

Chapter 5

The True Functions of Capital

WE HAVE SEEN that capital is not required to pay wages or support labor during production. What, then, are the true functions of capital?

Capital, as we discovered, is wealth used to procure more wealth. This we distinguish from wealth used to directly satisfy human desires. Therefore, capital may also be defined as wealth in the course of exchange.

Capital increases the power of labor to produce wealth in three ways:

(1) by applying labor in more effective ways (e. g., digging with a spade instead of by hand; or shipping by steamship instead rowing a boat). (2) by taking advantage of the reproductive forces of nature (e.g., growing more crops by sowing or more animals by breeding). (3) by permitting the division of labor. (This increases human efficiency by utilizing unique capabilities, acquiring special skills, and reducing waste. This allows people to produce each form of wealth where it is most favorable, by taking advantage of soil, climate, and location.)

The raw material that labor converts into wealth is not capital. Rather, it is material supplied by nature. Therefore, capital does not limit industry. The only thing that limits industry is access to natural materials.

It is clear, however, that capital may limit the *form* or

the *productiveness* of industry—by limiting the tools and the division of labor required for certain methods of production. Without the factory, there can be no factory worker; without the plow, no plowman. Without the exchange of great capital, the many special forms of industry concerned with exchanges would be impossible.

The tools available also limit productiveness. Does the farmer have enough capital for a plow, or must she use a spade? Must the mechanic use only a hammer, or the weaver a hand loom? Capital for the best tools can multiply production by tenfold.

Advanced civilization requires the minute subdivision of labor. The modern worker can exchange her labor with that of those around her, or even around the world. To do this, there must be stocks of goods in warehouses, stores, and ships. By analogy, for a city dweller to draw a glass of water, there must be millions of gallons stored in reservoirs and moving through miles of pipe.

But to say that capital may limit the form and productiveness of industry is a very different thing from saying that capital does limit industry.

We can, of course, imagine a community in which lack of capital would be the only obstacle to increased productiveness of labor. But the only examples that occur to me are the wholesale destruction of capital by war, fire, or natural disaster. Or possibly, the fresh settlement of civilized people in a new land. Yet it has long been known that capital is quickly replenished after war, and that a new community swiftly makes needed capital. Other than such rare and passing conditions, I am unable to think of any other cases where the productiveness of labor is really limited by lack of capital. There

may be individuals in a community who cannot apply their labor as efficiently as they would like because they lack capital. Yet, so long as there is sufficient capital in the community at large, the real limitation is not capital, but its proper distribution.

Indeed, even the limitation of form or productiveness may be more theoretical than real. It is often said that poor countries need capital for development. But behind this "need", can't we perceive a greater want? One that includes—but is not the same as—lack of capital. Is it not the abuses of government, the insecurity of property, and the ignorance of the people that prevent the accumulation and use of capital? Bad government may steal capital belonging to workers. It may seize wealth that producers would use for improvements. The real limitation is misgovernment. The same with ignorance, custom, or other conditions that hamper the use of capital. The real limitations are these things, not the lack of capital—which would not be used even if placed there.

Giving a circular saw to a Terra del Fuegan or a locomotive to a Bedouin nomad would not add to their efficiency. The Apache and the Sioux are not kept from farming by want of capital. If provided with seeds and tools, they still would not use them productively—not until they chose to stop their wandering lifestyle and learned to cultivate the soil. They have certain items they are accustomed to using as their capital. Any wealth beyond these would be either consumed or left to waste. If all the capital in London were given to them in their present condition, it would simply cease to be capital. They would use only an infinitesimal part of it to assist them in the hunt.

Yet any capital they do desire, they manage to get,

sometimes despite great difficulties. These wild tribes hunt and fight with the best weapons that our factories produce, keeping up with all the latest improvements. It is only as they adopt our civilization that they seek other forms of capital. Otherwise, such things would not be of any use to them.

In the reign of George IV, missionaries brought a New Zealand chieftain, called Hongi, to England. His noble appearance and beautiful tattooing attracted much attention. When he was to return to his people, he was presented with a considerable stock of tools, implements, and seeds—thoughtful gifts from the monarch and some religious societies. The grateful chief did indeed use this capital to produce food—but in a manner his English benefactors could scarcely imagine. Returning through Australia, he exchanged his original capital for arms and ammunition. Once home, he waged war on another tribe with such success that, after the first battle, three hundred prisoners were cooked and eaten. Nowadays, Maoris have adopted European habits and stopped their warfare. Many of them have amassed considerable capital and put it to good use.

It would also be a mistake to attribute the simple economies found in new communities solely to the need for capital. These rude and inefficient modes of production and exchange require little capital. But when the conditions of such communities are considered, we find that they are, in reality, the most effective.

A modern printing press could produce thousands of pages, while a Franklin press might manage only a hundred. Yet to print a small edition of a country newspaper, the old-fashioned press is by far the more efficient machine. To occasionally carry two or three passengers,

a canoe is a better means than a steamboat. And putting a great stock of goods into a backwoods store would be a waste of capital.

Generally, it will be found that these methods result not so much from lack of capital, as from inability to employ it profitably. No matter how much water you pour in a bucket, it can never hold more than a bucketful.

These observations lead us irresistibly to some practical conclusions, which justify the great pains we have taken to make sure of them. If wages come from labor, and not capital, then the current theories are invalid. We must disregard all remedies based on them, whether they are proposed by workers or professors of economics. Poverty cannot be alleviated by increasing capital or by restricting the number of workers. If each worker creates his or her own wages, then wages cannot be diminished by more workers. On the contrary, labor's efficiency clearly increases when there are more producers. Other things being equal, the more labor, the higher wages should be.

But the necessary proviso is "things being equal." This brings us to a question that must be disposed of before we can proceed: Do the productive powers of nature decrease as greater demands are made by a growing population?