

Chapter 17

The Problem Explained

WE HAVE NOW obtained a clear, simple, and consistent theory of the distribution of wealth. It accords with both basic principles and existing facts. Once understood, it is self-evident.

The old theory of wages had the support of the highest authorities, and was firmly rooted in common prejudices. Until it was proven groundless, it prevented any other theory from even being considered. Similarly, the theory that the earth was the center of the universe prevented any consideration that the earth circled the sun.

There is, in fact, a striking resemblance between the science of political economy, as currently taught, and astronomy prior to Copernicus. As they attempt to explain social phenomena, economists employ devices that may well be compared to the elaborate system of cycles and epicycles constructed by the learned people of the past. They tried to make celestial phenomena fit the dogmas of authority and the primitive perceptions of the uneducated. But as these elaborate theories could not explain observed phenomena, a simpler theory finally supplanted them.

At this point the parallel ceases. The thought that our solid earth is whirling through space is, at first, jarring to our sensibilities. But the truth I wish to make clear is seen naturally. It has been recognized early on by every society.

It is obscured only by the complexities of civilization, the distortions of selfish interests, and the false turns taken by intellectual speculation. It is a theory that will give political economy the simplicity and harmony that Copernican theory gave astronomy.

To recognize it, we need only return to first principles and simple perceptions. Nothing can be clearer than that wages fail to increase with increasing productive power, and that this is due to rising rent.

Three things unite in production: land, labor, and capital. Three parties divide the output: landowner, laborer, and capitalist. If the laborer and capitalist get no more as production increases, it is a necessary inference that the landowner takes the gain.

The facts agree with this inference. Neither wages nor interest keep step with material progress. Yet rising rents and land values invariably accompany advancement. Indeed, they are the mark of progress! Increasing rent explains why wages and interest do not increase. The same cause that gives more to the land owner also denies it to the laborer and capitalist.

Wages and interest are higher in new countries than in old. The difference is not due to nature, but to the fact that land is cheaper. Consequently, a smaller proportion is taken by rent. Wages and interest are not determined by total production, but by net production—after rent has been taken out. Wages and interest are not set by the productiveness of labor, but by the value of land. Wherever the value of land is relatively low, wages and interest are relatively high. Where land is relatively high, wages and interest are relatively low.

When society is in its earliest stages, all labor is applied

directly to the land. All wages are paid from its production. It is obvious that if the landowner takes a larger share, the worker gets a smaller one. But in modern production, labor is applied after materials have been separated from the land, and exchange plays a far greater role.

These complexities may disguise the facts, but they do not alter them. All production is still the union of land and labor. Rent cannot increase except at the expense of wages and interest. The rent on land in a manufacturing or commercial city lessens the amount available to divide as wages and interest among those engaged in the production and exchange of wealth in that place. To see human beings in their most hopeless condition, do not go to the unfenced prairies or the log cabins of the backwoods where land is worth nothing. Go, instead, to the great cities, where owning a little patch of ground is worth a fortune.

It is a universal fact—seen everywhere—that the contrast between wealth and want grows as the value of land increases. The greatest luxury and the most pathetic destitution exist side by side where land values are highest.

In short, the value of land depends entirely on the power that ownership gives to appropriate the wealth created by labor. Land value always increases at the expense of labor. The reason greater productive power does not increase wages is because it increases the value of land. Rent swallows up the whole gain.

That is why poverty accompanies progress.