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## 26

### THE NATURE OF CAPITAL

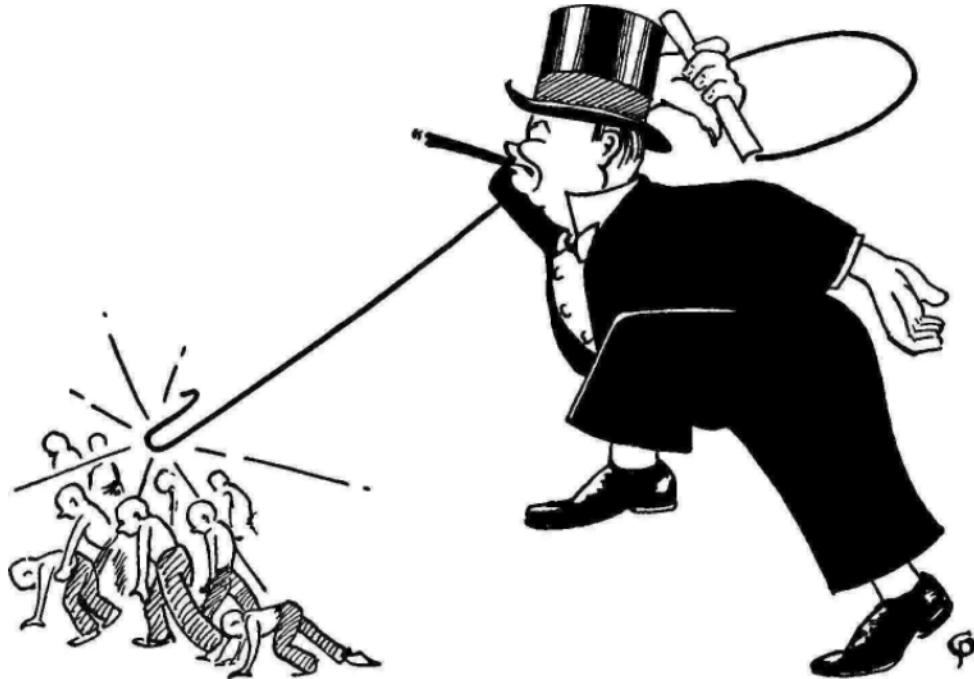
*. . . the powers of Labour, and of the other instruments which produce wealth, may be indefinitely increased by using their Products (wealth) as the means of further Production.—N. W. Senior, Political Economy*

THE DIFFERENCE BETWEEN labor and capital is exactly like the difference between the voice of a singer and the record on which the voice is held captive. The] sounds made by the voice, like labor, are immaterial things and,; like labor, are gone forever after leaving the human body from which they came. The record, like capital, is a material thing, and,; makes it possible to hear the voice impressed on it hundreds of,; times over, even after the singer has died. Similarly, labor im- pressed on land or a land product makes it possible to use that labor to produce wealth, long after the actual labor has left the body of the laborer.

For example, labor used to breed animals or fowl becomes part of those animals. The difference in the quantity of meat, milk, wool, or eggs yielded by a wild creature and by a domesticated one is evidence that the labor spent in breeding is still part of the animals. The labor spent in tearing down and shaping a tree branch remains as part of a club, as long as the club lasts as a tool. The crude stone hammer, made of land in the forms of a branch, a rock, and a rawhide thong, is part labor just as long i as that hammer helps the user produce more wealth. The differ-ence in appearance and productive power between the stone hammer and the tree branch and stones from which it was made,

is the labor spent in making it. Modern equipment, machines that produce thousands of pairs of shoes or fountain pens, can do so only because man in the past impressed his labor, mental and physical, on the design, metals, and wood from which the wonderful machines were made.

Most of us, without having been aware of it, have been taught to think of capital as something quite different. Thanks to the cartoonists, capital is usually thought of as being a useless, heartless, bloodsucking villain who bullwhips honest, though poor, laborers into his factories. We have also been educated by the



cartoonists to think of capital as a person who robs his laborers of their wages, year after year, until, underfed and overworked, they finally collapse in the gutter. Some cartoonists, more zealous than the others, give the impression that the shawled, bony widow and the sunken-eyed orphans left by the corpses are then gobbled down whole by capital, an incurably selfish, cruel, greedy, and very-much-alive monster of a man. Actually, capital is not a man at all. Owners of capital are men; but capital itself might be almost anything except a man.

Strangely enough, the industrialists and merchants of the nation—the people who own and use so much capital—have an

equally confused idea of what capital really is. Still more strange, the meaning of the word seems to be the only thing upon which labor-union leaders and the owners of capital agree. Both factions mistakenly believe (1) that there can be no jobs unless capital provides them; (2) that wages are paid out of capital; (3) that paper money, mortgages, stocks, and bonds may be used as capital; (4) that Wall Streeters are capitalists. One need only attend a Kiwanis luncheon, a Chamber of Commerce meeting, a labor-union rally, or a governmental arbitration board meeting to learn that some of our most influential national figures share a number of other ideas about capital that are equally illogical and impossible. If such men, those most concerned with capital, seem to know so very little about it, little wonder that the capitalistic system\* doesn't always work as well as it should; that the buying power of wages continues to fall in spite of wage increases won by unions; that small businessmen must take greater risks and be satisfied with a smaller percentage of profit with the passing of each generation; that big corporations tend to swallow up small businesses at a faster and faster rate; and that government is forced to assume more and more control over the laborer and over small and big business.

Their ignorance of what the word *capital* means might well be forgiven. As businessmen, they don't have to know what capital is, but only how to use it. There are even many economists who, as such, are supposed to be specialists in things like capital, yet do not agree as to its nature. True, no careful economist ever thinks of capital as being a man; and not all economists have troubled to say *precisely* what it is they do mean when they use the word. And few of those of the early days of economics who have even partially defined the word seem to be in agreement with each other. The following examples, a small part of the full list of definitions of the same word, should illustrate the confusion that exists among our most celebrated scholars:

\* The term *capitalistic system* is a misnomer. Just as we won't find a small house in a cottage pudding, nor a baseball bat in a club sandwich, we don't find economic capital to be the essential element of our *capitalistic system*.

Aristotle said *money* is capital.  
 John Locke said *stored-up labor* is capital.  
 Cantillon said *tools and farm animals* are capital.  
 Turgot said *circulating wealth* is capital.  
 Adam Smith said *stock from which a revenue is expected* is capital.  
 Lauderdale said *whatever replaces and saves labor* is capital.  
 Petty said *knowledge, skill, and culture* are capital.  
 Senior said *wealth used in production* is capital.  
 Veblen said *earning power of paper securities* is capital.  
 Marx said *means of production when they are used at the same time as means of exploitation and subjection of the laborer* is capital.

Obviously, a word meaning so many things can mean nothing in particular. Rather than try to make sense out of the jumble left us by earlier scholars, we might spend our time to better advantage if we should start at scratch, discover for ourselves the nature of capital, and then define it accordingly.

Everything, as we explained earlier, has its own nature, its own essential qualities—an *essence*, as the ancient philosophers called it. "Look to the essence of a thing" Marcus Aurelius advised, "whether it be a point of doctrine, of practice, or of interpretation." It is the *essence* of capital, whatever it may be, that marks the difference between it and all other things. We must discover this essential quality of capital if we are to understand exactly what it is that we're talking about when we use the word *capital*.

Just as the essence of sugar is sweetness, and the essence of water is wetness, *the essence of capital is productiveness*. Take the sweetness out of sugar and we no longer have sugar. Imagine a thing that hasn't the power to increase the stockpile of wealth, and we imagine something that can't possibly be considered capital. If capital is to do anything, it must add something material to the stockpile. It must, because, like land and labor, it is a factor of production—a certain "something" that, like land and labor, helps produce goods. If capital weren't productive, there'd be no reason whatever for political economists even to use the

word. It becomes evident, then, that anything that doesn't produce goods just can't be capital. Therefore part of our definition of capital *must* be (*something*) *that produces wealth*, yet something that's neither land nor labor.

If we should just list things which are neither land nor labor, yet do—when used—increase the size of our stockpile of wealth, and then if we should note what qualities all of these things have in common, we shall have little trouble defining *capital* according to its nature. Such a list would include things like machines, tools, cattle, chickens, seed, fertilizer, raw materials, farms, factories, fishing boats, mining equipment, storage plants, trucks, and retail shops. All of these, we know, play an important part in producing wealth. None of these is labor, certainly. And none is land, since our definition excludes all things man has made. But all of the things we listed are combinations of both land and labor, and they satisfy human desires—in other words, they are wealth!

If we should substitute the word *wealth* now for the mysterious "something" in our uncompleted definition of capital, we shall end up with: *capital is -wealth used to produce more, or other, wealth*. And that is the Poleco-ist's definition of capital. Whatever isn't wealth, therefore, will not be capital. Whatever isn't actually adding new or other wealth to our stockpile, according to our definition, cannot be considered capital.

Now, if we return to the definitions of capital offered by the earlier scholars we have listed, we shall find that some are included in the Poleco-ist's definition, while others, for reasons that will become more apparent as we go on, are excluded.

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## 27

### WEATH-EARNING WEALTH IS NOT CAPITAL

*. . . And things are not what they  
seem .— Longfellow, Psalm of Life*

WHEN THE Poleco-ist speaks of wealth being used to *produce* wealth, he doesn't mean wealth used to *earn* an income. There's a big difference between the two ideas, as we shall see.

A merchant, for instance, might offer typewriters on a rental basis. A person borrowing a typewriter from him would be expected to pay him a sum of money every month — let's say five dollars — until the machine is returned. The typewriter, obviously, is earning five dollars a month for the merchant. But the machine, which he *considers* his capital, isn't producing the five dollars the merchant collects. That money, or its equivalent in goods, comes out of the wealth of the customer — wealth that simply changes places from the customer's pocket to the merchant's cash register. As a result of the transaction, there is no increase of wealth in the world. The stockpile hasn't grown a bit. There is still only one completed typewriter and five dollars, just as there was before the typewriter was "rented."

To look at the same deal in another way, let us say that it was a popular novelist who borrowed the typewriter at five dollars a month and in six months' time turned out a novel that netted him ten thousand dollars. We might say that the typewriter helped produce that novel, and that the six months' "rent" the merchant received came out of the earnings of the novel. But suppose the borrower to be a schoolgirl, studying to be a typist. The machine would be used then not to produce but to destroy Wealth — reams of practice paper, each sheet bearing line after line of "Now is the time for all good men to come to the aid

of their country." Regardless of whether the machine be used to produce a salable novel or merely to destroy wealth in the form of practice paper, the merchant will still collect his five dollars a month. Obviously, then, the earnings of our merchant's so-called capital cannot come out of the wealth produced by the machine, since in one instance wealth in the form of paper was destroyed by it. It is impossible to take five dollars in wealth out of destroyed paper.

If we understand that "rented-out" typewriters are not capital, it must follow that nothing rented out—bicycles, automobiles, pianos, money, land, apartments, offices—is capital. True, such things may be *called* capital, or anything else the owner wishes to call them, but since they add nothing to the stockpile of wealth through being "rented out," and since the essence of capital is its ability to increase the stockpile, such things cannot logically be called *capital* by the Poleco-ist. Since Adam Smith presents the idea so well in *The Wealth of Nations*, it is worth quoting him on why, although it earns wealth for its owner, rented-out wealth is not truly capital:

A dwelling house as such contributes nothing to the revenue of its inhabitants; and though it is, no doubt, extremely useful to him, it is as his clothes and his household furniture are useful to him, which, however, make a part of his expense and not his revenue. If it is to be let to a tenant for rent, as the house itself can produce nothing, the tenant must always pay the rent out of some other revenue which he derives either from labour, or stock, or land. Though a house, therefore, may yield a revenue to its proprietor, and therefore serve in the function of a capital to it, the revenue of the whole body of the people can never be in the smallest degree increased by it.

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## 28

### ALL WEALTH IS NOT CAPITAL

*You might just as well say, added the March Hare, that "I like -what I get" is the same thing as "I get •what I like!"—Lewis Carroll, Alice's Adventures in Wonderland*

WHEN WE SAY that all apples are fruit we do not mean that all fruits are apples. When we say that all women are human, we do not mean that all humans are women. Similarly, when we say that all capital is wealth, we do not mean that all wealth is capital. The fact is that there is far more wealth in the world that is not capital than wealth that is. For only things like factories and the machinery and goods in them; retail stores and the fixtures and goods in them; farms and all of the farm buildings, machinery, animals, fruit trees, and seed on them; and other wealth-producing wealth, are capital. Although homes, theaters, hotels, museums, boulevards, and parks are also wealth, they do not produce more wealth, and are therefore not capital. For the same reason, the clothes on our backs and in our closets, the food on our table and in our cupboards, the furnishings inside our homes—no matter how valuable—are only wealth; not capital.

In his famous *Progress and Poverty*, Henry George explained the difference between wealth that is, and wealth that is not, capital:

Now, if . . . we look for the distinction between the two classes (things that are and things that are not capital), 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

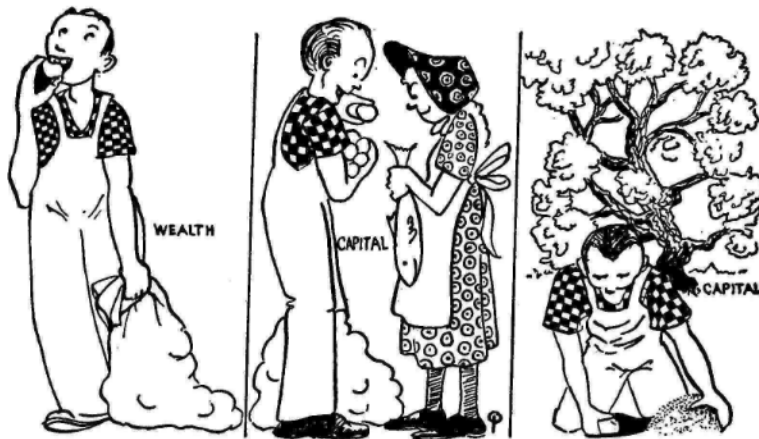


*not in the possession of the consumer.* Such articles of wealth as in themselves, in their uses, or in their products, are yet to be exchanged are capital; such articles of wealth as are in the hands of the consumer are not capital. (Italics ours.)

In other words, a lathe in a woodworking factory is wealth producing more wealth in the form of clothes-pins, rolling pins; or table legs, products which will be sold to the wholesaler who will sell them to the retailer who will sell them to Mrs. Jones, the consumer. That lathe and the things it produces are capital. The same lathe moved to Mrs. Jones's basement and used by her husband to make new table legs for Mrs. Jones's kitchen tablet will not be capital, because both the services of the lathe and, the table legs are always in the hands of the Joneses—the consumers. A lollipop in the candy store is capital, because it hasn't reached the consumer. But the instant Junior takes the lollipop! with one hand and slaps his nickel down on the counter with the other, the lollipop reaches the consumer, Junior, and is no longer capital, but wealth—Junior's wealth.

The same Henry George, in *The Science of Political Economy*, explained the idea in still another way:

. . . the man who has obtained the possession of wealth by gathering fruit and carrying it to a more convenient place may utilize its



potency of ministering to desire in different ways. Let us suppose him to divide this wealth, this gathered fruit, into three portions. One portion he will eat as he feels desire; another portion he will give to some other man in exchange for some other form of wealth; and the third portion he will plant in order that in the future he may more readily and more abundantly satisfy his desire for such fruit. All three of these portions are alike wealth. But the first portion (that which he eats) is merely wealth; its use is the final use of all wealth—the satisfaction of desire. But the second and third portions (the portion traded with another man and the portion planted) are not simply wealth—they are capital; their use is in obtaining more or other wealth, which in its turn may be used for the satisfaction of desire.

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## 29

### THREE KINDS OF CAPITAL

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*Like,—but oh how different!*

—Wordsworth

WHILE ALL capital has the power to produce more, or other, wealth, different kinds produce it in different ways. For example, things like tools, machinery, factories, and retail stores—*fixed capital*—simply make it easier for labor to produce a greater quantity of wealth. But such capital produces more wealth only so long as labor is at work with it, and stops producing the moment the workman goes home or leaves for a smoke. If left idle for six months or a year, such capital during that time will not have produced anything—more likely it will have become less valuable since such capital left unused deteriorates.

A second form, called *circulating capital*, is the kind that's still in exchange. That is, it begins life as a raw material (a farm product, an animal, a mineral) and is passed on in exchange for other wealth to the processor, who in turn passes it on, in an

altered form, to the manufacturer, who forms it into shoes, shirts, shingles, and such. His products, in turn, are sent to retailers in exchange for their wealth, or claims to wealth, and the retailer finally passes them on to the consumer in exchange for his wealth. While the raw material passes along in one direction, and is altered either in shape or location by labor with each exchange, it increases in value.\* This kind of capital, like fixed capital, produces nothing without labor being constantly added to it.

But the third form of capital, *living capital*, is totally unlike the other two. For, such things as cotton and wheat seed, once planted, increase themselves even while Obie, at the other end of his farm, is busy milking. Even while Obie attends church, or is asleep, his crop grows, his hens produce eggs, his cows, milk—all are capital producing wealth with hardly any help from him. The rancher's cattle add to the stockpile of wealth by putting on more weight, by growing bigger, and by having calves—all this while the cowboys may be miles away fixing fences, "breaking" horses, liquoring up in town, or even playing guitar in a cowboy band. Living capital, unlike circulating and fixed capital, increases *without* labor's help.

Since all three types of capital—*fixed* capital, *circulating* capital, and *living* capital—take part in producing wealth, all three are included in the Poleco-ist's understanding of the word *capital*. But the reader is urged to remember that, of the three forms, it is only living capital that actually makes our stockpile larger with almost no help from labor. To be sure, Obie must plant the seed, watch over it, and reap it—but the actual growth of a handful of tiny seeds into thousands of tomatoes or ears of corn is an increase with which Obie's labor, as such, had compara-

\* That increased value represents the additional labor added during each new step in production. The consumer's claim to wealth, his dime, travels in the opposite direction. It starts by being given to the retailer for, let us say, a bread, and after being passed on in exchange to the wholesaler, and from him to the miller, it finally winds up in the farmer's pocket. But during each step, the dime grows smaller! For, the wholesaler and miller each take part of it as their wages for the work they contributed to the final bread making.

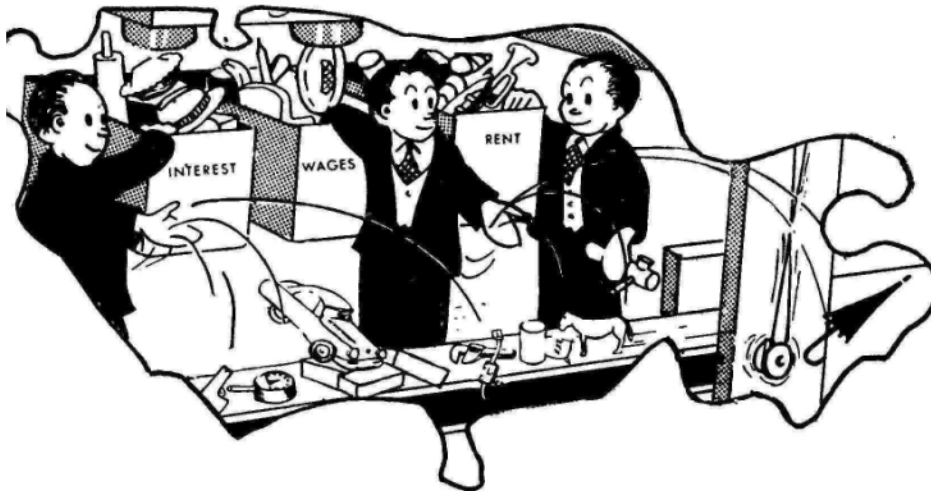
tively little to do. It is important that the reader keep this idea in mind, because it will come up again in later chapters.

## 30

### ALL SURPLUS WEALTH ISN'T CAPITAL

*Is it not lawful for me to do -  
what I will with my  
own?—Matt. 20:12*

THE THREE little men in our jigsaw-puzzle piece are supposed to represent a laborer who has earned wages, a capitalist who has earned interest, and a landowner who has collected rent for the use of his land. In the drawing, we can see them throwing their earnings, their wealth, upon a moving belt which in turn will carry their capital into the capital bin. Since the function of capital is to help man produce more goods faster and with less effort, only things that can produce actual wealth are seen being tossed onto the belt. Things like money, stocks, bonds, mortgages, and other evidences of debt do not appear, because they cannot add goods to the stockpile and therefore are not capital.



What we cannot see, however, is that the three little men do not throw all of their wealth onto the moving belt. It is only after they have provided themselves with food, clothing, shelter, and necessary gadgets that they can even consider using any of their wealth to produce more wealth for themselves. Consequently, in countries where laborers and businessmen do not earn much more than they need to keep themselves and their families alive, we do not find very much wealth left over to be used as capital.

But even after the three little men provide themselves with the necessities of life, they don't use *all* that's left as capital. They may prefer to give some of their surplus to a doctor for medical treatment, or to a lawyer for legal advice, or to the barber in exchange for good grooming and beauty. Perhaps they will choose to give some to a crooner in exchange for having him sing to them, or to a magician for having him astound them with bewildering magic; or to a politician, policeman, fireman, or bookmaker for any special service they may want badly enough. Actual proof that those who perform services can sell them only after the three little men provide themselves with the food, clothing, and shelter they need, may be observed during hard times. During those periods, doctors, lawyers, entertainers, engineers, artists, bootblacks, and other unproductive laborers find it tough to sell the services they have to offer, since their customers—the laborer and capitalist—have too little wealth left over with which to pay for them. Accordingly, it isn't unusual to find many trained professional people during the hard times between wars working for coffee and cake or taking low-pay jobs in factories. When the three little men are not earning, they have little wealth with which to pay for the pleasure of having a tooth drilled or an appendix removed, or of seeing a woman sawed in half. During hard times not only professional men but owners of night clubs, hotels, theaters, summer resorts, and race tracks also suffer. For, it isn't the three little productive fellows alone who find themselves unable to patronize such places. The professional people who must depend on our three little men for

their fees also find their incomes too small to allow such "trivial" pleasures. They accordingly turn to more "cultural" outlets, such as sitting at home reading, listening to the radio, playing bridge or canasta, attending free lectures, and enjoying other pastimes that cost little or nothing.

After taking care of their needs, our three little men may choose to invest their surplus at the race track, at a roulette table, on Wall Street, on the Chicago Grain Market, or in some other form of gambling. The particular form of gambling they finally choose will depend, of course, on where they think they can get the greatest return with the least risk. But here again, when hard times come rolling around, we find many gamblers driven to despair. Some who guessed wrong on the stock market jump out of windows, shoot holes in their heads, or slash their wrists. Bookmakers whose clients formerly risked hundreds of dollars on a horse's nose will now, during hard times, take fifty-cent "show" bets. Cheap raffle tickets and ten-cent baseball pool gambling become fashionable.

Even insurance companies and banks must depend for their income on the surplus of the three little men. For when the little fellows stop earning, we find them unable to deposit money in savings banks and drawing out what funds they have. More insurance policies are allowed to lapse, and more mortgages, through which the banks and insurance companies loaned out their money, are defaulted. The result is that farms and homes are foreclosed or left on the hands of the banks and insurance companies so fast and in such great numbers that without the government stepping in to take the biggest lemons off their hands, many of the moneylenders would be ruined.

The three little men have another choice as to where to invest their surplus wealth rather than use it as capital. They often find it more advantageous to bribe government officials and statesmen with it to gain, in return, special privileges—protective tariffs, subsidies, or contracts from government, county, or city. The politician and political parties do very well when the three little fellows have lots of surplus wealth. But when the bloom fades off

the boom, there is little surplus for the government to tax, very little in the public treasury to steal, and bribes grow so small and few that the unfortunate politicians are compelled to compete against each other for what little graft there is. They become so hungry for swag that isn't there, they grow bolder and take longer chances, until even the public, blind as it usually is, realizes it is being robbed. That is why hard times (as well as preelection periods) bring with them so many political scandals, so many jailed public officials, so many "reform" movements and so many men who are not members of political parties elected to high office.

And so we see that it is only after men have provided themselves with food, clothing, and shelter that any of their wealth can possibly be used as capital, payment for services, gambling chips, and bribes. Surplus wealth will be used as capital only when the use of capital promises to bring greater satisfactions than the same wealth would bring if exchanged for services, risked in a crap game, or slipped under a table as a bribe.

If it is true that capital is surplus wealth, it must follow that the only limit to the amount of capital that might be made available is the amount of wealth left over after a community provides itself with food, clothing, and shelter. In other words, it is only when the earnings of those who actually produce material goods are greater than their cost of living that capital can possibly be accumulated and used, or that *unproductive* laborers can hope to make a living.

As mentioned earlier, the Poleco-ist isn't interested in anything except what wealth is, how it is produced, and how it is divided among the producers. The instant the three little men get their hands on the goods which their land, labor, and capital produced, their goods have reached the consumer, and the production of wealth has been completed. For all the Poleco-ist cares, the three little men can eat their wealth, save it, or gamble with it; they can buy medical care, schooling, beauty, or culture with it; they can give it away, or even burn it. Whatever they

do with it, at that stage, will make no difference whatever in the production or distribution of wealth, the only matters with which the Poleco-ist is concerned. On the other hand, if by chance one or more of our three little men should decide to toss some wealth onto the belt to be used as capital, to produce more wealth, the Poleco-ist takes a new interest in it because it is being used in production of wealth, and production of wealth is all-important to him.

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## 31

### WHEN CAPITAL IS USED

*There's a time for some things, and  
a time for all things; a time for  
great things, and a time for small  
things.—Cervantes*

THE NEXT PIECE of our jigsaw puzzle illustrates an imaginary bucket belt scooping up wealth that is being offered as capital, and then carrying it up to our old friend, the comfort-loving fellow perched on the edge of the Labor Bin.\* If we study the drawing carefully we can see that he doesn't sweep all of the capital offered into the Labor Bin to use it as an aid to labor. He allows some of the capital to go by and to fall back, unwanted, into the Capital Bin from which it came. Later, the refused bit of capital, carried up again, might be accepted by the little fellow. On the other hand, it may be left in the Capital Bin to waste away like the goods that are so often produced by overoptimistic manufacturers, goods that are unsalable at a profit, goods that are stored away to gather dust, almost forgotten. Such things offered one day as capital become junk the next. Piles of war materials left over after every war, to rot and spoil at waterfronts throughout the world, are typical of

\* See the jigsaw-puzzle piece on p. 43.



unwanted wealth that might have been used as capital, but wasn't. The comfort-loving little fellow passed up those piles of girders, tractors, food, and other unwanted war goods.

It is because he represents the part of man's nature that compels him to satisfy his desires with as little effort as possible that the lazy little man is so fussy about the capital he will choose to use. Having the power to reason, he knows that the more capital he uses, the less work he will have to do. But he also knows that when capital will cost him more than the labor required to do the same job, he's better off doing without capital.\*

For example, if a truck should come up via the bucket belt, the leisurely little fellow might sweep it into the bin to make the labor of our old friend Abel D. Livery more efficient. The same truck coming up at another time and place would not be accepted—if,

\* Those who have had some education in economics may miss mention at this point of the Law of Diminishing Returns. The "law" is more properly within the province of economics than of political economy. For the operation of the "law" is discernible only in *particular* production, on a *particular* farm, in a *particular* factory or retail shop. Political economy—or Poleco—is concerned only with the *general*. If we should think of the world *production* to mean *all* of the world's production and not that of John Dough in particular; and the word *capital* to mean *all* capital comprising one idea—as the Poleco-ist does—it becomes apparent that the economist's Law of Diminishing Returns has little meaning in the politico-economic sense.

for example, it happened to be Asiatic or South American labor that is to be aided. For labor is so cheap in those countries, it is more efficient—that is, less costly—to move goods from place to place on the backs of a hundred human beings than it would be to use an expensive truck. Even in our own country, during hard times, labor is so plentiful, and therefore cheap, fewer trucks and labor-saving devices in general are used. Instead, more human muscle is put to work to do the carrying and lifting necessary. During hard times, then, when labor is cheap, the little fellow perched atop our drawing might be imagined sweeping less capital into the Labor Bin; and the stockpile of wealth, as a result, growing smaller. But in prosperous times, which unfortunately are also war times, he would sweep capital into the Labor Bin as fast as the wealth from which it is drawn can be produced. In fact, the lazy fellow during prosperous high-wages times may be seen scrambling down to the three little men below, throwing himself on his knees, offering fabulous prices, and begging for more and any wealth that he might use as capital—capital that will, if added to the Labor Bin, produce more wealth faster, more easily, and more profitably.

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## 32

### “POOR” COUNTRIES DO NOT LACK CAPITAL

*Capital is only the fruit of labor.*

—Abraham Lincoln

MOST of us have learned to believe that the people of India, China, Mexico, and other so-called backward nations are poor because they lack capital. Since, as we have seen, capital is nothing more than wealth, and wealth nothing more than human energy combined with land in one form or another, the absence of capital too often suggests that there is a shortage of land or of labor in backward countries like

India and China. But that isn't true. For these "poor" countries have many times more land and labor than they use. The area of Mexico is greater than that of seven of the more prosperous European nations—France, Great Britain, Sweden, Holland, Denmark, Belgium,, Spain, and Portugal—*combined*, certainly enough land for the comparatively few people living in Mexico. And yet Mexico is as backward as India and China. The majority of Mexicans are as poor as the Chinese and Indians.

Or, we might suppose that the people of those countries don't work hard enough. But anyone who has visited those parts of the world knows that the Chinese, Indians, and Mexicans work much harder for the little they get than do people in more prosperous countries. And when natives of India, China, and Mexico do manage to get into the United States, we find that they are far more willing to work hard than we are. Undeniably, they have everything it takes—both land and labor—to produce as much capital as people anywhere.

Many believe, as Tom Malthus taught, that there are too many people in those poor countries, that there isn't enough land to support so many. But if we bother to look into any atlas, we shall find that there aren't as many people to the mile in those poor countries as there are in comparatively prosperous ones. For example, in India there are only 247 people to the square mile, while in England there are more than twice that many. In China, including Manchuria, there are only 120 Chinese to every square mile, while Belgium, with 713 people to the square mile, is almost six times as crowded. As for explaining Mexican poverty by arguing that there are too many people trying to dine off too little land, there are in fact only 25 Mexicans to each square mile of territory, while California, just across the border, with almost twice as many humans to the square mile, is one of the wealthiest areas on earth. Contrary to popular opinion, it would seem that the wealthier nations and those using most capital are also the most crowded. Too *many people* certainly doesn't explain the lack of capital in backward countries. One other equally absurd explanation often offered to explain

the lack of capital in "backward" nations is that the land of such nations is poor and worn out. But that idea is based on the false notion that the only use for land is agriculture. Poor as the land of the backward nations is said to be, the richest men in the world draw all of their fabulously great wealth out of that same land. Ibn Saud, for example, who rules over poverty-stricken Saudi Arabia, collects royalties from American oil companies to the amount of more than 125 million dollars a year; more than 340 thousand dollars a day! \* Arabian oil is pumped out of Arabian soil by Arabian labor. How can such land be called *poor*? We know that many British and American stockholders have built huge fortunes through their investments in broken-down India. Most of the powerful nations of Europe, as well as Japan and the United States, have helped their businessmen draw billions of dollars out of the "poor" land and labor of China. Many American fortunes have been made out of Mexican mineral lands worked by Mexican labor; and yet such fortunes are as nothing when compared with the great wealth accumulated by a few "high born" Mexican families who have always been supported by handily corrupt politicians. Obviously, the wealth from which capital comes is produced in the "poor" countries; but, by some means or other, enough of it just doesn't seem to fall into the pockets of enough of the people of those countries so that they might accumulate a surplus to use as capital.

Worn-out soil, which is also blamed by the ignorant for poverty, is a result of poverty and is not the cause. Worn-out soil was no problem in prosperous California or in Palestine. Certain areas in those countries, only a few years ago, were desert, as dead and dry as any land could be. Today Palestinian land is again fertile, and the San Joachin Valley in California, formerly desert, has become one of the most productive agricultural spots on earth. Worn-out land doesn't explain a lack of capital or anything beyond the fact that the people who work the

\* Other interesting figures pertaining to "backward" countries surrounding Saudi Arabia: Kuwait, about the size of New Jersey, pays its Sheik Abdullah \$200 million a year in oil royalties; Sheik Ali of Qatar gets royalties that average \$1,360 *a day*; Sheik Sulman of Bahrein gets around \$4 million a year.

land do not have anything left with which to pay for fertilizer and irrigation after they provide themselves with the least possible amount of food, clothing, and shelter.

All of this can lead to only one logical conclusion: somebody is collecting the surplus wealth produced, but is not putting it to use as capital in those backward countries in order to produce more or other wealth, because it costs less to buy labor in those countries than capital. It seems to be a fact that wherever labor is most expensive we find most machinery and other capital used, and we find new tools and methods developed at a faster rate; while the opposite is always true where wages are lowest. History seems to bear out this observation without revealing a single exception.

Who that "somebody" is who collects the surplus wealth is the culprit we started to track down some pages ago. Why labor is so cheap in backward countries is a question that must be left for later chapters.

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## 33

### CAPITAL DOESN'T COMPETE WITH LABOR

*Machines that equity demands  
Should benefit the human race,  
But serve in heartless owners'  
hands,  
Competing workmen to displace; .*

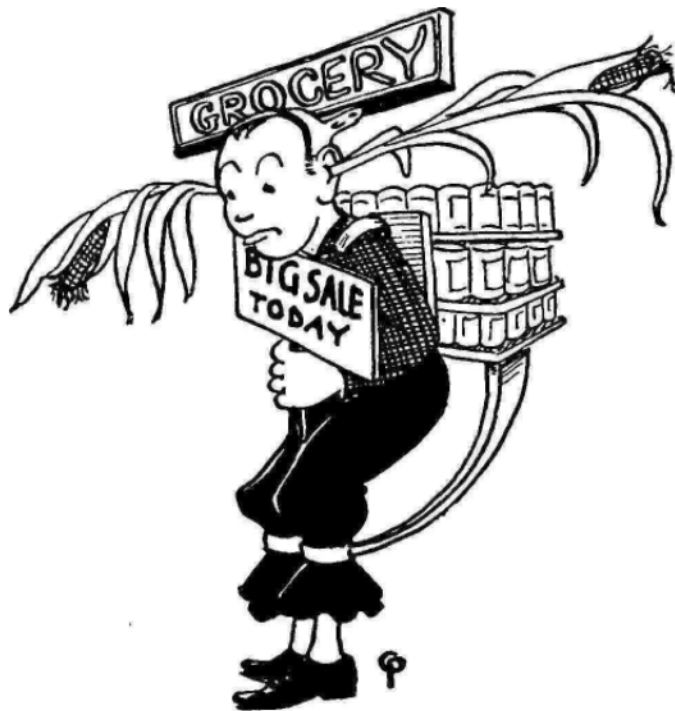
—J. L. McCreery

STARTING with the idea, as most of us do, that capital consists entirely of labor-saving devices—machinery, tools, and electrical appliances—it is only natural for us to conclude that capital tends to replace labor in

production,

to make labor and the laborer more and more unnecessary. But the facts are, as anyone who examines the question with a little care can see, capital and labor are not, and cannot be, in competition with each other. For capital and labor can't always do the same jobs.

First of all there are certain things that cannot be done by the laborer at all. We can't stuff a laborer's ears with rich soil, bury a few seeds in them, and call the laborer a farm. We can't strap a turret lathe on his back, stick some assorted tools into his hands, and use him as a factory. We can't build shelves to



hang from his shoulders, load them with merchandise, hang a neon sign from between his ears, and call him a retail store. Farms, factories, and retail stores are forms of capital for which labor can't be substituted.

On the other hand, a farm can't plow, cultivate, plant, or harvest itself. Only labor can do such things. A factory can't keep its equipment in order, keep itself operating, or supply itself with raw materials. Merchandise can't display itself, price itself, sell itself, or deliver itself. All of these jobs can be done by labor

only. These *and all other* forms of capital, useless until they are in the hands of a human being, simply add power to man's labor.

There are other jobs, very simple ones, that labor can't possibly do without capital. A tree would be useless to man if he weren't able to use capital in the form of an axe, a saw, a plane, or a hammer. No fabrics could be made by labor alone, since some sort of capital in the form of flax, wool, cotton, silk, spinning devices, and looms would be absolutely necessary. Even if man were content to wear animal skins rather than fabrics for clothing, he would at least need capital in the form of a knife to remove the skin from the animal's carcass. These are the simple forms of capital for which labor can't be substituted. But if we consider the more complicated products upon which we depend—plastics, metal objects, synthetic products, anything that is carved, joined, heat-hardened, canned, or otherwise preserved—we can see that the machinery needed to produce such wealth obviously does not compete with men for jobs, since man, unassisted by machinery, can't produce such things.

There are, of course, other forms of capital, but these even less than those we have discussed compete with labor. Until men learn to lay eggs, grow wool on their backs, or give milk, they cannot look upon capital in the form of livestock as doing them out of a job. Fishing boats, nets, hooks, and harpoons do not put men out of work, unless we can imagine a man shot out of a harpoon gun.

Perhaps the only forms of capital that might compete with labor are those used for digging, lifting, and carrying things, which in the final analysis are occupations unfit for human beings. There is no good reason why a man should be compelled to carry a load on his back, since trucks and mules do such work better. To put a human to work digging into the dirt in order to prepare a foundation for a building, or to remove coal from a mine, is not only degrading but is wasteful, particularly because man, if we'd allow him to, can do far more important work. Ditches and foundations are dug better by capital in the form of



steam shovels and bulldozers. Farmers still push and guide a plow only in the very poorest parts of the world. Mechanized farm equipment is better suited to such work. The only explanation for men continuing to compete for jobs with dumb animals and machines is that jobs are usually so scarce throughout the world, men must compete for the few jobs open to them; which makes man's labor cheaper than machines. But if it were arranged so that there would be more jobs available than humans willing to do them, wages would rise, and such stupid work as digging, lifting, and carrying would, through necessity, have to be turned over to the cheaper-than-labor brainless machines and dumb animals. This becomes apparent during every war, when labor becomes so scarce and costly that almost all the carrying, digging, and lifting is done by specially invented machines. Even little boys who formerly would earn pocket money after school by carrying groceries home for ladies can't be found hanging around the stores. Their labor, like all labor during bloody though prosperous war years, is busy doing work that requires more brain and imagination than carrying bundles.

The Poleco-ist believes—he may be wrong—that a world in which there are always more jobs to do than there are men to do them is not only possible but natural, once clumsy politicians stop meddling with our economic system. He believes such a world can be brought about, without taxing Peter to pay Paul, without murdering all who disagree, without marching on Washington to destroy our present form of government, and without going to war once or twice every generation.