BOOK I

WAGES AND CAPITAL

He that is to follow philosophy must be a freeman in mind.
—*Ptolemy.*

CHAPTER I

THE CURRENT DOCTRINE OF WAGES—ITS INSUFFICIENCY

Reducing to its most compact form the problem we have set out to investigate, let us examine, step by step, the explanation which political economy, as now accepted by the best authority, gives of it.

The cause which produces poverty in the midst of advancing wealth is evidently the cause which exhibits itself in the tendency, everywhere recognized, of wages to a minimum. Let us, therefore, put our inquiry into this compact form:

Why, in spite of increase in productive power, do wages tend to a minimum which will give but a bare living?

The answer of the current political economy is, that wages are fixed by the ratio between the number of laborers and the amount of capital devoted to the employment of labor, and constantly tend to the lowest amount on which laborers will consent to live and reproduce, because the increase in the number of laborers tends naturally to follow and overtake any increase in capital. The increase of the divisor being thus held in check only by the possibilities of the quotient, the dividend may be increased to infinity without greater result.

In current thought this doctrine holds all but undisputed sway. It bears the indorsement of the very highest names among the cultivators of political economy, and though there have been attacks upon it, they are generally more formal than real.* It is assumed by Buckle as the basis of his generalizations of universal history. It is taught in all, or nearly all, the great English and American universities, and is laid down in textbooks which aim at leading the masses to reason correctly upon practical affairs, while it seems to harmonize with the new philosophy, which, having in a few years all but conquered the scientific world, is now rapidly permeating the general mind.

Thus entrenched in the upper regions of thought, it is in cruder form even more firmly rooted in what may be styled the lower. What gives to the fallacies of protection such a tenacious hold, in spite of their evident inconsistencies and absurdities, is the idea that the sum to be distributed in wages is in each community a fixed one, which the competition of "foreign labor" must still further subdivide. The same idea underlies most of the theories which aim at the abolition of interest and the restriction of competition, as the means whereby the share of the laborer in the general wealth can be increased; and it crops out in every direction among those who are not thoughtful enough to have any theories, as may be seen in the columns of newspapers and the debates of legislative bodies.

* This seems to me true of Mr. Thornton's objections, for while he denies the existence of a predetermined wage fund, consisting of a portion of capital set apart for the purchase of labor, he yet holds (which is the essential thing) that wages are drawn from capital, and that increase or decrease of capital is increase or decrease of the fund available for the payment of wages. The most vital attack upon the wage fund doctrine of which I know is that of Professor Francis A. Walker (The Wages Question: New York, 1876), yet he admits that wages are in large part advanced from capital—which, so far as it goes, is all that the stanchest supporter of the wage fund theory could claim—while he fully accepts the Malthusian theory. Thus his practical conclusions in nowise differ from those reached by expounders of the current theory.

And yet, widely accepted and deeply rooted as it is, it seems to me that this theory does not tally with obvious facts. For, if wages depend upon the ratio between the amount of labor seeking employment and the amount of capital devoted to its employment, the relative scarcity or abundance of one factor must mean the relative abundance or scarcity of the other. Thus, capital must be relatively abundant where wages are high, and relatively scarce where wages are low. Now, as the capital used in paying wages must largely consist of the capital constantly seeking investment, the current rate of interest must be the measure of its relative abundance or scarcity. So, if it be true that wages depend upon the ratio between the amount of labor seeking employment and the capital devoted to its employment, then high wages, the mark of the relative scarcity of labor, must be accompanied by low interest, the mark of the relative abundance of capital, and reversely, low wages must be accompanied by high interest.

This is not the fact, but the contrary. Eliminating from interest the element of insurance, and regarding only interest proper, or the return for the use of capital, is it not a general truth that interest is high where and when wages are high, and low where and when wages are low? Both wages and interest have been higher in the United States than in England, in the Pacific than in the Atlantic States. Is it not a notorious fact that where labor flows for higher wages, capital also flows for higher interest? Is it not true that wherever there has been a general rise or fall in wages there has been at the same time a similar rise or fall in interest? In California, for instance, when wages were higher than anywhere else in the world, so also was interest higher. Wages and interest have in California gone down together. When common wages were $5 a day, the ordinary bank rate of interest was twenty-four per cent. per annum. Now that common wages are $2 or $2.50 a day, the ordinary bank rate is from ten to twelve per cent.

Now, this broad, general fact, that wages are higher in new countries, where capital is relatively scarce, than in old countries, where capital is relatively abundant, is too glaring to be ignored. And although very lightly touched upon, it is noticed by the expounders of the current political economy. The manner in which it is noticed proves what I say, that it is utterly inconsistent with the accepted theory of wages. For in explaining it such writers as Mill, Fawcett, and Price virtually give up the theory of wages upon which, in the same treatises, they formally insist. Though they declare that wages are fixed by the ratio between capital and laborers, they explain the higher wages and interest of new countries by the greater relative production of wealth. I shall hereafter show that this is not the fact, but that, on the contrary, the production of wealth is relatively larger in old and densely populated countries than in new and sparsely populated countries. But at present I merely wish to point out the inconsistency. For to say that the higher wages of new countries are due to greater proportionate production, is clearly to make the ratio with production, and not the ratio with capital, the determinator of wages.

Though this inconsistency does not seem to have been perceived by the class of writers to whom I refer, it has been noticed by one of the most logical of the expounders of the current political economy. Professor Cairnes* endeavors in a very ingenious way to reconcile the fact with the theory, by assuming that in new countries,

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* Some Leading Principles of Political Economy Newly Expounded, Chapter 1, Part 2.

where industry is generally directed to the production of food and what in manufactures is called raw material, a much larger proportion of the capital used in production is devoted to the payment of wages than in older countries where a greater part must be expended in machinery and material, and thus, in the new country, though capital is scarcer, and interest is higher, the amount determined to the payment of wages is really larger, and wages are also higher. For instance, of $100,000 devoted in an old country to manufactures, $80,000 would probably be expended for buildings, machinery and the purchase of materials, leaving but $20,000 to be paid out in wages; whereas in a new country, of $30,000 devoted to agriculture, etc., not more than $5,000 would be required for tools, etc., leaving $25,000 to be distributed in wages. In this way it is explained that the wage fund may be comparatively large where capital is comparatively scarce, and high wages and high interest accompany each other.

In what follows I think I shall be able to show that this explanation is based upon a total misapprehension of the relations of labor to capital—a fundamental error as to the fund from which wages are drawn; but at present it is necessary only to point out that the connection in the fluctuation of wages and interest in the same countries and in the same branches of industry cannot thus be explained. In those alternations known as "good times" and "hard times" a brisk demand for labor and good wages is always accompanied by a brisk demand for capital and stiff rates of interest. While, when laborers cannot find employment and wages droop, there is always an accumulation of capital seeking investment at low rates.* The present depression has been no less

* Times of commercial panic are marked by high rates of discount, but this is evidently not a high rate of interest, properly so called, but a high rate of insurance against risk.

marked by want of employment and distress among the working classes than by the accumulation of unemployed capital in all the great centers, and by nominal rates of interest on undoubted security. Thus, under conditions which admit of no explanation consistent with the current theory, do we find high interest coinciding with high wages, and low interest with low wages—capital seemingly scarce when labor is scarce, and abundant when labor is abundant.

All these well known facts, which coincide with each other, point to a relation between wages and interest, but it is to a relation of conjunction, not of opposition. Evidently they are utterly inconsistent with the theory that wages are determined by the ratio between labor and capital, or any part of capital.

How, then, it will be asked, could such a theory arise? How is it that it has been accepted by a succession of economists, from the time of Adam Smith to the present day?

If we examine the reasoning by which in current treatises this theory of wages is supported, we see at once that it is not an induction from observed facts, but a deduction from a previously assumed theory—viz., that wages are drawn from capital. It being assumed that capital is the source of wages, it necessarily follows that the gross amount of wages must be limited by the amount of capital devoted to the employment of labor, and hence that the amount individual laborers can receive must be determined by the ratio between their number and the amount of capital existing for their recompense.* This reasoning is valid, but

* For instance McCulloch (Note VI to Wealth of Nations) says: "That portion of the capital or wealth of a country which the employers of labor intend to or are willing to pay out in the purchase of labor, may be much larger at one time than another. But whatever may be its absolute magnitude, it obviously forms

the conclusion, as we have seen, does not correspond with the facts. The fault, therefore, must be in the premises. Let us see.

I am aware that the theorem that wages are drawn from capital is one of the most fundamental and apparently best settled of current political economy, and that it has been accepted as axiomatic by all the great thinkers who have devoted their powers to the elucidation of the science. Nevertheless, I think it can be demonstrated to be a fundamental error—the fruitful parent of a long series of errors, which vitiate most important practical conclusions. This demonstration I am about to attempt. It is necessary that it should be clear and conclusive, for a doctrine upon which so much important reasoning is based, which is supported by such a weight of authority, which is so plausible in itself, and is so liable to recur in different forms, cannot be safely brushed aside in a paragraph.

The proposition I shall endeavor to prove, is:

*That wages, instead of being drawn from capital, are in reality drawn from the product of the labor for which they are paid.**

Now, inasmuch as the current theory that wages are

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the only source from which any portion of the wages of labor can be derived. No other fund is in existence from which the laborer, as such, can draw a single shilling. And hence *it follows* that the average rate of wages, or the share of the national capital appropriated to the employment of labor falling, at an average, to each laborer, must entirely depend on its amount as compared with the number of those amongst whom it has to be divided." Similar citations might be made from all the standard economists.

* We are speaking of labor expended in production, to which it is best for the sake of simplicity to confine the inquiry. Any question which may arise in the reader's mind as to wages for unproductive services had best therefore be deferred.

drawn from capital also holds that capital is reimbursed from production, this at first glance may seem a distinction without a difference—a mere change in terminology, to discuss which would be but to add to those unprofitable disputes that render so much that has been written upon politico-economic subjects as barren and worthless as the controversies of the various learned societies about the true reading of the inscription on the stone that Mr. Pickwick found. But that it is much more than a formal distinction will be apparent when it is considered that upon the difference between the two propositions are built up all the current theories as to the relations of capital and labor; that from it are deduced doctrines that, themselves regarded as axiomatic, bound, direct, and govern the ablest minds in the discussion of the most momentous questions. For, upon the assumption that wages are drawn directly from capital, and not from the product of the labor, is based, not only the doctrine that wages depend upon the ratio between capital and labor, but the doctrine that industry is limited by capital—that capital must be accumulated before labor is employed, and labor cannot be employed except as capital is accumulated; the doctrine that every increase of capital gives or is capable of giving additional employment to industry; the doctrine that the conversion of circulating capital into fixed capital lessens the fund applicable to the maintenance of labor; the doctrine that more laborers can be employed at low than at high wages; the doctrine that capital applied to agriculture will maintain more laborers than if applied to manufactures; the doctrine that profits are high or low as wages are low or high, or that they depend upon the cost of the subsistence of laborers; together with such paradoxes as that a demand for commodities is not a demand for labor, or that certain commodities may be increased in cost by a reduction in wages or diminished in cost by an increase in wages.

In short, all the teachings of the current political economy, in the widest and most important part of its domain, are based more or less directly upon the assumption that labor is maintained and paid out of existing capital before the product which constitutes the ultimate object is secured. If it be shown that this is an error, and that on the contrary the maintenance and payment of labor do not even temporarily trench on capital, but are directly drawn from the product of the labor, then all this vast superstructure is left without support and must fall. And so likewise must fall the vulgar theories which also have their base in the belief that the sum to be distributed in wages is a fixed one, the individual shares in which must necessarily be decreased by an increase in the number of laborers.

The difference between the current theory and the one I advance is, in fact, similar to that between the mercantile theory of international exchanges and that with which Adam Smith supplanted it. Between the theory that commerce is the exchange of commodities for money, and the theory that it is the exchange of commodities for commodities, there may seem no real difference when it is remembered that the adherents of the mercantile theory did not assume that money had any other use than as it could be exchanged for commodities. Yet, in the practical application of these two theories, there arises all the difference between rigid governmental protection and free trade.

If I have said enough to show the reader the ultimate importance of the reasoning through which I am about to ask him to follow me, it will not be necessary to apologize in advance either for simplicity or prolixity. In arraigning a doctrine of such importance—a doctrine supported by such a weight of authority, it is necessary to be both clear and thorough.

Were it not for this I should be tempted to dismiss with a sentence the assumption that wages are drawn from capital. For all the vast superstructure which the current political economy builds upon this doctrine is in truth based upon a foundation which has been merely taken for granted, without the slightest attempt to distinguish the apparent from the real. Because wages are generally paid in money, and in many of the operations of production are paid before the product is fully completed, or can be utilized, it is inferred that wages are drawn from pre-existing capital, and, therefore, that industry is limited by capital—that is to say that labor cannot be employed until capital has been accumulated, and can only be employed to the extent that capital has been accumulated.

Yet in the very treatises in which the limitation of industry by capital is laid down without reservation and made the basis for the most important reasonings and elaborate theories, we are told that capital is stored-up or accumulated labor—"that part of wealth which is saved to assist future production." If we substitute for the word "capital" this definition of the word, the proposition carries its own refutation, for that labor cannot be employed until the results of labor are saved becomes too absurd for discussion.

Should we, however, with this *reductio ad absurdum*, attempt to close the argument, we should probably be met with the explanation, not that the first laborers were supplied by Providence with the capital necessary to set them to work, but that the proposition merely refers to a state of society in which production has become a complex operation.

But 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 labor and the use of complex tools and methods. The steam grist mill, with its complicated machinery exhibiting every diversity of motion, is simply what the rude stone mortar dug up from an ancient river bed was in its day—an instrument for grinding corn. And every man engaged in it, whether tossing wood into the furnace, running the engine, dressing stones, printing sacks or keeping books, is really devoting his labor to the same purpose that the prehistoric savage did when he used his mortar—the preparation of grain for human food.

And so, if we reduce to their lowest terms all the complex operations of modern production, we see that each individual who takes part in this infinitely subdivided and intricate network of production and exchange is really doing what the primeval man did when he climbed the trees for fruit or followed the receding tide for shell-fish—endeavoring to obtain from nature by the exertion of his powers the satisfaction of his desires. If we keep this firmly in mind, if we look upon production as a whole—as the co-operation of all embraced in any of its great groups to satisfy the various desires of each, we plainly see that the reward each obtains for his exertions comes as truly and as directly from nature as the result of that exertion, as did that of the first man.

To illustrate: In the simplest state of which we can conceive, each man digs his own bait and catches his own fish. The advantages of the division of labor soon become apparent, and one digs bait while the others fish. Yet evidently the one who digs bait is in reality doing as much toward the catching of fish as any of those who actually take the fish. So when the advantages of canoes are discovered, and instead of all going a-fishing, one stays behind and makes and repairs canoes, the canoe-maker is in reality devoting his labor to the taking of fish as much as the actual fishermen, and the fish which he eats at night when the fishermen come home are as truly the product of his labor as of theirs. And thus when the division of labor is fairly inaugurated, and instead of each attempting to satisfy all of his wants by direct resort to nature, one fishes, another hunts, a third picks berries, a fourth gathers fruit, a fifth makes tools, a sixth builds huts, and a seventh prepares clothing—each one is to the extent he exchanges the direct product of his own labor for the direct product of the labor of others really applying his own labor to the production of the things he uses —is in effect satisfying his particular desires by the exertion of his particular powers; that is to say, what he receives he in reality produces. If he digs roots and exchanges them for venison, he is in effect as truly the procurer of the venison as though he had gone in chase of the deer and left the huntsman to dig his own roots. The common expression, "I made so and so," signifying "I earned so and so," or "I earned money with which I purchased so and so," is, economically speaking, not metaphorically but literally true. Earning is making.

Now, if we follow these principles, obvious enough in a simpler state of society, through the complexities of the state we call civilized, we shall see clearly that in every case in which labor is exchanged for commodities, production really precedes enjoyment; that wages are the earnings—that is to say, the makings of labor—not the advances of capital, and that the laborer who receives his wages in money (coined or printed, it may be, before his labor commenced) really receives in return for the addition his labor has made to the general stock of wealth, a draft upon that general stock, which he may utilize in any particular form of wealth that will best satisfy his desires; and that neither the money, which is but the draft, nor the particular form of wealth which he uses it to call for, represents advances of capital for his maintenance, but on the contrary represents the wealth, or a portion of the wealth, his labor has already added to the general stock.

Keeping these principles in view we see that the draughtsman, who, shut up in some dingy office on the banks of the Thames, is drawing the plans for a great marine engine, is in reality devoting his labor to the production of bread and meat as truly as though he were garnering the grain in California or swinging a lariat on a La Plata pampa; that he is as truly making his own clothing as though he were shearing sheep in Australia or weaving cloth in Paisley, and just as effectually producing the claret he drinks at dinner as though he gathered the grapes on the banks of the Garonne. The miner who, two thousand feet under ground in the heart of the Comstock, is digging out silver ore, is, in effect, by virtue of a thousand exchanges, harvesting crops in valleys five thousand feet nearer the earth's center; chasing the whale through Arctic icefields; plucking tobacco leaves in Virginia; picking coffee berries in Honduras; cutting sugar cane on the Hawaiian Islands; gathering cotton in Georgia or weaving it in Manchester or Lowell; making quaint wooden toys for his children in the Hartz Mountains; or plucking amid the green and gold of Los Angeles orchards the oranges which, when his shift is relieved, he will take home to his sick wife. The wages which he receives on Saturday night at the mouth of the shaft, what are they but the certificate to all the world that he has done these things—the primary exchange in the long series which transmutes his labor into the things he has really been laboring for?

All this is clear when looked at in this way; but to meet this fallacy in all its strongholds and lurking places we must change our investigation from the deductive to the inductive form. Let us now see, if, beginning with facts and tracing their relations, we arrive at the same conclusions as are thus obvious when, beginning with first principles, we trace their exemplification in complex facts.

CHAPTER II

THE MEANING OF THE TERMS

Before proceeding further in our inquiry, let us make sure of the meaning of our terms, for indistinctness in their use must inevitably produce ambiguity and indeterminateness in reasoning. Not only is it requisite in economic reasoning to give to such words as "wealth," "capital," "rent," "wages," and the like, a much more definite sense than they bear in common discourse, but, unfortunately, even in political economy there is, as to some of these terms, no certain meaning assigned by common consent, different writers giving to the same term different meanings, and the same writers often using a term in different senses. Nothing can add to the force of what has been said by so many eminent authors as to the importance of clear and precise definitions, save the example, not an infrequent one, of the same authors falling into grave errors from the very cause they warned against. And nothing so shows the importance of language in thought as the spectacle of even acute thinkers basing important conclusions upon the use of the same word in varying senses. I shall endeavor to avoid these dangers. It will be my effort throughout, as any term becomes of importance, to state clearly what I mean by it, and to use it in that sense and in no other. Let me ask the reader to note and to bear in mind the definitions thus given, as otherwise I cannot hope to make myself properly understood. I shall not attempt to attach arbitrary meanings to words, or to coin terms, even when it would be convenient to do so, but shall conform to usage as closely as is possible, only endeavoring so to fix the meaning of words that they may clearly express thought.

What we have now on hand is to discover whether, as a matter of fact, wages are drawn from capital. As a preliminary, let us settle what we mean by wages and what we mean by capital. To the former word a sufficiently definite meaning has been given by economic writers, but the ambiguities which have attached to the use of the latter in political economy will require a detailed examination.

As used in common discourse "wages" means a compensation paid to a hired person for his services; and we speak of one man "working for wages," in contradistinction to another who is "working for himself." The use of the term is still further narrowed by the habit of applying it solely to compensation paid for manual labor. We do not speak of the wages of professional men, managers or clerks, but of their fees, commissions, or salaries. Thus the common meaning of the word wages is the compensation paid to a hired person for manual labor. But in political economy the word wages has a much wider meaning, and includes all returns for exertion. For, as political economists explain, the three agents or factors in production are land, labor, and capital, and that part of the produce which goes to the second of these factors is by them styled wages.

Thus the term labor includes all human exertion in the production of wealth, and wages, being that part of the produce which goes to labor, includes all reward for such exertion. There is, therefore, in the politico-economic sense of the term wages no distinction as to the kind of labor, or as to whether its reward is received through an employer or not, but wages means the return received for the exertion of labor, as distinguished from the return received for the use of capital, and the return received by the landholder for the use of land. The man who cultivates the soil for himself receives his wages in its produce, just as, if he uses his own capital and owns his own land, he may also receive interest and rent; the hunter's wages are the game he kills; the fisherman's wages are the fish he takes. The gold washed out by the self-employing gold-digger is as much his wages as the money paid to the hired coal miner by the purchaser of his labor,* and, as Adam Smith shows, the high profits of retail storekeepers are in large part wages, being the recompense of their labor and not of their capital. In short, whatever is received as the result or reward of exertion is "wages."

This is all it is now necessary to note as to "wages," but it is important to keep this in mind. For in the standard economic works this sense of the term wages is recognized with greater or less clearness only to be subsequently ignored.

But it is more difficult to clear away from the idea of capital the ambiguities that beset it, and to fix the scientific use of the term. In general discourse, all sorts of things that have a value or will yield a return are vaguely spoken of as capital, while economic writers vary so widely that the term can hardly be said to have a fixed meaning. Let us compare with each other the definitions of a few representative writers:

"That part of a man's stock," says Adam Smith (Book II, Chap. I), "which he expects to afford him a revenue, is called his capital," and the capital of a country or society, he goes on to say, consists of (1) machines and instruments of trade which facilitate and

* This was recognized in common speech in California, where the placer miners styled their earnings their "wages," and spoke of making high wages or low wages according to the amount of gold taken out.

abridge labor; (2) buildings, not mere dwellings, but which may be considered instruments of trade—such as shops, farmhouses, etc.; (3) improvements of land which better fit it for tillage or culture; (4) the acquired and useful abilities of all the inhabitants; (5) money; (6) provisions in the hands of producers and dealers, from the sale of which they expect to derive a profit; (7) the material of, or partially completed, manufactured articles still in the hands of producers or dealers; (8) completed articles still in the hands of producers or dealers. The first four of these he styles fixed capital, and the last four circulating capital, a distinction of which it is not necessary to our purpose to take any note.

Ricardo's definition is:

> "Capital is that part of the wealth of a country which is employed in production, and consists of food, clothing, tools, raw materials, machinery, etc., necessary to give effect to labor."—*Principles of Political Economy, Chapter V.*

This definition, it will be seen, is very different from that of Adam Smith, as it excludes many of the things which he includes—as acquired talents, articles of mere taste or luxury in the possession of producers or dealers; and includes some things he excludes—such as food, clothing, etc., in the possession of the consumer.

McCulloch's definition is:

> "The capital of a nation really comprises all those portions of the produce of industry existing in it that *may be* directly employed either to support human existence or to facilitate production."—*Notes on Wealth of Nations, Book II, Chap. I.*

This definition follows the line of Ricardo's, but is wider. While it excludes everything that is not capable of aiding production, it includes everything that is so capable, without reference to actual use or necessity for use—the horse drawing a pleasure carriage being, according to McCulloch's view, as he expressly states, as much capital as the horse drawing a plow, because he may, if need arises, be used to draw a plow.

John Stuart Mill, following the same general line as Ricardo and McCulloch, makes neither the use nor the capability of use, but the determination to use, the test of capital. He says:

"Whatever things are destined to supply productive labor with the shelter, protection, tools and materials which the work requires, and to feed and otherwise maintain the laborer during the process, are capital."—*Principles of Political Economy, Book I, Chap. IV.*

These quotations sufficiently illustrate the divergence of the masters. Among minor authors the variance is still greater, as a few examples will suffice to show.

Professor Wayland, whose "Elements of Political Economy" has long been a favorite text-book in American educational institutions, where there has been any pretense of teaching political economy, gives this lucid definition:

"The word capital is used in two senses. In relation to product it means any substance on which industry is to be exerted. In relation to industry, the material on which industry is about to confer value, that on which it has conferred value; the instruments which are used for the conferring of value, as well as the means of sustenance by which the being is supported while he is engaged in performing the operation."—*Elements of Political Economy, Book I, Chap. I.*

Henry C. Carey, the American apostle of protectionism, defines capital as "the instrument by which man obtains mastery over nature, including in it the physical and mental powers of man himself." Professor Perry, a Massachusetts free trader, very properly objects to this that it hopelessly confuses the boundaries between capital and labor, and then himself hopelessly confuses the boundaries between capital and land by defining capital as "any valuable thing outside of man himself from whose use springs a pecuniary increase or profit." An English economic writer of high standing, Mr. Wm. Thornton, begins an elaborate examination of the relations of labor and capital ("On Labor") by stating that he will include land with capital, which is very much as if one who proposed to teach algebra should begin with the declaration that he would consider the signs plus and minus as meaning the same thing and having the same value. An American writer, also of high standing, Professor Francis A. Walker, makes the same declaration in his elaborate book on "The Wages Question." Another English writer, N. A. Nicholson ("The Science of Exchanges," London, 1873), seems to cap the climax of absurdity by declaring in one paragraph (p. 26) that "capital must of course be accumulated by saving," and in the very next paragraph stating that "the land which produces a crop, the plow which turns the soil, the labor which secures the produce, and the produce itself, if a material profit is to be derived from its employment, are all alike capital." But how land and labor are to be accumulated by saving them he nowhere condescends to explain. In the same way a standard American writer, Professor Amasa Walker (p. 66, "Science of Wealth"), first declares that capital arises from the net savings of labor and then immediately afterward declares that land is capital.

I might go on for pages, citing contradictory and self-contradictory definitions. But it would only weary the reader. It is unnecessary to multiply quotations. Those already given are sufficient to show how wide a difference exists as to the comprehension of the term capital. Any one who wants further illustration of the "confusion worse confounded" which exists on this subject among the professors of political economy may find it in any library where the works of these professors are ranged side by side.

Now, it makes little difference what name we give to things, if when we use the name we always keep in view the same things and no others. But the difficulty arising in economic reasoning from these vague and varying definitions of capital is that it is only in the premises of reasoning that the term is used in the peculiar sense assigned by the definition, while in the practical conclusions that are reached it is always used, or at least it is always understood, in one general and definite sense. When, for instance, it is said that wages are drawn from capital, the word capital is understood in the same sense as when we speak of the scarcity or abundance, the increase or decrease, the destruction or increment, of capital—a commonly understood and definite sense which separates capital from the other factors of production, land and labor, and also separates it from like things used merely for gratification. In fact, most people understand well enough what capital is until they begin to define it, and I think their works will show that the economic writers who differ so widely in their definitions use the term in this commonly understood sense in all cases except in their definitions and the reasoning based on them.

This common sense of the term is that of wealth devoted to procuring more wealth. Dr. Adam Smith correctly expresses this common idea when he says: "That part of a man's stock which he expects to afford him revenue is called his capital." And the capital of a community is evidently the sum of such individual stocks, or that part of the aggregate stock which is expected to procure more wealth. This also is the derivative sense of the term. The word capital, as philologists trace it, comes down to us from a time when wealth was estimated in cattle, and a man's income depended upon the number of head he could keep for their increase.

The difficulties which beset the use of the word capital, as an exact term, and which are even more strikingly exemplified in current political and social discussions than in the definitions of economic writers, arise from two facts—first, that certain classes of things, the possession of which to the individual is precisely equivalent to the possession of capital, are not part of the capital of the community; and, second, that things of the same kind may or may not be capital, according to the purpose to which they are devoted.

With a little care as to these points, there should be no difficulty in obtaining a sufficiently clear and fixed idea of what the term capital as generally used properly includes; such an idea as will enable us to say what things are capital and what are not, and to use the word without ambiguity or slip.

Land, labor, and capital are the three factors of production. If we remember that capital is thus a term used in contradistinction to land and labor, we at once see that nothing properly included under either one of these terms can be properly classed as capital. The term land necessarily includes, not merely the surface of the earth as distinguished from the water and the air, but the whole material universe outside of man himself, for it is only by having access to land, from which his very body is drawn, that man can come in contact with or use nature. The term land embraces, in short, all natural materials, forces, and opportunities, and, therefore, nothing that is freely supplied by nature can be properly classed as capital. A fertile field, a rich vein of ore, a falling stream which supplies power, may give to the possessor advantages equivalent to the possession of capital, but to class such things as capital would be to put an end to the distinction between land and capital, and, so far as they relate to each other.

to make the two terms meaningless. The term labor, in like manner, includes all human exertion, and hence human powers whether natural or acquired can never properly be classed as capital. In common parlance we often speak of a man's knowledge, skill, or industry as constituting his capital; but this is evidently a metaphorical use of language that must be eschewed in reasoning that aims at exactness. Superiority in such qualities may augment the income of an individual just as capital would, and an increase in the knowledge, skill, or industry of a community may have the same effect in increasing its production as would an increase of capital; but this effect is due to the increased power of labor and not to capital. Increased velocity may give to the impact of a cannon ball the same effect as increased weight, yet, nevertheless, weight is one thing and velocity another.

Thus we must exclude from the category of capital everything that may be included either as land or labor. Doing so, there remain only things which are neither land nor labor, but which have resulted from the union of these two original factors of production. Nothing can be properly capital that does not consist of these—that is to say, nothing can be capital that is not wealth.

But it is from ambiguities in the use of this inclusive term wealth that many of the ambiguities which beset the term capital are derived.

As commonly used the word "wealth" is applied to anything having an exchange value. But when used as a term of political economy it must be limited to a much more definite meaning, because many things are commonly spoken of as wealth which in taking account of collective or general wealth cannot be considered as wealth at all. Such things have an exchange value, and are commonly spoken of as wealth, insomuch as they represent as between individuals, or between sets of individuals, the power of obtaining wealth; but they are not truly wealth, inasmuch as their increase or decrease does not affect the sum of wealth. Such are bonds, mortgages, promissory notes, bank bills, or other stipulations for the transfer of wealth. Such are slaves, whose value represents merely the power of one class to appropriate the earnings of another class. Such are lands, or other natural opportunities, the value of which is but the result of the acknowledgment in favor of certain persons of an exclusive right to their use, and which represents merely the power thus given to the owners to demand a share of the wealth produced by those who use them. Increase in the amount of bonds, mortgages, notes, or bank bills cannot increase the wealth of the community that includes as well those who promise to pay as those who are entitled to receive. The enslavement of a part of their number could not increase the wealth of a people, for what the enslavers gained the enslaved would lose. Increase in land values does not represent increase in the common wealth, for what land owners gain by higher prices, the tenants or purchasers who must pay them will lose. And all this relative wealth, which, in common thought and speech, in legislation and law, is undistinguished from actual wealth, could, without the destruction or consumption of anything more than a few drops of ink and a piece of paper, be utterly annihilated. By enactment of the sovereign political power debts might be canceled, slaves emancipated, and land resumed as the common property of the whole people, without the aggregate wealth being diminished by the value of a pinch of snuff, for what some would lose others would gain. There would be no more destruction of wealth than there was creation of wealth when Elizabeth Tudor enriched her favorite courtiers by the grant of monopolies, or when

Boris Godoonof made Russian peasants merchantable property.

All things which have an exchange value are, therefore, not wealth, in the only sense in which the term can be used in political economy. Only such things can be wealth the production of which increases and the destruction of which decreases the aggregate of wealth. If we consider what these things are, and what their nature is, we shall have no difficulty in defining wealth.

When we speak of a community increasing in wealth—as when we say that England has increased in wealth since the accession of Victoria, or that California is a wealthier country than when it was a Mexican territory—we do not mean to say that there is more land, or that the natural powers of the land are greater, or that there are more people, for when we wish to express that idea we speak of increase of population; or that the debts or dues owing by some of these people to others of their number have increased; but we mean that there is an increase of certain tangible things, having an actual and not merely a relative value—such as buildings, cattle, tools, machinery, agricultural and mineral products, manufactured goods, ships, wagons, furniture, and the like. The increase of such things constitutes an increase of wealth; their decrease is a lessening of wealth; and the community that, in proportion to its numbers, has most of such things is the wealthiest community. The common character of these things is that they consist of natural substances or products which have been adapted by human labor to human use or gratification, their value depending on the amount of labor which upon the average would be required to produce things of like kind.

Thus wealth, as alone the term can be used in political economy, 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. It is, in other words, labor impressed upon matter in such a way as to store up, as the heat of the sun is stored up in coal, the power of human labor to minister to human desires. Wealth is not the sole object of labor, for labor is also expended in ministering directly to desire; but it is the object and result of what we call productive labor—that is, labor which gives value to material things. Nothing which nature supplies to man without his labor is wealth, nor yet does the expenditure of labor result in wealth unless there is a tangible product which has and retains the power of ministering to desire.

Now, as capital is wealth devoted to a certain purpose, nothing can be capital which does not fall within this definition of wealth. By recognizing and keeping this in mind, we get rid of misconceptions which vitiate all reasoning in which they are permitted, which befog popular thought, and have led into mazes of contradiction even acute thinkers.

But though all capital is wealth, all wealth is not capital. Capital is only a part of wealth—that part, namely, which is devoted to the aid of production. It is in drawing this line between the wealth that is and the wealth that is not capital that a second class of misconceptions are likely to occur.

The errors which I have been pointing out, and which consist in confounding with wealth and capital things essentially distinct, or which have but a relative existence, are now merely vulgar errors. They are widespread, it is true, and have a deep root, being held, not merely by the less educated classes, but seemingly by a large majority of those who in such advanced countries as England and the United States mold and guide public opinion, make the laws in Parliaments, Congresses and Legislatures, and administer them in the courts. They crop out, moreover, in the disquisitions of many of those flabby writers who have burdened the press and darkened counsel by numerous volumes which are dubbed political economy, and which pass as text-books with the ignorant and as authority with those who do not think for themselves. Nevertheless, they are only vulgar errors, inasmuch as they receive no countenance from the best writers on political economy. By one of those lapses which flaw his great work and strikingly evince the imperfections of the highest talent, Adam Smith counts as capital certain personal qualities, an inclusion which is not consistent with his original definition of capital as stock from which revenue is expected. But this error has been avoided by his most eminent successors, and in the definitions, previously given, of Ricardo, McCulloch, and Mill, it is not involved. Neither in their definitions nor in that of Smith is involved the vulgar error which confounds as real capital things which are only relatively capital, such as evidences of debt, land values, etc. But as to things which are really wealth, their definitions differ from each other, and widely from that of Smith, as to what is and what is not to be considered as capital. The stock of a jeweler would, for instance, be included as capital by the definition of Smith, and the food or clothing in possession of a laborer would be excluded. But the definitions of Ricardo and McCulloch would exclude the stock of the jeweler, as would also that of Mill, if understood as most persons would understand the words I have quoted. But as explained by him, it is neither the nature nor the destination of the things themselves which determines whether they are or are not capital, but the intention of the owner to devote either the things or the value received from their sale to the supply of productive labor with tools, materials, and maintenance. All these definitions, however, agree in including as capital the provisions and clothing of the laborer, which Smith excludes.

Let us consider these three definitions, which represent the best teachings of current political economy:

To McCulloch's definition of capital as "all those portions of the produce of industry that may be directly employed either to support human existence or to facilitate production," there are obvious objections. One may pass along any principal street in a thriving town or city and see stores filled with all sorts of valuable things, which, though they cannot be employed either to support human existence or to facilitate production, undoubtedly constitute part of the capital of the storekeepers and part of the capital of the community. And he can also see products of industry capable of supporting human existence or facilitating production being consumed in ostentation or useless luxury. Surely these, though they might, *do not* constitute part of capital.

Ricardo's definition avoids including as capital things which might be but are not employed in production, by covering only such as are employed. But it is open to the first objection made to McCulloch's. If only wealth that may be, or that is, or that is destined to be, used in supporting producers, or assisting production, is capital, then the stocks of jewelers, toy dealers, tobacconists, confectioners, picture dealers, etc.—in fact, all stocks that consist of, and all stocks in so far as they consist of articles of luxury, are not capital.

If Mill, by remitting the distinction to the mind of the capitalist, avoids this difficulty (which does not seem to me clear), it is by making the distinction so vague that no power short of omniscience could tell in any given country at any given time what was and what was not capital.

But the great defect which these definitions have in common is that they include what clearly cannot be accounted capital, if any distinction is to be made between laborer and capitalist. For they bring into the category of capital the food, clothing, etc., in the possession of the day laborer, which he will consume whether he works or not, as well as the stock in the hands of the capitalist, with which he proposes to pay the laborer for his work.

Yet, manifestly, this is not the sense in which the term capital is used by these writers when they speak of labor and capital as taking separate parts in the work of production and separate shares in the distribution of its proceeds; when they speak of wages as drawn from capital, or as depending upon the ratio between labor and capital, or in any of the ways in which the term is generally used by them. In all these cases the term capital is used in its commonly understood sense, as that portion of wealth which its owners do not propose to use directly for their own gratification, but for the purpose of obtaining more wealth. In short, by political economists, in everything except their definitions and first principles, as well as by the world at large, "that part of a man's stock," to use the words of Adam Smith, "which he expects to afford him revenue is called his capital." This is the only sense in which the term capital expresses any fixed idea—the only sense in which we can with any clearness separate it from wealth and contrast it with labor. For, if we must consider as capital everything which supplies the laborer with food, clothing, shelter, etc., then to find a laborer who is not a capitalist we shall be forced to hunt up an absolutely naked man, destitute even of a sharpened stick, or of a burrow in the ground—a situation in which, save as the result of exceptional circumstances, human beings have never yet been found.

It seems to me that the variance and inexactitude in these definitions arise from the fact that the idea of what capital is has been deduced from a preconceived idea of how capital assists production. Instead of determining what capital is, and then observing what capital does, the functions of capital have first been assumed, and then a definition of capital made which includes all things which do or may perform those functions. Let us reverse this process, and, adopting the natural order, ascertain what the thing is before settling what it does. All we are trying to do, all that it is necessary to do, is to fix, as it were, the metes and bounds of a term that in the main is well apprehended—to make definite, that is, sharp and clear on its verges, a common idea.

If the articles of actual wealth existing at a given time in a given community were presented *in situ* to a dozen intelligent men who had never read a line of political economy, it is doubtful if they would differ in respect to a single item, as to whether it should be accounted capital or not. Money which its owner holds for use in his business or in speculation would be accounted capital; money set aside for household or personal expenses would not. That part of a farmer's crop held for sale or for seed, or to feed his help in part payment of wages, would be accounted capital; that held for the use of his own family would not be. The horses and carriage of a hackman would be classed as capital, but an equipage kept for the pleasure of its owner would not. So no one would think of counting as capital the false hair on the head of a woman, the cigar in the mouth of a smoker, or the toy with which a child is playing; but the stock of a hair dealer, of a tobacconist, or of the keeper of a toy store, would be unhesitatingly set down as capital. A coat which a tailor had made for sale would be accounted capital, but not the coat he had made for himself. Food in the possession of a hotel-keeper or a restaurateur would be accounted capital, but not the food in the pantry of a housewife, or in the lunch basket of a workman. Pig iron in the hands of the smelter, or founder, or dealer, would be accounted capital, but not the pig iron used as ballast in the hold of a yacht. The bellows of a blacksmith, the looms of a factory, would be capital, but not the sewing machine of a woman who does only her own work; a building let for hire, or used for business or productive purposes, but not a homestead. In short, I think we should find that now, as when Dr. Adam Smith wrote, "that part of a man's stock which he expects to yield him a revenue is called his capital." And, omitting his unfortunate slip as to personal qualities, and qualifying somewhat his enumeration of money, it is doubtful if we could better list the different articles of capital than did Adam Smith in the passage which in the previous part of this chapter I have condensed.

Now, if, after having thus separated the wealth that is capital from the wealth that is not capital, we look for the distinction between the two classes, we shall not find it to be as to the character, capabilities, or final destination of the things themselves, as has been vainly attempted to draw it; but it seems to me that we shall find it to be as to whether they are or are not in the possession of the consumer.* Such articles of wealth as in themselves, in their uses, or in their products, are

* Money may be said to be in the hands of the consumer when devoted to the procurement of gratification, as, though not in itself devoted to consumption, it represents wealth which is; and thus what in the previous paragraph I have given as the common classification would be covered by this distinction, and would be substantially correct. In speaking of money in this connection, I am of course speaking of coin, for although paper money may perform all the functions of coin, it is not wealth, and cannot therefore be capital.

yet to be exchanged are capital; such articles of wealth as are in the hands of the consumer are not capital. Hence, if we define capital as *wealth in course of exchange,* understanding exchange to include not merely the passing from hand to hand, but also such transmutations as occur when the reproductive or transforming forces of nature are utilized for the increase of wealth, we shall, I think, comprehend all the things that the general idea of capital properly includes, and shut out all it does not. Under this definition, it seems to me, for instance, will fall all such tools as are really capital. For it is as to whether its services or uses are to be exchanged or not which makes a tool an article of capital or merely an article of wealth. Thus, the lathe of a manufacturer used in making things which are to be exchanged is capital, while the lathe kept by a gentleman for his own amusement is not. Thus, wealth used in the construction of a railroad, a public telegraph line, a stage coach, a theater, a hotel, etc., may be said to be placed in the course of exchange. The exchange is not effected all at once, but little by little, with an indefinite number of people. Yet there is an exchange, and the "consumers" of the railroad, the telegraph line, the stage coach, theater or hotel, are not the owners, but the persons who from time to time use them.

Nor is this definition inconsistent with the idea that capital is that part of wealth devoted to production. It is too narrow an understanding of production which confines it merely to the making of things. Production includes not merely the making of things, but the bringing of them to the consumer. The merchant or storekeeper is thus as truly a producer as is the manufacturer, or farmer, and his stock or capital is as much devoted to production as is theirs. But it is not worth while now to dwell upon the functions of capital, which we shall be better able to determine hereafter. Nor is the definition of capital I have suggested of any importance. I am not writing a text-book, but only attempting to discover the laws which control a great social problem, and if the reader has been led to form a clear idea of what things are meant when we speak of capital my purpose is served.

But before closing this digression let me call attention to what is often forgotten—namely, that the terms "wealth," "capital," "wages," and the like, as used in political economy are abstract terms, and that nothing can be generally affirmed or denied of them that cannot be affirmed or denied of the whole class of things they represent. The failure to bear this in mind has led to much confusion of thought, and permits fallacies, otherwise transparent, to pass for obvious truths. Wealth being an abstract term, the idea of wealth, it must be remembered, involves the idea of exchangeability. The possession of wealth to a certain amount is potentially the possession of any or all species of wealth to that equivalent in exchange. And, consequently, so of capital.

CHAPTER III

WAGES NOT DRAWN FROM CAPITAL, BUT PRODUCED BY THE LABOR

The importance of this digression will, I think, become more and more apparent as we proceed in our inquiry, but its pertinency to the branch we are now engaged in may at once be seen.

It is at first glance evident that the economic meaning of the term wages is lost sight of, and attention is concentrated upon the common and narrow meaning of the word, when it is affirmed that wages are drawn from capital. For, in all those cases in which the laborer is his own employer and takes directly the produce of his labor as its reward, it is plain enough that wages are not drawn from capital, but result directly as the product of the labor. If, for instance, I devote my labor to gathering birds' eggs or picking wild berries, the eggs or berries I thus get are my wages. Surely no one will contend that in such a case wages are drawn from capital. There is no capital in the case. An absolutely naked man, thrown on an island where no human being has before trod, may gather birds' eggs or pick berries.

Or if I take a piece of leather and work it up into a pair of shoes, the shoes are my wages—the reward of my exertion. Surely they are not drawn from capital—either my capital or any one else's capital—but are brought into existence by the labor of which they become the wages; and in obtaining this pair of shoes as the wages of my labor, capital is not even momentarily lessened one iota. For, if we call in the idea of capital, my capital at the beginning consists of the piece of leather, the thread, etc. As my labor goes on, value is steadily added, until, when my labor results in the finished shoes, I have my capital plus the difference in value between the material and the shoes. In obtaining this additional value—my wages—how is capital at any time drawn upon?

Adam Smith, who gave the direction to economic thought that has resulted in the current elaborate theories of the relation between wages and capital, recognized the fact that in such simple cases as I have instanced, wages are the produce of labor, and thus begins his chapter upon the wages of labor (Chapter VIII):

> "*The produce of labor constitutes the natural recompense or wages of labor.* In that original state of things which precedes both the appropriation of land and the accumulation of stock, the whole produce of labor belongs to the laborer. He has neither landlord nor master to share with him."

Had the great Scotchman taken this as the initial point of his reasoning, and continued to regard the produce of labor as the natural wages of labor, and the landlord and master but as sharers, his conclusions would have been very different, and political economy to-day would not embrace such a mass of contradictions and absurdities; but instead of following the truth obvious in the simple modes of production as a clew through the perplexities of the more complicated forms, he momentarily recognizes it, only immediately to abandon it, and stating that "in every part of Europe twenty workmen serve under a master for one that is independent," he recommences the inquiry from a point of view in which the master is considered as providing from his capital the wages of his workmen.

It is evident that in thus placing the proportion of self-employing workmen as but one in twenty, Adam Smith had in mind but the mechanic arts, and that, including all laborers, the proportion who take their earnings directly, without the intervention of an employer, must, even in Europe a hundred years ago, have been much greater than this. For, besides the independent laborers who in every community exist in considerable numbers, the agriculture of large districts of Europe has, since the time of the Roman Empire, been carried on by the metayer system, under which the capitalist receives his return from the laborer instead of the laborer from the capitalist. At any rate, in the United States, where any general law of wages must apply as fully as in Europe, and where in spite of the advance of manufactures a very large part of the people are yet self-employing farmers, the proportion of laborers who get their wages through an employer must be comparatively small.

But it is not necessary to discuss the ratio in which self-employing laborers anywhere stand to hired laborers, nor is it necessary to multiply illustrations of the truism that where the laborer takes directly his wages they are the product of his labor, for as soon as it is realized that the term wages includes all the earnings of labor, as well when taken directly by the laborer in the results of his labor as when received from an employer, it is evident that the assumption that wages are drawn from capital, on which as a universal truth such a vast superstructure is in standard politico-economic treatises so unhesitatingly built, is at least in large part untrue, and the utmost that can with any plausibility be affirmed is that some wages (*i. e.*, wages received by the laborer from an employer) are drawn from capital. This restriction of the major premise at once invalidates all the deductions that are made from it; but without resting here, let us see whether even in this restricted sense it accords with the facts. Let us pick up the clew where Adam Smith dropped it, and advancing step by step, see whether the relation of facts which is obvious in the simplest forms of production does not run through the most complex.

Next in simplicity to "that original state of things," of which many examples may yet be found, where the whole produce of labor belongs to the laborer, is the arrangement in which the laborer, though working for another person, or with the capital of another person, receives his wages in kind—that is to say, in the things his labor produces. In this case it is as clear as in the case of the self-employing laborer that the wages are really drawn from the product of the labor, and not at all from capital. If I hire a man to gather eggs, to pick berries, or to make shoes, paying him from the eggs, the berries, or the shoes that his labor secures, there can be no question that the source of the wages is the labor for which they are paid. Of this form of hiring is the saer-and-daer stock tenancy, treated of with such perspicuity by Sir Henry Maine in his "Early History of Institutions," and which so clearly involved the relation of employer and employed as to render the acceptor of cattle the man or vassal of the capitalist who thus employed him. It was on such terms as these that Jacob worked for Laban, and to this day, even in civilized countries, it is not an infrequent mode of employing labor. The farming of land on shares, which prevails to a considerable extent in the Southern States of the Union and in California, the metayer system of Europe, as well as the many cases in which superintendents, salesmen, etc., are paid by a percentage of profits, what are they but the employment of labor for wages which consist of part of its produce?

The next step in the advance from simplicity to complexity is where the wages, though estimated in kind, are paid in an equivalent of something else. For instance, on American whaling ships the custom is not to pay fixed wages, but a "lay," or proportion of the catch, which varies from a sixteenth to a twelfth to the captain down to a three-hundredth to the cabin-boy. Thus, when a whaleship comes into New Bedford or San Francisco after a successful cruise, she carries in her hold the wages of her crew, as well as the profits of her owners, and an equivalent which will reimburse them for all the stores used up during the voyage. Can anything be clearer than that these wages—this oil and bone which the crew of the whaler have taken—have not been drawn from capital, but are really a part of the produce of their labor? Nor is this fact changed or obscured in the slightest degree where, as a matter of convenience, instead of dividing up between the crew their proportion of the oil and bone, the value of each man's share is estimated at the market price, and he is paid for it in money. The money is but the equivalent of the real wages, the oil and bone. In no way is there any advance of capital in this payment. The obligation to pay wages does not accrue until the value from which they are to be paid is brought into port. At the moment when the owner takes from his capital money to pay the crew he adds to his capital oil and bone.

So far there can be no dispute. Let us now take another step, which will bring us to the usual method of employing labor and paying wages.

The Farallone Islands, off the Bay of San Francisco, are a hatching ground of sea-fowl, and a company who claim these islands employ men in the proper season to collect the eggs. They might employ these men for a proportion of the eggs they gather, as is done in the whale fishery, and probably would do so if there were much uncertainty attending the business; but as the fowl are plentiful and tame, and about so many eggs can be gathered by so much labor, they find it more convenient to pay their men fixed wages. The men go out and remain on the islands, gathering the eggs and bringing them to a landing, whence, at intervals of a few days, they are taken in a small vessel to San Francisco and sold. When the season is over the men return and are paid their stipulated wages in coin. Does not this transaction amount to the same thing as if, instead of being paid in coin, the stipulated wages were paid in an equivalent of the eggs gathered? Does not the coin represent the eggs, by the sale of which it was obtained, and are not these wages as much the product of the labor for which they are paid as the eggs would be in the possession of a man who gathered them for himself without the intervention of any employer?

To take another example, which shows by reversion the identity of wages in money with wages in kind. In San Buenaventura lives a man who makes an excellent living by shooting for their oil and skins the common hair seals which frequent the islands forming the Santa Barbara Channel. When on these sealing expeditions he takes two or three Chinamen along to help him, whom at first he paid wholly in coin. But it seems that the Chinese highly value some of the organs of the seal, which they dry and pulverize for medicine, as well as the long hairs in the whiskers of the male seal, which, when over a certain length, they greatly esteem for some purpose that to outside barbarians is not very clear. And this man soon found that the Chinamen were very willing to take instead of money these parts of the seals killed, so that now, in large part, he thus pays them their wages.

Now, is not what may be seen in all these cases—the identity of wages in money with wages in kind—true of all cases in which wages are paid for productive labor? Is not the fund created by the labor really the fund from which the wages are paid?

It may, perhaps, be said: "There is this difference—where a man works for himself, or where, when working for an employer, he takes his wages in kind, his wages depend upon the result of his labor. Should that, from any misadventure, prove futile, he gets nothing. When he works for an employer, however, he gets his wages anyhow—they depend upon the performance of the labor, not upon the result of the labor." But this is evidently not a real distinction. For on the average, the labor that is rendered for fixed wages not only yields the amount of the wages, but more; else employers could make no profit. When wages are fixed, the employer takes the whole risk and is compensated for this assurance, for wages when fixed are always somewhat less than wages contingent. But though when fixed wages are stipulated the laborer who has performed his part of the contract has usually a legal claim upon the employer, it is frequently, if not generally, the case that the disaster which prevents the employer from reaping benefit from the labor prevents him from paying the wages. And in one important department of industry the employer is legally exempt in case of disaster, although the contract be for wages certain and not contingent. For the maxim of admiralty law is, that "freight is the mother of wages," and though the seaman may have performed his part, the disaster which prevents the ship from earning freight deprives him of claim for his wages.

In this legal maxim is embodied the truth for which I am contending. Production is always the mother of wages. Without production, wages would not and could not be. It is from the produce of labor, not from the advances of capital that wages come.

Wherever we analyze the facts this will be found to be true. For labor always precedes wages. This is as universally true of wages received by the laborer from an employer as it is of wages taken directly by the laborer who is his own employer. In the one class of cases as in the other, reward is conditioned upon exertion. Paid sometimes by the day, oftener by the week or month, occasionally by the year, and in many branches of production by the piece, the payment of wages by an employer to an employee always implies the previous rendering of labor by the employee for the benefit of the employer, for the few cases in which advance payments are made for personal services are evidently referable either to charity or to guarantee and purchase. The name "retainer," given to advance payments to lawyers, shows the true character of the transaction, as does the name "blood money" given in 'longshore vernacular to a payment which is nominally wages advanced to sailors, but which in reality is purchase money—both English and American law considering a sailor as much a chattel as a pig.

I dwell on this obvious fact that labor always precedes wages, because it is all-important to an understanding of the more complicated phenomena of wages that it should be kept in mind. And obvious as it is, as I have put it, the plausibility of the proposition that wages are drawn from capital—a proposition that is made the basis for such important and far-reaching deductions—comes in the first instance from a statement that ignores and leads the attention away from this truth. That statement is, that labor cannot exert its productive power unless supplied by capital with maintenance.* The unwary reader at once recognizes the fact that the laborer must have food, clothing, etc., in order

* Industry is limited by capital. . . . There can be no more industry than is supplied with materials to work up and food to

to enable him to perform the work, and having been told that the food, clothing, etc., used by productive laborers are capital, he assents to the conclusion that the consumption of capital is necessary to the application of labor, and from this it is but an obvious deduction that industry is limited by capital—that the demand for labor depends upon the supply of capital, and hence that wages depend upon the ratio between the number of laborers looking for employment and the amount of capital devoted to hiring them.

But I think the discussion in the previous chapter will enable any one to see wherein lies the fallacy of this reasoning—a fallacy which has entangled some of the most acute minds in a web of their own spinning. It is in the use of the term capital in two senses. In the primary proposition that capital is necessary to the exertion of productive labor, the term "capital" is understood as including all food, clothing, shelter, etc.; whereas, in the deductions finally drawn from it, the term is used in its common and legitimate meaning of wealth devoted, not to the immediate gratification of desire, but to the procurement of more wealth—of wealth in the hands of employers as distinguished from laborers. The conclusion is no more valid than it would be from the acceptance of the proposition that a laborer cannot go to work without his breakfast and some clothes, to infer that no more laborers can go to work

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eat. Self-evident as the thing is, it is often forgotten that the people of a country are maintained and have their wants supplied not by the produce of present labor, but of past. They consume what has been produced, not what is about to be produced. Now, of what has been produced a part only is allotted to the support of productive labor, and there will not and cannot be more of that labor than the portion so allotted (which is the capital of the country) can feed and provide with the materials and instruments of production.—*John Stuart Mill, Principles of Political Economy, Book I, Chap. V, Sec. I.*

than employers first furnish with breakfasts and clothes. Now, the fact is that laborers generally furnish their own breakfasts and the clothes in which they go to work; and the further fact is, that capital (in the sense in which the word is used in distinction to labor) in exceptional cases sometimes may, but is never compelled to make advances to labor before the work begins. Of all the vast number of unemployed laborers in the civilized world to-day, there is probably not a single one willing to work who could not be employed without any advance of wages. A great proportion would doubtless gladly go to work on terms which did not require the payment of wages before the end of a month; it is doubtful if there are enough to be called a class who would not go to work and wait for their wages until the end of the week, as most laborers habitually do; while there are certainly none who would not wait for their wages until the end of the day, or if you please, until the next meal hour. The precise time of the payment of wages is immaterial; the essential point —the point I lay stress on—is that it is *after* the performance of work.

The payment of wages, therefore, always implies the previous rendering of labor. Now, what does the rendering of labor in production imply? Evidently the production of wealth, which, if it is to be exchanged or used in production, is capital. Therefore, the payment of capital in wages pre-supposes a production of capital by the labor for which the wages are paid. And as the employer generally makes a profit, the payment of wages is, so far as he is concerned, but the return to the laborer of a portion of the capital he has received from the labor. So far as the employee is concerned, it is but the receipt of a portion of the capital his labor has previously produced. As the value paid in the wages is thus exchanged for a value brought into being by the labor, how can it be said that wages are drawn from capital or advanced by capital? As in the exchange of labor for wages the employer always gets the capital created by the labor before he pays out capital in the wages, at what point is his capital lessened even temporarily? *

Bring the question to the test of facts. Take, for instance, an employing manufacturer who is engaged in turning raw material into finished products—cotton into cloth, iron into hardware, leather into boots, or so on, as may be, and who pays his hands, as is generally the case, once a week. Make an exact inventory of his capital on Monday morning before the beginning of work, and it will consist of his buildings, machinery, raw materials, money on hand, and finished products in stock. Suppose, for the sake of simplicity, that he neither buys nor sells during the week, and after work has stopped and he has paid his hands on Saturday night, take a new inventory of his capital. The item of money will be less, for it has been paid out in wages; there will be less raw material, less coal, etc., and a proper deduction must be made from the value of the buildings and machinery for the week's wear and tear. But if he is doing a remunerative business, which must

* I speak of labor producing capital for the sake of greater clearness. What labor always procures is either wealth, which may or may not be capital, or services, the cases in which nothing is obtained being merely exceptional cases of misadventure. Where the object of the labor is simply the gratification of the employer, as where I hire a man to black my boots, I do not pay the wages from capital, but from wealth which I have devoted, not to reproductive uses, but to consumption for my own satisfaction. Even if wages thus paid be considered as drawn from capital, then by that act they pass from the category of capital to that of wealth devoted to the gratification of the possessor, as when a cigar dealer takes a dozen cigars from the stock he has for sale and puts them in his pocket for his own use.

on the average be the case, the item of finished products will be so much greater as to compensate for all these deficiencies and show in the summing up an increase of capital. Manifestly, then, the value he paid his hands in wages was not drawn from his capital, or from any one else's capital. It came, not from capital, but from the value created by the labor itself. There was no more advance of capital than if he had hired his hands to dig clams, and paid them with a part of the clams they dug. Their wages were as truly the produce of their labor as were the wages of the primitive man, when, long "before the appropriation of land and the accumulation of stock," he obtained an oyster by knocking it with a stone from the rocks.

As the laborer who works for an employer does not get his wages until he has performed the work, his case is similar to that of the depositor in a bank who cannot draw money out until he has put money in. And as by drawing out what he has previously put in, the bank depositor does not lessen the capital of the bank, neither can laborers by receiving wages lessen even temporarily either the capital of the employer or the aggregate capital of the community. Their wages no more come from capital than the checks of depositors are drawn against bank capital. It is true that laborers in receiving wages do not generally receive back wealth in the same form in which they have rendered it, any more than bank depositors receive back the identical coins or bank notes they have deposited, but they receive it in equivalent form, and as we are justified in saying that the depositor receives from the bank the money he paid in, so are we justified in saying that the laborer receives in wages the wealth he has rendered in labor.

That this universal truth is so often obscured, is largely due to that fruitful source of economic obscurities, the confounding of wealth with money; and it is remarkable to see so many of those who, since Dr. Adam Smith made the egg stand on its head, have copiously demonstrated the fallacies of the mercantile system, fall into delusions of the very same kind in treating of the relations of capital and labor. Money being the general medium of exchanges, the common flux through which all transmutations of wealth from one form to another take place, whatever difficulties may exist to an exchange will generally show themselves on the side of reduction to money, and thus it is sometimes easier to exchange money for any other form of wealth than it is to exchange wealth in a particular form into money, for the reason that there are more holders of wealth who desire to make some exchange than there are who desire to make any particular exchange. And so a producing employer who has paid out his money in wages may sometimes find it difficult to turn quickly back into money the increased value for which his money has really been exchanged, and is spoken of as having exhausted or advanced his capital in the payment of wages. Yet, unless the new value created by the labor is less than the wages paid, which can be only an exceptional case, the capital which he had before in money he now has in goods—it has been changed in form, but not lessened.

There is one branch of production in regard to which the confusions of thought which arise from the habit of estimating capital in money are least likely to occur, inasmuch as its product is the general material and standard of money. And it so happens that this business furnishes us, almost side by side, with illustrations of production passing from the simplest to most complex forms.

In the early days of California, as afterward in Australia, the placer miner, who found in river bed or surface deposit the glittering particles which the slow processes of nature had for ages been accumulating, picked up or washed out his "wages" (so, too, he called them) in actual money, for coin being scarce, gold dust passed as currency by weight, and at the end of the day had his wages in money in a buckskin bag in his pocket. There can be no dispute as to whether these wages came from capital or not. They were manifestly the produce of his labor. Nor could there be any dispute when the holder of a specially rich claim hired men to work for him and paid them off in the identical money which their labor had taken from gulch or bar. As coin became more abundant, its greater convenience in saving the trouble and loss of weighing assigned gold dust to the place of a commodity, and with coin obtained by the sale of the dust their labor had procured, the employing miner paid off his hands. Where he had coin enough to do so, instead of selling his gold dust at the nearest store and paying a dealer's profit, he retained it until he got enough to take a trip, or send by express to San Francisco, where at the mint he could have it turned into coin without charge. While thus accumulating gold dust he was lessening his stock of coin; just as the manufacturer, while accumulating a stock of goods, lessens his stock of money. Yet no one would be obtuse enough to imagine that in thus taking in gold dust and paying out coin the miner was lessening his capital.

But the deposits that could be worked without preliminary labor were soon exhausted, and gold mining rapidly took a more elaborate character. Before claims could be opened so as to yield any return deep shafts had to be sunk, great dams constructed, long tunnels cut through the hardest rock, water brought for miles over mountain ridges and across deep valleys, and expensive machinery put up. These works could not be constructed without capital. Sometimes their construction required years, during which no return could be hoped for, while the men employed had to be paid their wages every week, or every month. Surely, it will be said, in such cases, even if in no others, that wages do actually come from capital; are actually advanced by capital; and must necessarily lessen capital in their payment! Surely here, at least, industry is limited by capital, for without capital such works could not be carried on! Let us see:

It is cases of this class that are always instanced as showing that wages are advanced from capital. For where wages are paid before the object of the labor is obtained, or is finished—as in agriculture, where plowing and sowing must precede by several months the harvesting of the crop; as in the erection of buildings, the construction of ships, railroads, canals, etc.—it is clear that the owners of the capital paid in wages cannot expect an immediate return, but, as the phrase is, must "outlay it," or "lie out of it" for a time, which sometimes amounts to many years. And hence, if first principles are not kept in mind, it is easy to jump to the conclusion that wages are advanced by capital.

But such cases will not embarrass the reader to whom in what has preceded I have made myself clearly understood. An easy analysis will show that these instances where wages are paid before the product is finished, or even produced, do not afford any exception to the rule apparent where the product is finished before wages are paid.

If I go to a broker to exchange silver for gold, I lay down my silver, which he counts and puts away, and then hands me the equivalent in gold, minus his commission. Does the broker advance me any capital? Manifestly not. What he had before in gold he now has in silver, plus his profit. And as he got the silver before he paid out the gold, there is on his part not even momentarily an advance of capital.

Now, this operation of the broker is precisely analogous to what the capitalist does, when, in such cases as we are now considering, he pays out capital in wages. As the rendering of labor precedes the payment of wages, and as the rendering of labor in production implies the creation of value, the employer receives value before he pays out value—he but exchanges capital of one form for capital of another form. For the creation of value does not depend upon the finishing of the product; it takes place at every stage of the process of production, as the immediate result of the application of labor, and hence, no matter how long the process in which it is engaged, labor always adds to capital by its exertion before it takes from capital in its wages.

Here is a blacksmith at his forge making picks. Clearly he is making capital—adding picks to his employer's capital before he draws money from it in wages. Here is a machinist or boilermaker working on the keel-plates of a Great Eastern. Is not he also just as clearly creating value—making capital? The giant steamship, as the pick, is an article of wealth, an instrument of production, and though the one may not be completed for years, while the other is completed in a few minutes, each day's work, in the one case as in the other, is as clearly a production of wealth—an addition to capital. In the case of the steamship, as in the case of the pick, it is not the last blow, any more than the first blow, that creates the value of the finished product—the creation of value is continuous, it immediately results from the exertion of labor.

We see this very clearly wherever the division of labor has made it customary for different parts of the full process of production to be carried on by different sets of producers—that is to say, wherever we are in the habit of estimating the amount of value which the labor expended in any preparatory stage of production has created. And a moment's reflection will show that this is the case as to the vast majority of products. Take a ship, a building, a jack-knife, a book, a lady's thimble or a loaf of bread. They are finished products. But they were not produced at one operation or by one set of producers. And this being the case, we readily distinguish different points or stages in the creation of the value which as completed articles they represent. When we do not distinguish different parts in the final process of production we do distinguish the value of the materials. The value of these materials may often be again decomposed many times, exhibiting as many clearly defined steps in the creation of the final value. At each of these steps we habitually estimate a creation of value, an addition to capital. The batch of bread which the baker is taking from the oven has a certain value. But this is composed in part of the value of the flour from which the dough was made. And this again is composed of the value of the wheat, the value given by milling, etc. Iron in the form of pigs is very far from being a completed product. It must yet pass through several, or, perhaps, through many, stages of production before it results in the finished articles that were the ultimate objects for which the iron ore was extracted from the mine. Yet, is not pig iron capital? And so the process of production is not really completed when a crop of cotton is gathered, nor yet when it is ginned and pressed; nor yet when it arrives at Lowell or Manchester; nor yet when it is converted into yarn; nor yet when it becomes cloth; but only when it is finally placed in the hands of the consumer. Yet at each step in this progress there is clearly enough a creation of value—an addition to capital. Why, therefore, although we do not so habitually distinguish and estimate it, is there not a creation of value—an addition to capital—when the ground is plowed for the crop? Is it because it may possibly be a bad season and the crop may fail? Evidently not; for a like possibility of misadventure attends every one of the many steps in the production of the finished article. On the average a crop is sure to come up, and so much plowing and sowing will on the average result in so much cotton in the boll, as surely as so much spinning of cotton yarn will result in so much cloth.

In short, as the payment of wages is always conditioned upon the rendering of labor, the payment of wages in production, no matter how long the process, never involves any advance of capital, or even temporarily lessens capital. It may take a year, or even years, to build a ship, but the creation of value of which the finished ship will be the sum goes on day by day, and hour by hour, from the time the keel is laid or even the ground is cleared. Nor by the payment of wages before the ship is completed, does the master builder lessen either his capital or the capital of the community, for the value of the partially completed ship stands in place of the value paid out in wages. There is no advance of capital in this payment of wages, for the labor of the workmen during the week or month creates and renders to the builder more capital than is paid back to them at the end of the week or month, as is shown by the fact that if the builder were at any stage of the construction asked to sell a partially completed ship he would expect a profit.

And so, when a Sutro or St. Gothard tunnel or a Suez canal is cut, there is no advance of capital. The tunnel or canal, as it is cut, becomes capital as much as the money spent in cutting it—or, if you please, the powder, drills, etc., used in the work, and the food, clothes, etc., used by the workmen—as is shown by the fact that the value of the capital stock of the company is not lessened as capital in these forms is gradually changed into capital in the form of tunnel or canal. On the contrary, it probably, and on the average, increases as the work progresses, just as the capital invested in a speedier mode of production would on the average increase.

And this is obvious in agriculture also. That the creation of value does not take place all at once when the crop is gathered, but step by step during the whole process which the gathering of the crop concludes, and that no payment of wages in the interim lessens the farmer's capital, is tangible enough when land is sold or rented during the process of production, as a plowed field will bring more than an unplowed field, or a field that has been sown more than one merely plowed. It is tangible enough when growing crops are sold, as is sometimes done, or where the farmer does not harvest himself, but lets a contract to the owner of harvesting machinery. It is tangible in the case of orchards and vineyards which, though not yet in bearing, bring prices proportionate to their age. It is tangible in the case of horses, cattle and sheep, which increase in value as they grow toward maturity. And if not always tangible between what may be called the usual exchange points in production, this increase of value as surely takes place with every exertion of labor. Hence, where labor is rendered before wages are paid, the advance of capital is really made by labor, and is from the employed to the employer, not from the employer to the employed.

"Yet," it may be said, "in such cases as we have been considering capital is required!" Certainly; I do not dispute that. But it is not required in order to make advances to labor. It is required for quite another purpose. What that purpose is we may readily see.

When wages are paid in kind—that is to say, in wealth of the same species as the labor produces; as, for instance, if I hire men to cut wood, agreeing to give them as wages a portion of the wood they cut, a method sometimes adopted by the owners or lessees of woodland, it is evident that no capital is required for the payment of wages. Nor yet when, for the sake of mutual convenience, arising from the fact that a large quantity of wood can be more readily and more advantageously exchanged than a number of small quantities, I agree to pay wages in money, instead of wood, shall I need any capital, provided I can make the exchange of the wood for money before the wages are due. It is only when I cannot make such an exchange, or such an advantageous exchange as I desire, until I accumulate a large quantity of wood that I shall need capital. Nor even then shall I need capital if I can make a partial or tentative exchange by borrowing on my wood. If I cannot, or do not choose, either to sell the wood or to borrow upon it, and yet wish to go ahead accumulating a large stock of wood, I shall need capital. But manifestly, I need this capital, not for the payment of wages, but for the accumulation of a stock of wood. Likewise in cutting a tunnel. If the workmen were paid in tunnel (which, if convenient, might easily be done by paying them in stock of the company), no capital for the payment of wages would be required. It is only when the undertakers wish to accumulate capital in the shape of a tunnel that they will need capital. To recur to our first illustration: The broker to whom I sell my silver cannot carry on his business without capital. But he does not need this capital because he makes any advance of capital to me when he receives my silver and hands me gold. He needs it because the nature of the business requires the keeping of a certain amount of capital on hand, in order that when a customer comes he may be prepared to make the exchange the customer desires.

And so we shall find it in every branch of production. Capital has never to be set aside for the payment of wages when the produce of the labor for which the wages are paid is exchanged as soon as produced; it is only required when this produce is stored up, or what is to the individual the same thing, placed in the general current of exchanges without being at once drawn against—that is, sold on credit. But the capital thus required is not required for the payment of wages, nor for advances to labor, as it is always represented in the produce of the labor. It is never as an employer of labor that any producer needs capital; when he does need capital, it is because he is not only an employer of labor, but a merchant or speculator in, or an accumulator of, the products of labor. This is generally the case with employers.

To recapitulate: The man who works for himself gets his wages in the things he produces, as he produces them, and exchanges this value into another form whenever he sells the produce. The man who works for another for stipulated wages in money works under a contract of exchange. He also creates his wages as he renders his labor, but he does not get them except at stated times, in stated amounts, and in a different form. In performing the labor he is advancing in exchange; when he gets his wages the exchange is completed. During the time he is earning the wages he is advancing capital to his employer, but at no time, unless wages are paid before work is done, is the employer advancing capital to him. Whether the employer who receives this produce in exchange for the wages immediately re-exchanges it, or keeps it for awhile, no more alters the character of the transaction than does the final disposition of the product made by the ultimate receiver, who may, perhaps, be in another quarter of the globe and at the end of a series of exchanges numbering hundreds.

CHAPTER IV

THE MAINTENANCE OF LABORERS NOT DRAWN FROM CAPITAL

But a stumbling block may yet remain, or may recur, in the mind of the reader.

As the plowman cannot eat the furrow, nor a partially completed steam engine aid in any way in producing the clothes the machinist wears, have I not, in the words of John Stuart Mill, "forgotten that the people of a country are maintained and have their wants supplied, not by the produce of present labor, but of past?" Or, to use the language of a popular elementary work—that of Mrs. Fawcett—have I not "forgotten that many months must elapse between the sowing of the seed and the time when the produce of that seed is converted into a loaf of bread," and that "it is, therefore, evident that laborers cannot live upon that which their labor is assisting to produce, but are maintained by that wealth which their labor, or the labor of others, has previously produced, which wealth is capital?" *

The assumption made in these passages—the assumption that it is so self-evident that labor must be subsisted from capital that the proposition has but to be stated to compel recognition—runs through the whole fabric of current political economy. And so confidently is it held that the maintenance of labor is drawn from capi-

* Political Economy for Beginners, by Millicent Garrett Fawcett, Chap. III, p. 25.

tal that the proposition that "population regulates itself by the funds which are to employ it, and, therefore, always increases or diminishes with the increase or diminution of capital," * is regarded as equally axiomatic, and in its turn made the basis of important reasoning.

Yet being resolved, these propositions are seen to be, not self-evident, but absurd; for they involve the idea that labor cannot be exerted until the products of labor are saved—thus putting the product before the producer.

And being examined, they will be seen to derive their apparent plausibility from a confusion of thought.

I have already pointed out the fallacy, concealed by an erroneous definition, which underlies the proposition that because food, raiment and shelter are necessary to productive labor, therefore industry is limited by capital. To say that a man must have his breakfast before going to work is not to say that he cannot go to work unless a capitalist furnishes him with a breakfast, for his breakfast may, and in point of fact in any country where there is not actual famine will, come not from wealth set apart for the assistance of production, but from wealth set apart for subsistence. And, as has been previously shown, food, clothing, etc.—in short, all articles of wealth—are only capital so long as they remain in the possession of those who propose, not to consume, but to exchange them for other commodities or for productive services, and cease to be capital when they pass into the possession of those who will consume them; for in that transaction they pass from the stock of wealth held for the purpose of procuring other wealth, and pass into the stock of wealth held for purposes of gratification, irrespective of whether their consumption will aid in the production of wealth or not. Unless this distinc-

* The words quoted are Ricardo's (Chap. II); but the idea is common in standard works.

tion is preserved it is impossible to draw the line between the wealth that is capital and the wealth that is not capital, even by remitting the distinction to the "mind of the possessor," as does John Stuart Mill. For men do not eat or abstain, wear clothes or go naked, as they propose to engage in productive labor or not. They eat because they are hungry, and wear clothes because they would be uncomfortable without them. Take the food on the breakfast table of a laborer who will work or not that day as he gets the opportunity. If the distinction between capital and non-capital be the support of productive labor, is this food capital or not? It is as impossible for the laborer himself as for any philosopher of the Ricardo-Mill school to tell. Nor yet can it be told when it gets into his stomach; nor, supposing that he does not get work at first, but continues the search, can it be told until it has passed into the blood and tissues. Yet the man will eat his breakfast all the same.

But, though it would be logically sufficient, it is hardly safe to rest here and leave the argument to turn on the distinction between wealth and capital. Nor is it necessary. It seems to me that the proposition that present labor must be maintained by the produce of past labor will upon analysis prove to be true only in the sense that the afternoon's labor must be performed by the aid of the noonday meal, or that before you eat the hare he must be caught and cooked. And this, manifestly, is not the sense in which the proposition is used to support the important reasoning that is made to hinge upon it. That sense is, 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 laborers during the process. Let us see if this be true:

The canoe which Robinson Crusoe made with such infinite toil and pains was a production in which his labor could not yield an immediate return. But was it necessary that, before he commenced, he should accumulate a stock of food sufficient to maintain him while he felled the tree, hewed out the canoe, and finally launched her into the sea? Not at all. It was necessary only that he should devote part of his time to the procurement of food while he was devoting part of his time to the building and launching of the canoe. Or supposing a hundred men to be landed, without any stock of provisions, in a new country. Will it be necessary for them to accumulate a season's stock of provisions before they can begin to cultivate the soil? Not at all. It will be necessary only that fish, game, berries, etc., shall be so abundant that the labor of a part of the hundred may suffice to furnish daily enough of these for the maintenance of all, and that there shall be such a sense of mutual interest, or such a correlation of desires, as shall lead those who in the present get the food to divide (exchange) with those whose efforts are directed to future recompense.

What is true in these cases is true in all cases. It is not necessary to the production of things that cannot be used as subsistence, or cannot be immediately utilized, that there should have been a previous production of the wealth required for the maintenance of the laborers while the production is going on. It is only necessary that there should be, somewhere within the circle of exchange, a contemporaneous production of sufficient subsistence for the laborers, and a willingness to exchange this subsistence for the thing on which the labor is being bestowed.

And as a matter of fact, is it not true, in any normal condition of things, that consumption is supported by contemporaneous production?

Here is a luxurious idler, who does no productive work either with head or hand, but lives, we say, upon wealth which his father left him securely invested in government bonds. Does his subsistence, as a matter of fact, come from wealth accumulated in the past or from the productive labor that is going on around him? On his table are new-laid eggs, butter churned but a few days before, milk which the cow gave this morning, fish which twenty-four hours ago were swimming in the sea, meat which the butcher boy has just brought in time to be cooked, vegetables fresh from the garden, and fruit from the orchard—in short, hardly anything that has not recently left the hand of the productive laborer (for in this category must be included transporters and distributors as well as those who are engaged in the first stages of production), and nothing that has been produced for any considerable length of time, unless it may be some bottles of old wine. What this man inherited from his father, and on which we say he lives, is not actually wealth at all, but only the power of commanding wealth as others produce it. And it is from this contemporaneous production that his subsistence is drawn.

The fifty square miles of London undoubtedly contain more wealth than within the same space anywhere else exists. Yet were productive labor in London absolutely to cease, within a few hours people would begin to die like rotten sheep, and within a few weeks, or at most a few months, hardly one would be left alive. For an entire suspension of productive labor would be a disaster more dreadful than ever yet befell a beleaguered city. It would not be a mere external wall of circumvallation, such as Titus drew around Jerusalem, which would prevent the constant incoming of the supplies on which a great city lives, but it would be the drawing of a similar wall around each household. Imagine such a suspension of labor in any community, and you will see how true it is that mankind really live from hand to mouth; that it is the daily labor of the community that supplies the community with its daily bread.

Just as the subsistence of the laborers who built the Pyramids was drawn not from a previously hoarded stock, but from the constantly recurring crops of the Nile Valley; just as a modern government when it undertakes a great work of years does not appropriate to it wealth already produced, but wealth yet to be produced, which is taken from producers in taxes as the work progresses; so it is that the subsistence of the laborers engaged in production which does not directly yield subsistence comes from the production of subsistence in which others are simultaneously engaged.

If we trace the circle of exchange by which work done in the production of a great steam engine secures to the worker bread, meat, clothes and shelter, we shall find that though between the laborer on the engine and the producers of the bread, meat, etc., there may be a thousand intermediate exchanges, the transaction, when reduced to its lowest terms, really amounts to an exchange of labor between him and them. Now the cause which induces the expenditure of the labor on the engine is evidently that some one who has power to give what is desired by the laborer on the engine wants in exchange an engine—that is to say, there exists a demand for an engine on the part of those producing bread, meat, etc., or on the part of those who are producing what the producers of the bread, meat, etc., desire. It is this demand which directs the labor of the machinist to the production of the engine, and hence, reversely, the demand of the machinist for bread, meat, etc., really directs an equivalent amount of labor to the production of these things, and thus his labor, actually exerted in the production of the engine, virtually produces the things in which he expends his wages.

Or, to formularize this principle:

The demand for consumption determines the direction in which labor will be expended in production.

This principle is so simple and obvious that it needs no further illustration, yet in its light all the complexities of our subject disappear, and we thus reach the same view of the real objects and rewards of labor in the intricacies of modern production that we gained by observing in the first beginnings of society the simpler forms of production and exchange. We see that now, as then, each laborer is endeavoring to obtain by his exertions the satisfaction of his own desires; we see that although the minute division of labor assigns to each producer the production of but a small part, or perhaps nothing at all, of the particular things he labors to get, yet, in aiding in the production of what other producers want, he is directing other labor to the production of the things he wants—in effect, producing them himself. And thus, if he make jack-knives and eat wheat, the wheat is really as much the produce of his labor as if he had grown it for himself and left wheat-growers to make their own jack-knives.

We thus see how thoroughly and completely true it is, that in whatever is taken or consumed by laborers in return for labor rendered, there is no advance of capital to the laborers. If I have made jack-knives, and with the wages received have bought wheat, I have simply exchanged jack-knives for wheat—added jack-knives to the existing stock of wealth and taken wheat from it. And as the demand for consumption determines the direction in which labor will be expended in production, it cannot even be said, so long as the limit of wheat production has not been reached, that I have lessened the stock of wheat, for, by placing jack-knives in the exchangeable stock of wealth and taking wheat out, I have determined labor at the other end of a series of exchanges to the production of wheat, just as the wheat grower, by putting in wheat and demanding jack-knives, determined labor to the production of jack-knives, as the easiest way by which wheat could be obtained.

And so the man who is following the plow—though the crop for which he is opening the ground is not yet sown, and after being sown will take months to arrive at maturity—he is yet, by the exertion of his labor in plowing, virtually producing the food he eats and the wages he receives. For, though plowing is but a part of the operation of producing a crop, it *is* a part, and as necessary a part as harvesting. The doing of it is a step toward procuring a crop, which, by the assurance which it gives of the future crop, sets free from the stock constantly held the subsistence and wages of the plowman. This is not merely theoretically true, it is practically and literally true. At the proper time for plowing, let plowing cease. Would not the symptoms of scarcity at once manifest themselves without waiting for the time of the harvest? Let plowing cease, and would not the effect at once be felt in counting-room, and machine shop, and factory? Would not loom and spindle soon stand as idle as the plow? That this would be so, we see in the effect which immediately follows a bad season. And if this would be so, is not the man who plows really producing his subsistence and wages as much as though during the day or week his labor actually resulted in the things for which his labor is exchanged?

As a matter of fact, where there is labor looking for employment, the want of capital does not prevent the owner of land which promises a crop for which there is a demand from hiring it. Either he makes an agreement to cultivate on shares, a common method in some parts of the United States, in which case the laborers, if they are without means of subsistence, will, on the strength of the work they are doing, obtain credit at the nearest store; or, if he prefers to pay wages, the farmer will himself obtain credit, and thus the work done in cultivation is immediately utilized or exchanged as it is done. If anything more will be used up than would be used up if the laborers were forced to beg instead of to work (for in any civilized country during a normal condition of things the laborers must be supported anyhow), it will be the reserve capital drawn out by the prospect of replacement, and which is in fact replaced by the work as it is done. For instance, in the purely agricultural districts of Southern California there was in 1877 a total failure of the crop, and of millions of sheep nothing remained but their bones. In the great San Joaquin Valley were many farmers without food enough to support their families until the next harvest time, let alone to support any laborers. But the rains came again in proper season, and these very farmers proceeded to hire hands to plow and to sow. For every here and there was a farmer who had been holding back part of his crop. As soon as the rains came he was anxious to sell before the next harvest brought lower prices, and the grain thus held in reserve, through the machinery of exchanges and advances, passed to the use of the cultivators—set free, in effect produced, by the work done for the next crop.

The series of exchanges which unite 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 produce of their labor.

CHAPTER V

THE REAL FUNCTIONS OF CAPITAL

It may now be asked, If capital is not required for the payment of wages or the support of labor during production, what, then, are its functions?

The previous examination has made the answer clear. Capital, as we have seen, consists of wealth used for the procurement of more wealth, as distinguished from wealth used for the direct satisfaction of desire; or, as I think it may be defined, of wealth in the course of exchange.

Capital, therefore, increases the power of labor to produce wealth: (1) By enabling labor to apply itself in more effective ways, as by digging up clams with a spade instead of the hand, or moving a vessel by shoveling coal into a furnace, instead of tugging at an oar. (2) By enabling labor to avail itself of the reproductive forces of nature, as to obtain corn by sowing it, or animals by breeding them. (3) By permitting the division of labor, and thus, on the one hand, increasing the efficiency of the human factor of wealth, by the utilization of special capabilities, the acquisition of skill, and the reduction of waste; and, on the other, calling in the powers of the natural factor at their highest, by taking advantage of the diversities of soil, climate and situation, so as to obtain each particular species of wealth where nature is most favorable to its production.

Capital does not supply the materials which labor works up into wealth, as is erroneously taught; the materials of wealth are supplied by nature. But such materials partially worked up and in the course of exchange are capital.

Capital does not supply or advance wages, as is erroneously taught. Wages are that part of the produce of his labor obtained by the laborer.

Capital does not maintain laborers during the progress of their work, as is erroneously taught. Laborers are maintained by their labor, the man who produces, in whole or in part, anything that will exchange for articles of maintenance, virtually producing that maintenance.

Capital, therefore, does not limit industry, as is erroneously taught, the only limit to industry being the access to natural material. But capital may limit the form of industry and the productiveness of industry, by limiting the use of tools and the division of labor.

That capital may limit the form of industry is clear. Without the factory, there could be no factory operatives; without the sewing machine, no machine sewing; without the plow, no plowman; and without a great capital engaged in exchange, industry could not take the many special forms which are concerned with exchanges. It is also as clear that the want of tools must greatly limit the productiveness of industry. If the farmer must use the spade because he has not capital enough for a plow, the sickle instead of the reaping machine, the flail instead of the thresher; if the machinist must rely upon the chisel for cutting iron; the weaver on the hand loom, and so on, the productiveness of industry cannot be a tithe of what it is when aided by capital in the shape of the best tools now in use. Nor could the division of labor go further than the very rudest and almost imperceptible beginnings, nor the exchanges which make it possible extend beyond the nearest neighbors, unless a portion of the things produced were constantly kept in stock or in transit. Even the pursuits of hunting, fishing, gathering nuts, and making weapons could not be specialized so that an individual could devote himself to any one, unless some part of what was procured by each was reserved from immediate consumption, so that he who devoted himself to the procurement of things of one kind could obtain the others as he wanted them, and could make the good luck of one day supply the shortcomings of the next. While to permit the minute subdivision of labor that is characteristic of, and necessary to, high civilization, a great amount of wealth of all descriptions must be constantly kept in stock or in transit. To enable the resident of a civilized community to exchange his labor at option with the labor of those around him and with the labor of men in the most remote parts of the globe, there must be stocks of goods in warehouses, in stores, in the holds of ships, and in railway cars, just as to enable the denizen of a great city to draw at will a cupful of water, there must be thousands of millions of gallons stored in reservoirs and moving through miles of pipe.

But to say that capital may limit the form of industry or the productiveness of industry is a very different thing from saying that capital limits industry. For the dictum of the current political economy that "capital limits industry," means not that capital limits the form of labor or the productiveness of labor, but that it limits the exertion of labor. This proposition derives its plausibility from the assumption that capital supplies labor with materials and maintenance—an assumption that we have seen to be unfounded, and which is indeed transparently preposterous the moment it is remembered that capital is produced by labor, and hence that there must be labor before there can be capital. Capital may limit the form of industry and the productiveness of industry; but this is not to say that there could be no industry without capital, any more than it is to say that without the power loom there could be no weaving; without the sewing machine no sewing; no cultivation without the plow; or that in a community of one, like that of Robinson Crusoe, there could be no labor because there could be no exchange.

And to say that capital *may* limit the form and productiveness of industry is a different thing from saying that capital *does*. For the cases in which it can be truly said that the form of productiveness of the industry of a community is limited by its capital, will, I think, appear upon examination to be more theoretical than real. It is evident that in such a country as Mexico or Tunis the larger and more general use of capital would greatly change the forms of industry and enormously increase its productiveness; and it is often said of such countries that they need capital for the development of their resources. But is there not something back of this—a want which includes the want of capital? Is it not the rapacity and abuses of government, the insecurity of property, the ignorance and prejudice of the people, that prevent the accumulation and use of capital? Is not the real limitation in these things, and not in the want of capital, which would not be used even if placed there? We can, of course, imagine a community in which the want of capital would be the only obstacle to an increased productiveness of labor, but it is only by imagining a conjunction of conditions that seldom, if ever, occurs, except by accident or as a passing phase. A community in which capital has been swept away by war, conflagration, or convulsion of nature, and, possibly, a community composed of civilized people just settled in a new land, seem to me to furnish the only examples. Yet how quickly the capital habitually used is reproduced in a community that has been swept by war, has long been noticed, while the rapid production of the capital it can, or is disposed to use, is equally noticeable in the case of a new community.

I am unable to think of any other than such rare and passing conditions in which the productiveness of labor is really limited by the want of capital. For, although there may be in a community individuals who from want of capital cannot apply their labor as efficiently as they would, yet so long as there is a sufficiency of capital in the community at large, the real limitation is not the want of capital, but the want of its proper distribution. If bad government rob the laborer of his capital, if unjust laws take from the producer the wealth with which he would assist production, and hand it over to those who are mere pensioners upon industry, the real limitation to the effectiveness of labor is in misgovernment, and not in want of capital. And so of ignorance, or custom, or other conditions which prevent the use of capital. It is they, not the want of capital, that really constitute the limitation. To give a circular saw to a Terra del Fuegan, a locomotive to a Bedouin Arab, or a sewing machine to a Flathead squaw, would not be to add to the efficiency of their labor. Neither does it seem possible by giving anything else to add to their capital, for any wealth beyond what they had been accustomed to use as capital would be consumed or suffered to waste. It is not the want of seeds and tools that keeps the Apache and the Sioux from cultivating the soil. If provided with seeds and tools they would not use them productively unless at the same time restrained from wandering and taught to cultivate the soil. If all the capital of a London were given them in their present condition, it would simply cease to be capital, for they would only use productively such infinitesimal part as might assist in the chase, and would not even use that until all the edible part of the stock thus showered upon them had been consumed. Yet such capital as they do want they manage to acquire, and in some forms in spite of the greatest difficulties. These wild tribes hunt and fight with the best weapons that American and English factories produce, keeping up with the latest improvements. It is only as they became civilized that they would care for such other capital as the civilized state requires, or that it would be of any use to them.

In the reign of George IV, some returning missionaries took with them to England a New Zealand chief called Hongi. His noble appearance and beautiful tatooing attracted much attention, and when about to return to his people he was presented by the monarch and some of the religious societies with a considerable stock of tools, agricultural instruments, and seeds. The grateful New Zealander did use this capital in the production of food, but it was in a manner of which his English entertainers little dreamed. In Sydney, on his way back, he exchanged it all for arms and ammunition, with which, on getting home, he began war against another tribe with such success that on the first battle field three hundred of his prisoners were cooked and eaten, Hongi having preluded the main repast by scooping out and swallowing the eyes and sucking the warm blood of his mortally wounded adversary, the opposing chief.* But now that their once constant wars have ceased, and the remnant of the Maoris have largely adopted European habits, there are among them many who have and use considerable amounts of capital.

Likewise it would be a mistake to attribute the simple modes of production and exchange which are resorted to in new communities solely to a want of capital. These modes, which require little capital, are in themselves rude and inefficient, but when the conditions of

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* New Zealand and its Inhabitants. Rev. Richard Taylor. London, 1855. Chap. XXI.

such communities are considered, they will be found in reality the most effective. A great factory with all the latest improvements is the most efficient instrument that has yet been devised for turning wool or cotton into cloth, but only so where large quantities are to be made. The cloth required for a little village could be made with far less labor by the spinning wheel and hand loom. A perfecting press will, for each man required, print many thousand impressions while a man and a boy would be printing a hundred with a Stanhope or Franklin press; yet to work off the small edition of a country newspaper the old-fashioned press is by far the most efficient machine. To carry occasionally two or three passengers, a canoe is a better instrument than a steamboat; a few sacks of flour can be transported with less expenditure of labor by a pack horse than by a railroad train; to put a great stock of goods into a cross-roads store in the backwoods would be but to waste capital. And, generally, it will be found that the rude devices of production and exchange which obtain among the sparse populations of new countries result not so much from the want of capital as from inability profitably to employ it.

As, no matter how much water is poured in, there can never be in a bucket more than a bucketful, so 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—intelligence, habit, security, density of population, etc.—best suit the people. And I am inclined to think that as a general rule this amount will be had—that the social organism secretes, as it were, the necessary amount of capital just as the human organism in a healthy condition secretes the requisite fat.

But whether the amount of capital ever does limit the productiveness of industry, and thus fix a maximum which wages cannot exceed, it is evident that it is not from any scarcity of capital that the poverty of the masses in civilized countries proceeds. For not only do wages nowhere reach the limit fixed by the productiveness of industry, but wages are relatively the lowest where capital is most abundant. The tools and machinery of production are in all the most progressive countries evidently in excess of the use made of them, and any prospect of remunerative employment brings out more than the capital needed. The bucket is not only full; it is overflowing. So evident is this, that not only among the ignorant, but by men of high economic reputation, is industrial depression attributed to the abundance of machinery and the accumulation of capital; and war, which is the destruction of capital, is looked upon as the cause of brisk trade and high wages—an idea strangely enough, so great is the confusion of thought on such matters, countenanced by many who hold that capital employs labor and pays wages.

Our purpose in this inquiry is to solve the problem to which so many self-contradictory answers are given. In ascertaining clearly what capital really is and what capital really does, we have made the first, and an all-important step. But it is only a first step. Let us recapitulate and proceed.

We have seen that the current theory that wages depend upon the ratio between the number of laborers and the amount of capital devoted to the employment of labor is inconsistent with the general fact that wages and interest do not rise and fall inversely, but conjointly.

This discrepancy having led us to an examination of the grounds of the theory, we have seen, further, that, contrary to the current idea, wages are not drawn from capital at all, but come directly from the produce of the labor for which they are paid. We have seen that capital does not advance wages or subsist laborers, but that its functions are to assist labor in production with tools, seed, etc., and with the wealth required to carry on exchanges.

We are thus irresistibly led to practical conclusions so important as amply to justify the pains taken to make sure of them.

For if wages are drawn, not from capital, but from the produce of labor, the current theories as to the relations of capital and labor are invalid, and all remedies, whether proposed by professors of political economy or workingmen, which look to the alleviation of poverty either by the increase of capital or the restriction of the number of laborers or the efficiency of their work, must be condemned.

If each laborer in performing the labor really creates the fund from which his wages are drawn, then wages cannot be diminished by the increase of laborers, but, on the contrary, as the efficiency of labor manifestly increases with the number of laborers, the more laborers, other things being equal, the higher should wages be.

But this necessary proviso, "other things being equal," brings us to a question which must be considered and disposed of before we can further proceed. That question is, Do the productive powers of nature tend to diminish with the increasing drafts made upon them by increasing population?