owns the capital used, but not the land, being laborer and capitalist, he receives both wages and interest; if he owns both land and capital, being laborer, landlord and capitalist, he receives all the three—rent, wages and interest. When no capital is used nor land above the "margin," there is neither interest nor rent.

mission to use (i.e., for lending) the wealth used (as capital) in producing it.

PRODUCTION—The making, growing, transporting, exchanging, or otherwise modifying by human exertion, of any material object (other than man himself) having exchange value, whereby it is fitted for, or better fitted for, or is brought nearer to the final consumer.

DISTRIBUTION—The apportionment, by natural law, of product (wealth) among the factors in its production.

CONSUMPTION—The use one makes of wealth after its production, which use lessens, however slightly, its capacity to satisfy desire.

PERSONAL SERVICE—Something done that satisfies another's desire (whether or not for a material thing) but that does not produce wealth.

QUESTIONS FOR DISCUSSION

1—Under what heading, in economics, would one classify the ocean? Fish in the ocean? A waterfall—natural and artificial? Rain? A harbor—the channel and the docks?

2—How should a factory be classified? A store occupying the whole building and one with living quarters over it? An apartment house? A railroad station? A subway? A home?

3—Are any of the following capital: An untapped oil field? An oil well? A pipeline carrying oil from the field to the refinery? Oil going through the refinery? Gasoline for sale at a garage? Gasoline in one's car? If any of these is not capital, what is it and why?

4—In which class should one place a farmer? Is he a landlord, a capitalist, or a laborer?

5—If a man owned, and himself operated, a milk route would he be a landlord, a capitalist or a laborer? If he owned, and himself operated, a company supplying water to a town, what would be his status?