LESSON III

ERRONEOUS THEORIES REGARDING THE CAUSE OF ECONOMIC DISTRESS

"It is assumed that labor is available only in connection with capital; that nobody labors unless somebody owning capital, somehow by the use of it, induces him to labor. But Labor is prior to and independent of capital. Capital is only the fruit of Labor, and could not have existed if labor had not first existed."—ABRAHAM LINCOLN in message to Congress, 1861.

WE HAVE LAID THE FOUNDATION OF THE SCIENCE WE are studying (1) by analyzing the definitions of economic terms, showing them to be self-limiting, and to include every factor in the production and distribution of wealth; and (2) by outlining the laws governing the distribution of wealth, thus demonstrating that the portions going as rent, wages and interest are fixed not by individuals, nor by corporations, nor by laws passed by legislatures, but by natural economic laws which are as universal and as immutable as is the Law of Gravitation.

We now could build our superstructure; but, before doing so, let us consider some of the current theories used to explain why poverty persists with plenty—theories which, though false, are used as the basis of many arguments and of much legislation; which theories, however, cannot stand the test of sound reasoning, because they are based on false premises.

For instance: often it is assumed that there is only a given amount of work to be done; and shorter hours and shorter work weeks are suggested, not because these are good things in themselves (which of course they are) but in order to "spread the work," so that as many people as possible shall have some employment. Now "work" (labor), is nothing but human energy spent in trying to satisfy human desires. We know that human desires are illimitable, insatiable. But if human desires are insatiable, then there can be no limit to the amount of labor necessary to produce the things needed to satisfy these desires. Why, then, must there be any "spreading of the work" in order to give as many as possible a bit of it to do? The answer is that, due to low wages or unemployment, people cannot afford to buy the things with which to satisfy their desires. If a condition were established wherein everyone could satisfy his desires for material things, the demand for such things would be unlimited, and, likewise, the demand for labor to make them. The remedy, then, lies not in "spreading" what work there is, but in removing the cause of the unemployment and low wages which prevent people from buying the things they want. So long as this cause is left in operation, low wages and unemployment will, must, continue.

Another common fallacy is one to which reference was made in our first lesson. Because wages are usually paid in money, and are often paid before the article worked on is fully completed, it is inferred that wages are, and must be, paid out of capital. From this false premise springs the belief that Labor is idle because capital is idle. One bewildered economist, for instance, explicitly makes this statement:

"It is because dollars are out of work that men are out of work. It has been estimated that someone must put $6500 worth of machinery into the hands of every workman, on the average, before he can do a day's work."

What a mistaken view! Labor does *not* need Capital to pay its wages; Labor does not even need to have capital in order to go to work. Labor employs Capital; Capital *never* employs Labor. Of course it is true that Labor can produce much more if it has capital to use; but, if Labor can apply itself to land, it can go to work without capital, and will produce its own wages. Then it can save for itself the capital it needs. The bootleg coal industry in Pennsylvania demonstrates this. (For simplification, we will leave aside all questions as to whether it was proper for these men to dig coal out of land not legally theirs.)

These miners started with practically no capital; many of them at first had no more than pick and shovel. With this simple equipment they dug coal. The coal was their wages, which they exchanged for food and clothing. After making this exchange they still had their picks and shovels—their capital. *Their* wages were not paid out of their capital, nor out of any wage fund; their wages were what they produced as they worked. And this is true in every industry. Whenever Labor works, it produces wealth which previously did not exist. The wages of Labor are a part, or sometimes even all, of this wealth produced by Labor.

Our American pioneers had very little capital, especially at first, but they had no lack of employment, and as they worked they produced their own wages and saved their own capital.

It was not long before many of the bootleg coal mines were using quite elaborate equipment, which the miners had bought out of their own savings (capital always comes out of savings); showing that, even in modern conditions, when it becomes necessary, Labor, if it has access to land, can accumulate its own capital. Usually when Labor wishes to start in business for itself, it can borrow all the capital it needs; but these miners could not borrow—being in an illegitimate business, their credit was not good.

Suppose all the wealth in the world were made free to Labor to use as capital, but at the same time Labor were prohibited from going to the land to get new raw materials, what would result? Labor could work until all existing materials had been made into a form to satisfy human desires, then it would need to stop; for there would be nothing more for it to work on; nothing more could be produced for people to eat, or wear, or otherwise enjoy. Labor not only would be out of work, it would perish.

But if, instead of being given access to capital without access to land, Labor were given access to land without access to capital, it could never work itself out of employment; for, in addition to maintaining itself, it could, and would, make for itself all the capital it might need.

Instead of the primary need being that Labor have access to capital, it is that Labor have access to land. Labor without land is helpless, but given land, Labor is not dependent on Capital.

Because the true nature of capital is not generally understood, it is often charged that capitalists designedly hold their money or their capital idle, and thus cause or prolong a depression. But how much money does any individual have? Not how much can he get, but how much does he actually have in his possession? Practically no one ever has any great amount of money. Even the banks do not have the great amounts with which they are often credited. What cash they have they use as a revolving fund; paying out some to A, who uses it to pay B, who redeposits it, when it will be paid out to C, and so on. Even our most wealthy men have little money. What they do have, practically always, is investments in wealth or in some form of land, but not money. Therefore they cannot be holding vast sums of money idle for ulterior purposes. As for wealth: anyone who holds actual wealth finds that it tends to decompose quite quickly. To hold it idle from spite, or for any other reason, is to risk the loss of the wealth itself. Often to close a factory, even for a few weeks, means that before it can reopen, much of the machinery there must be replaced or repaired. For a capitalist to keep his holdings out of use for any great length of time would mean loss to himself.

The effect of withholding land from use is very different, as will be shown in our next lesson; but land is not, and never can be, capital.

Just as Labor so frequently blames Capital for its ills, so Capital, quite as often, attributes its difficulties to Labor. Many an employer who fails in business believes it is because his capital has been used up in paying wages to his workmen.

Frequently, it is true, employers cannot dispose of the goods they have on hand for an amount equivalent to that paid out as wages in producing the goods, and therefore find their savings lessened, or possibly entirely dissipated (if the goods cannot be sold at all). This does not mean that the workmen did not produce their own wages as they worked. It may mean that because of some miscalculation or mismanagement, the employers have been caught with goods on hand in a falling market, that they cannot sell for as much as they cost. (When an employer pays wages to his workmen in cash, he is actually buying from them the wealth they have produced while working for him.) If at the time the work was done, the value of what Labor produced was equal to the wages paid, then the wages did not come out of the employer's wealth, nor did the payment of these wages decrease his capital; they came out of the wealth produced by Labor.

Often, it may be, taxes and restrictions on a business are so great that the business fails and the employer loses accordingly. Such a failure would not be caused by any payments which had been made as wages but would be due to these taxes and restrictions. Often, too, the charge for rent, or payments made on the purchase price of land, may prove such a burden that the employer cannot carry it and pay average wages, and therefore fails. Here again the failure would not be due to wages being paid out of savings, but, instead, to the cost of the land. Never can wages be said to be taken out of savings, unless the value of the things produced by Labor, *at the time they are produced,* is less than the wages paid; and even then, all that could be said to come out of savings is the difference between the amount paid the workmen and the value of the product.

To illustrate: a buyer agrees to purchase a certain building if the contractor will have it finished within a week. The contractor supplies the capital, which consists of the tools used. He supplies, too, the building materials. He hires men to work on the building, and at the end of the week the building is completed. If it is sold at the end of the week, it will have a greater value than the materials out of which it was made. If this increase in value amounts to $2,500, and if $500 of it is needed to pay rent for the land, interest on the capital, replacement of worn tools and other incidentals, the remaining $2,000 is wages for the laborers (of which the employer is one if he helped in the work by supervision, or in any other way). After these wages are paid, the employer will still have his capital intact; the wealth that was building materials before is now a building. He can sell the building and replace in his bank account the cash which his men received in exchange for the product of their labor; and, if he likes, he can buy other building material to replace that used in this building.

But suppose the prospective buyer cannot keep his contract. The contractor has the building left on his hands, and may not be able to sell it to anyone else until its market value has so declined that he loses much of that which he put in. What he loses will not have been lost because it was paid out to Labor as wages. It will have been lost because the contractor, through no fault of his own, misjudged his market, and bought from his workmen wealth he cannot resell at the price he paid.

Though Capital and Labor both suffer when they are idle, the sufferings of Labor are not caused by Capital, nor are the sufferings of Capital caused by Labor.

If wages are not paid out of capital, but are produced by Labor as it works, then nearly all of the current theories regarding the relation between Capital and

Labor are invalid, and the legislation based on these theories is not only useless but actually harmful.

Linked with this fallacious theory of wages being paid out of capital, is the Malthusian theory—another fallacy.

For centuries, thoughtful people have noted that the struggle to secure a livelihood was growing more and more severe for the greater part of the people, and realizing that both the condition of the poor and the intensifying problems of the business man must have a cause, they have been seeking to find it, knowing that no condition can be cured until its cause is removed.

In 1789, Robert Malthus, an English economist, believing he had solved the problem formulated the theory that bears his name. He contended that poverty is caused by populations increasing faster than the ability of the world to support them. He said there is a tendency for populations to grow by geometrical progression, doubling themselves every twenty-five years while the subsistence which can be obtained from land, "even in conditions most favorable to industry," cannot be made to increase faster than by arithmetical progression.

No one can intelligently estimate what the natural rate of increase in population is at any given time. Conditions change too rapidly to make this possible. But it is not at all difficult to demonstrate the incorrectness of Mr. Malthus' contention that poverty throughout the world is due to inability to increase the production of wealth in proportion to increase in population, whatever the rate of the latter may be.

If the world were actually overpopulated many of its symptoms of distress would be similar to those we see today; therefore, it is easy to jump to the conclusion that the theory Malthus postulated is correct. But when we examine the theory and try to apply it to facts as they really exist, we find that it simply does not fit. And if we find that the cause of involuntary poverty is not overpopulation the Malthusian theory will stand discredited. Then we must look elsewhere for the cause.

However long it may be that humans have lived on the earth, we know that the earth is very sparsely populated.

The population of the world is estimated to be about two billion. The area of Texas is 265,896 square miles. If all the people in the world were moved to Texas, there would be but 11.7 people to the acre—each family of four could have for itself a plot 70 × 210 feet. It is not improbable that the whole population of the world could live on what modern industry could produce in Texas with its mines, oil fields, forests, fisheries, its grazing lands, its cotton, wheat and other agricultural lands; but at any rate there would be no overcrowding, and certainly, an area not much greater than Texas would suffice to supply their needs.

Taking the world as a whole then, we see that its population has not yet outrun subsistence, by any means. And there is no convincing evidence that populations even tend to increase in geometrical progression as Malthus thought. For instance: in China the descendants of Confucius enjoyed certain privileges not granted to others, therefore it is probable that every individual in that family would make himself known in order to obtain these privileges. About 2,150 years after the death of Confucius, his descendants were counted. If this family had doubled every 25 years, it should then have numbered millions upon millions of millions; instead of which it numbered about 22,000. It may be contended that this is the record of but one family, whose history for some reason may differ from that of other families. Let us then consider the population of the United States (only the figures for the last 50 years will be considered, since the area increased with each census before that).

1790	3,939,214	17 states
1810	7,339,811	26 "
1830	12,866,020	28 "
1850	23,191,879	36 "
1870	38,559,371	46 "
1890	62,949,714	48 "
1910	91,972,266	48 "
1940	131,669,275	48 "

A study of this table shows that our population has barely doubled itself once in 50 years. If the population of 1890 (62,949,714) had doubled itself each 25 years, by 1940 it would have been well over 250,000,000. Also, to show the actual rate of the increase of population in the United States, from the 131,669,275 of the 1940 census, should be deducted the number of immigrants who arrived during these 50 years; who, by coming here, to that extent have decreased the population elsewhere. (Moving people from one place to another does not mean an increased population, both places considered.) The descendants of these immigrants also should be taken into account. The number of foreign born in the United States in 1930 was about 15,000,000. If their descendants were of an equal number, and we deduct the sum of these two figures from 131,669,275, our population in 1940 would have been around 100,000,000—about two-fifths of what it would have been on the basis of doubling every twenty-five years.

Though the population of the United States has increased at nowhere near as rapid a rate as to double itself in 25 years, it has actually increased about 100% in 50 years. Has our ability to produce wealth increased so slowly that this increased population cannot live at as high a standard as did their grandparents? Is it true that subsistence cannot be made to increase faster than by arithmetical progression? To see how fallacious is the Malthusian theory when applied to the whole country, compare the population and national wealth of the United States in 1900 and in 1930 (these figures from the United States census erroneously include land values as wealth, but the percentages of true wealth included in the figures are probably about equal in both cases):

YEAR	POPULATION	NAT'L WEALTH	PER CAPITA
1900	75,994,575	$ 88,517,307,000	$1,167.50
1930	122,710,630	329,000,000,000	2,677.00

Note that the per capita wealth in 1930 was more than double what it was in 1900. Certainly if there was any increased poverty in this country in 1930 over what there was in 1900 (and 1930 was a depression year, while 1900 was a year of "prosperity"), it could not have been caused by lack of subsistence to feed the increased population; because, *per capita,* the people were more than twice as wealthy as they were in 1900.

A low standard of living in a country does not necessarily mean that its population is too great to be supported by its resources. Compare the State of Washington with Mexico. The density of population in both places is practically equal: Washington has 23.4 people to the square mile, while Mexico has 21.5. Certainly the natural resources of Mexico are not inferior to those of Washington, yet the per capita wealth in Washington is $3,669 while in Mexico it is reported to be about $400. Can the poverty in Mexico be due to overpopulation? If it were, the poverty in Washington should be equally as great. Though there are many cases of poverty in Washington, its average standard of living is much higher than that of Mexico.

Yet in spite of such convincing figures as these, and many others equally convincing and easily obtainable, we find a belief in the Malthusian theory running through the economic thought of the whole world and influencing its actions. It is true that many economists assert that the Malthusian theory is incorrect; yet, though nominally the doctrine itself is denied, its spirit is retained, influencing not only the mind of the average man, but also the acts of legislatures, and often the arguments of economists themselves.*

Consider the prevailing idea of war and its causes. Why do people go to war when the whole idea of war is abhorrent to the average man? Perhaps a desire for prestige, a love of power, are slight factors; but these would not be sufficient to cause any nation to go to war if they were not backed by other, immensely more powerful forces. These other determining causes are economic, and the ones we hear most frequently mentioned are: need for new markets; need for access to raw materials,

*As an illustration of the persistent influence of the fallacious Malthusian theory: In "Limits of Land Settlement—A Report on Present-day Possibilities," published by the Council on Foreign Relations, N.Y., 1937, the author purports to show that all of the United States, most of Canada, all of Europe, and most of Asia, are now fully "over-settled." Only Inner Asia and South America, according to this report, present opportunities today for settlement of the white race.

and the plea of overpopulation—over-crowding. A nation will claim that it cannot provide food and a livelihood for its own people from its own resources, and therefore that it is justified in going to war with another nation in order to decrease the poverty and unemployment at home. But there is not a country in the world which is overpopulated unless by reason of artificial conditions; nor is there one which needs raw materials it cannot buy, except as tariffs or other restrictions prevent trade between nations (raw materials from a conquered country are not supplied free of charge).

Those who believe that our unemployment and economic distress are caused by overpopulation should consider these population figures:*

England	has	742.2	people,	per	square	mile;	Spain	has	147.4
Belgium	"	698.8	"	"	"	"	China	"	112.5
Japan	"	433.3	"	"	"	"	United States	has	41
Germany	"	360.7	"	"	"	"	Mexico	"	21.3
Italy	"	349.1	"	"	"	"	Canada	"	2.8
France	"	196.9	"	"	"	"			

Some parts of the British Empire are still more densely populated than England: the Channel Islands have a population of 1280 per square mile, and the Isle of Malta has 2000 to the square mile; yet in both of these places the living is chiefly by agriculture and fishing, not by manufacturing.

Sometimes it is contended that the habits and customs of a people, or their type of government, may so affect economic conditions that what might be over-population for one country would not be over-population for another. To see that differences of this nature can have but a trivial effect, compare England with 742 to a square mile with Canada, which has but 2.8 persons

*Figures from 1935 "World Almanac."

per square mile and living conditions quite similar.*

We frequently see references to the "Have" and the "Have Not" countries, and the suggestion that those which "Have" more territory and resources should divide with the "Have Nots," in order that the relation between populations and subsistence in each country would be more nearly uniform. Would any benefit come to the masses of the people from such a division? The Empire of Great Britain covers one-quarter of the globe. If being a "Have" country means that the living conditions of its people will be better than those in "Have Not" countries, then the people in Britain should be especially fortunate. Is the condition of the British workman so much better than that of the workingman in tiny Switzerland? The history of doles in Britain shows that it is not; and if Britain tomorrow should become possessed of half the globe instead of but one-quarter of it, the wages of the British workman would not be raised a single penny. Wages are not determined by the size or productivity of the country in which one lives, nor by its density of population—wages are fixed by the productivity of the free land available to the *individual*. When there is no more free land for the worker, wages will be fixed by the standard of living at which men are willing to live and reproduce.

*Though the population of the United States is fourteen times as dense as that of Canada, it is only about one-fifth as dense as that of France and one-seventeenth as dense as that of England. Nowhere have subsistence possibilities been overtaken by population. The World Almanac, 1942, gives the figures for the basis of these comparisons and the average resources of the respective countries do not seem to vary too greatly for the purpose of the comparison made. If all the land of America were owned by one family, to all others the condition would be the same as though there were overpopulation.

Nor are we here in the United States any more logical regarding economic questions than are the people of other nations, for we see the same ideas expressing themselves here as there. Our State Department spends much time and energy in trying to create new markets abroad for our goods; though since, because of low wages and unemployment, millions of our own people are without proper food, clothing and shelter, it would be more logical to give our first attention to developing our own markets here at home. We restrict immigration, only to be met with a demand for still further restriction in order to keep out those who might compete here for jobs; thus implying that there are too many men here now for the work there is to be done. Women, especially those who are married, constantly are being told they should not work outside their own homes, because in doing so they take jobs from the men. One of the arguments used for birth control is that it will prevent further overpopulation. Even in the agitation for child labor laws, an argument frequently heard is that the children take jobs away from the men. We have plans for old age pensions—the pensions usually to be forfeited if those receiving them accept work for pay of any kind. This provision is inserted to induce men and women over 50, 60 or 65, as the case may be, not to compete for jobs, but to make way for younger people. Even though other arguments pro and con are used in discussing all of these subjects, we find that one of the chief supporting arguments used for all of them is based on the idea that there is not enough work to go around, because we are becoming overpopulated.

Those who believe overpopulation is the cause of the economic problems which confront our nation contend that we must plan for the relief of millions of people here, nearly always found out of employment in peacetime. But why is there any necessity for these people being continuously unemployed? Are our natural resources exhausted? Everyone knows they have scarcely been touched! Are we lacking in the skill and knowledge which will enable us to use these resources? Probably in no other country do the people have greater ability to produce wealth when they have an opportunity to do so, than have our own people! Do all of our 131,000,000 people have everything they want, so that there is no work for the unemployed to do in making things to satisfy these wants? It would be difficult to find even one person who cannot name many things he would like to have if he could afford to have them! Here are our millions of unemployed—don't these people want to work? Every self-respecting individual wants to feel that he is earning his own way and is not an object of charity, either from the government or from individuals.

If, then, we have the resources from which to produce material things, and if we have the skill and ability to use these resources (both of which are certainly true); if we have millions of people who would like to have things they now lack which could be made from these resources, and also have millions who would like to go to work making these things now lacking, what is it that causes unemployment?—for there must be a cause. How can there be scarcity of work until all of our wants are satisfied, if our resources are not exhausted? Nowhere can poverty and unemployment be due to overpopulation unless all of the natural resources are in use and found to be insufficient to supply the needs of the population; and nowhere is this true.

The Malthusian theory is so easy to disprove that it would seem unnecessary to give so much space to it, were it not for the fact that it, and the theory that wages are taken from capital, when taken together, *seem* to explain so many of our present economic ills, that one constantly needs to be refuting the arguments based on them. Neither of these theories is true and no extended arguments are necessary to demonstrate their falsity; all that is needed is a consideration of actual records to which everyone has access; yet practically all of our remedial legislation has been based fundamentally on these assumptions—as are most of the economic arguments heard from one end of the world to the other.

When it is realized that unemployment is not caused by overpopulation and that wages are not drawn from capital; when it is seen that all Labor needs is an opportunity to apply itself to our natural resources in order to produce not only its own wages, but also its own capital (as the bootleg coal miners have demonstrated), the field will have been cleared of the worst of our present-day misconceptions as to the cause of our economic troubles.

QUESTIONS FOR DISCUSSION

1—If a farmer raises and sells 100 bushels of wheat, when does he receive his wages?

2—If the work performed by an M.D. is not labor, how would one classify the energy exerted by a veterinary? Does he labor? Does he produce wealth? Does he receive wages? Give reasons for your conclusions.

3—When does an article produced by labor become wealth? When does it cease being wealth? When it ceases being wealth does it ever become land or man?

4—When does an article produced by labor become capital? When does it cease being capital? When it ceases being capital, is it land or man, or wealth? Why?

5—Does the lender of capital perform any service for the borrower?

Does the borrower of capital perform any service for the lender?

6—A man owns the house and lot where he resides; he also owns the building and lot where he does his business. Is each, or any of these a part of his capital? If he mortgages his home and uses the money thus obtained in his business, would this change the economic status of his home? Why?

7—Under what heading, in economics, would one class a newspaper? Would it be the same to the printer, the advertiser, and the man who buys it to read?

8—When is a factory capital? When is it not capital?

9—Can poverty in any given country ever be due to over-population so long as the natural resources of that country are not all in use? Why?

10—A bridge requires a year to build. The wages of the workers are paid weekly. Are these wages paid out of the capital of the contractor?

11—If an employer makes an "advance payment" to a worker, is this an advance of wages, or is it a loan? Why?

12—If an employee, instead of taking his pay from his employer as fast as he produces, waits for it until the end of the week, has he, in the meantime, been extending credit to his employer, even if neither party recognizes that this is taking place? If not, what has he been doing with his wages?

13—A builder contracts to erect a building, supplying tools and materials and superintending the work. To what extent is he (1) laborer, (2) capitalist, and (3) owner of wealth that is not capital? Why?