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THE MEANING OF CAPITALIST

Nothing in education is so astonishing as the amount of ignorance it accumulates in the form of inert facts.—Henry Brooks Adams, *The Education of Henry Adams*

MOST OF WHAT most of us know about capitalists we learned from the mad Marxists. The communists and socialists have done their teaching so well that today most people—so-called capitalists and laborers alike—think of all rich people as *capitalists* and all poor ones as *laborers.* Even editors, radio commentators, and our communist-hating statesmen, all of whom should know better, seem to agree with the terribly confused Marxists as to the meaning of the word *capitalist.*

If capital, as we have seen, is that surplus wealth that is used to produce more or other wealth, it must follow logically, regardless of what the Marxists teach, that a *capitalist* must be one who uses wealth to produce more wealth. Since money, mortgages, stocks, bonds, and other paper securities are not capital, such things used by Malcolm Buckmaster to earn an income can't possibly make him a capitalist. He's more properly a financier or a speculator. Similarly, since neither special privileges nor monopolies are wealth, much less capital, whoever uses such things to drain a living from society cannot possibly be considered a *capitalist.* There's as much difference between a capitalist and a monopolist as there is between an automobile mechanic and an automobile thief.

A *capitalist,* to be precise, is a farmer who uses seed, fertilizer, improved land, farm machinery, livestock; or a miner who uses his own mine equipment; or a fisherman who uses his boats, nets, etc.; or an industrialist who uses factories, tools, machinery, and raw materials; or a transportation company that uses trucks, boats, etc.; or a merchant who uses a store, fixtures, and merchandise. All of these are using wealth to produce more or other wealth, and these are the capitalists of which the Poleco-ist speaks. That's the sort of guy our Mr. Capitalist, in our drawing, is.

There is very little difference, if any, between a capitalist and a laborer. A laborer, it would seem, is one who uses his labor alone to produce goods, while a capitalist should be one who depends entirely upon his capital to produce his wealth for him. Since, however, it is almost impossible in our present society to produce anything without capital of some kind, we might say that there are very few productive laborers in the world that aren't at the same time capitalists. And since capital cannot work itself but must, to be at all productive, be used either by the capitalist's own labor or by labor he hires, we must conclude that every capitalist is to some extent a laborer. Here, then, is another reason why the three little men look so much alike.

It may be argued, in fact it certainly will be argued by many, that a hired man, since he doesn't own the capital he uses, is not part capitalist. That is, of course, entirely true. But he isn't part laborer either! Like the merchant we discussed earlier— the one who rented out his typewriters—the hired man is producing nothing. He is merely renting out his time, labor, and talent to earn a living. Whether his labor during that time produces a thousand dollars' worth of goods or ruins a thousand dollars' worth of material and equipment, his income will be the same. Whatever the rented-out labor produces for the employer was produced not by the hired man but by the employer, just as truly as the novelist's book written with a rented typewriter was produced by the novelist, and not by the owner of the machine. A man can't rent his labor to another and have it, too! Therefore, the man who hires out his labor, muscular or mental, is neither laborer nor capitalist. Exactly how he should be classified w.ill be discussed in more detail in later chapters.

In the same sense, the man who rents out his machinery, the use of his farm, or the use of his goods to another is neither capitalist nor laborer. For he is not using his wealth or labor to produce more wealth, but again, like the merchant who rented out his typewriter, he is using them merely to earn an income. Not he, but the person to whom he rents out his wealth and labor and who actually uses them is the capitalist.

At this point, the communists and socialists must surely scream in anguish, for it becomes quite clear that the late Henry Ford (whom the Marxists hated with all of what little soul they had) was in great measure as much a laborer as any man in the Ford plant. For, it is said, he worked harder, worked longer hours, and worked more days a week to produce Ford automobiles than any of his employees. True, much of his labor was mental and managerial, but it was nonetheless labor, and productive labor at that. On the other hand, the Poleco-ist implies that the hired man *isn't* a laborer! The Marxists won't like that, because, as self-appointed friends of the laborer, they suddenly find that the laborer they've pretended to champion so long, in the politico-economic sense, might not be a laborer at all!

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A PARTICULAR MAN ISN'T MANKIND

But none of the arts theorize about individual cases. Medicine, for instance, does not theorize about •what will help to cure Socrates or Callias, but only about what will help to cure any or all of a given class of patients: this alone is its business. Individual cases are so infinitely various that no systematic knowledge of them is possible.—Aristotle, Rhetorica

WE MUST THINK of the three little men in this way if we want to understand Poleco, which is a science not of individual human beings but of all humanity taken as a whole. For it is easy to see what confusion must result if we think in terms of individual persons rather than of mankind as a group. For example, one man may use some machinery as capital and yet lose his wealth as a result. But that certainly wouldn't prove that machinery isn't productive. A man may work all day producing crates and discover, after he has hammered his last nail into place, that he has made all of the crates too small and has as a result ended up with so much butchered lumber, junk. Again, that wouldn't prove that labor doesn't produce useful things.

By thinking of all of the world's laborers, capitalists, and landowners divided into three imaginary bodies and then stuffed into them, the Poleco-ist is able to handle his ideas more intelligently. For while it would be impossible to find two human beings who are exactly alike, it is quite simple to discover some characteristics that are alike in nine hundred and ninety-nine humans out of a thousand. It is the nine hundred and ninety-nine, and not the one exception, that the Poleco-ist has in mind when he speaks of labor, capital, land; when he speaks of the laborer, the capitalist, and the landowner.

It is exactly this principle that scientists lean on in practicing their science. Because men are very much alike collectively, a surgeon knows exactly where in a body to find an ailing organ, bone, gland, or artery long before he has even met his suffering patient. An orator, speaking before a mob, may not know a single person in his audience, and yet by appealing to what he knows to be common to people generally, he is able to say exactly what is needed to win their admiration and support. An experienced comedian, facing a strange audience in a strange town, knows exactly what his audience will laugh at, even though *all* people do not think the same things funny. Such things are possible only because human beings in general behave like human beings, even though each human individually does not necessarily behave *exactly* like another.

In the same sense, the Poleco-ist knows that all laborers are different and perform thousands of different types of labor; but at the same time, he knows that they all have one thing in common, which is, they all exert their energy to make a living. And he knows that not all capitalists use the same kind or amount of wealth to produce more wealth; but he also knows that all, taken as a class, use one kind of productive wealth or another. And of course he knows that all landowners are owners of land, even though some may own agricultural land, some city land, some land covered with timber and some land rich in oil or uranium.

Now that we understand our three little men a bit better, we can return to pursuing our villain.

41

MEASURING THE IMMEASURABLE

For *Mercy, Courage, Kindness,*
Mirth,
There is no measure upon earth.
—Laurence Binyon

OUR NEXT logical step must be to determine just how much of our stockpile of wealth, at any particular time, is wages, the laborer's share; how much of it is interest, the capitalist's share; and how much of it is rent, the part that goes to the landowner. This might seem an impossible task, since there is no way of knowing just how large or small the stockpile of wealth is at any particular time, or exactly how much labor, land, or capital was used to produce that stockpile. But as we shall see, it isn't quite so difficult as it might at first appear.

The stockpile of wealth, as we remarked earlier, is an idea— a concept—something that lives only in a brain. And ideas, of course, can't be measured, divided, or multiplied, like apples or pounds of butter. We speak of a "big idea" or of a "rotten idea," but never of a "four-pound idea measuring six feet by four." We can't say that a particular mother has a certain amount of love which she divides among her family: 35% for her husband, 55% for her baby, and the balance for her son. Mother love, like the stockpile of wealth, is an idea, and therefore cannot be computed into percentages or with simple arithmetic—although most of our modern economists try to do just that. With their charts they try to explain that National Production of wealth for the year nineteen-something was umpty billion dollars, that wages equaled 71.6%, and interest equaled

7.3%. Such figures look good in annual reports, but they have absolutely no meaning in the politico-economic sense.

But ideas like love, knowledge, or the stockpile of wealth *can* be measured with the aid of higher forms of mathematics such as algebra and calculus. For example, we can say that

X = all of the mother's love.
A — the love she gives her husband.
B = the love she gives her baby.
C = the love she gives her son.
Therefore: X — A = B -f C (All of mother's love minus the amount of love she gives her husband equals the amount of love left to be snared between the baby and her son.)

Just as there is no way of knowing precisely how much love mother has to start with, so there is no method for being sure how large our stockpile of wealth is at any particular time, since it is always changing in size. It grows smaller as we eat, wear out, spoil, or otherwise destroy wealth in our daily living; and it grows larger as new wealth is being produced by all of us in varying amounts from day to day. The stockpile is growing and shrinking from minute to minute. But no matter what size it may be at any particular moment, we know that part of it is wages, part is interest, and the remainder is rent. If we want to know how much of it is wages and interest, all we need to do is subtract the part that is rent. (Wealth — rent = wages -f interest.) Or if we want to know what part is wages, all we have to do is subtract from our stockpile of wealth the amount of interest and rent. (Wealth — (interest + rent) = wages.) It's as simple as that.

But this method may not seem completely satisfactory to those who want to know exactly how many dollars and cents of our stockpile are their wages, their interest, or their rent. They may very reasonably argue that we can't very well go to the butcher and pay him X dollars for a pound of steak and escape without a cleaver parting our skull. This is a practical world, those readers may insist, one that demands more practical methods for dividing that stockpile than the arrangements of X's, A's, and B's. Fortunately, as we shall see, our algebra will bring out answers in dollars and cents, answers more accurate and revealing than those we now receive from the simple arithmetic and statistics upon which so many economists—especially those of the "statistical" school—risk their opinions and our welfare.

Thanks to Ricardo's *Law of Rent,* a theory presented more than a hundred years ago by an English stockbroker, David Ricardo, it is possible to measure, in dollars and cents, just what part of the wealth we produce is rent. Once we know that, we shall also know that all that isn't rent must be wages and interest. Therefore, our next logical step should be an examination of Ricardo's Law of Rent.

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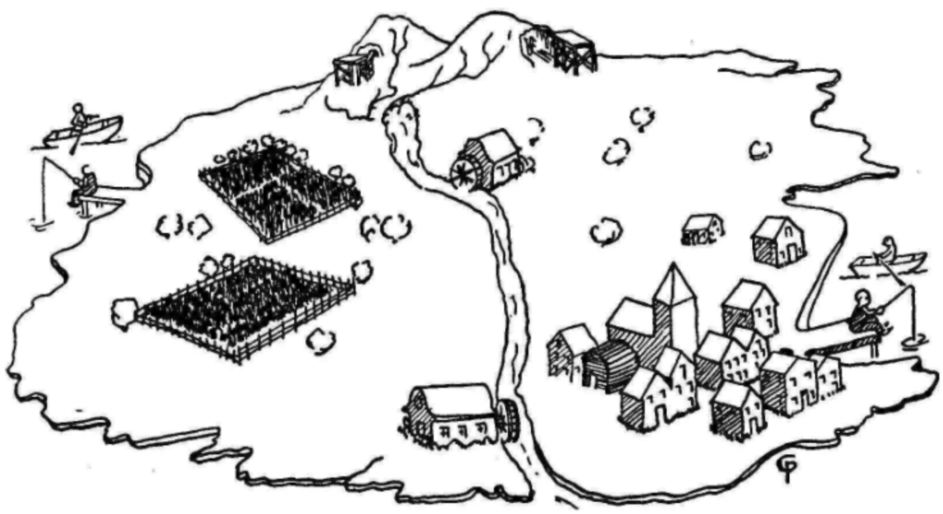
RICARDO'S LAW OF RENT

The rent, therefore, -which any land will yield, is the excess of its produce beyond what would be returned to the same capital if employed on the worst land in cultivation.—John Stuart Mill, *Principles of Political-Economy*

RICARDO SAYS that the difference between what is produced by two pieces of land upon which the same labor and capital have been spent is *rent.* Furthermore, he says that there is no rent on the least productive land in use. In essence, that is Ricardo's Law of Rent. But the full significance of the words with which the "Law" is expressed is not always grasped. Some explanation is needed to understand it fully.

As everybody knows, one piece of land may be superior to another for any of various reasons. To illustrate the variety of ways in which one piece of land may be better than another, we have drawn an imaginary country containing two farms, two fisheries, two retail stores, two mines, and two mills. In the community of the size we are imagining, it would be unlikely that there would be exactly two of everything, but to keep our illustration as simple as possible let us suppose there were.



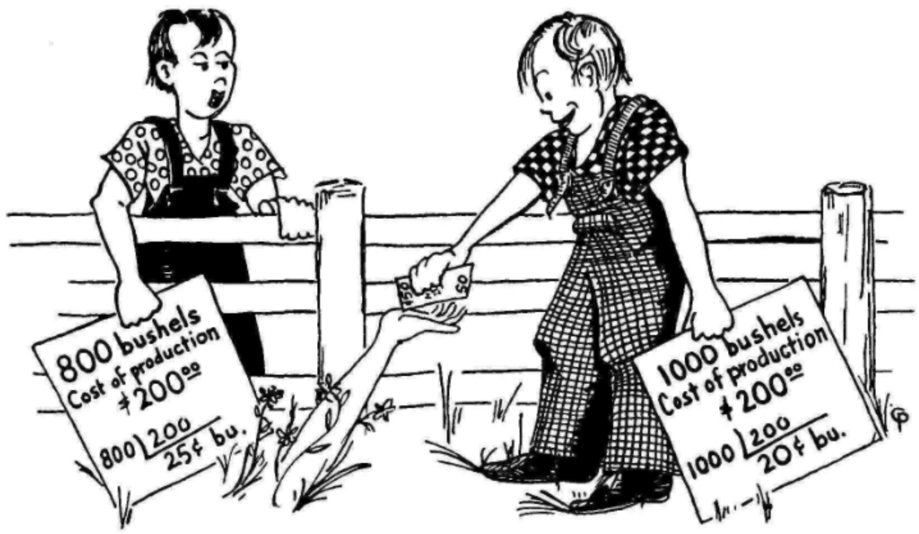
The farm at the edge of town, let us imagine, is owned by Zeke Korn, and the one on the outskirts belongs to Obie Cobb. Both happen to have the same number of acres under cultivation, both happen to have the same quality and quantity of seed planted, and both are equally good farmers. They work the same number of hours and with equal skill. In short, both men are equal to each other in all respects. But by the time their crop is harvested, Obie finds that he has 1,000 bushels to sell while Zeke has only 800. The difference between the two crops—200 bushels—was not the result of more or better capital or labor, for we know that both men used the same amount and quality of these factors. Therefore, the difference can't be interest (the return that results from the use of capital) nor wages (the return that results from the use of labor). The 200-bushel difference can have been only the result of one piece of land having fertility or other natural qualities superior to the other. Ricardo would tell us that the 200 bushels, being something that Obie's superior land gave him as a sort of gift, must be called *rent,* for rent, he says, is the difference in productivity between Obie's superior land and Zeke's land which is the poorest in use. Poor Zeke's land, or, should we say, Zeke's poorer land, produces no rent at all, according to Ricardo, because it is marginal land, which means it is *the least productive land in use.* There is no rent on the margin.

When the time comes to sell their crop, the idea of rent becomes a matter of dollars and cents. Since both men must sell to the same market, both must sell at the same price. If we suppose that it cost Zeke $200 in capital and wages to grow his 800 bushels, he can't sell his crop for less than 25¢ a bushel, since that is what it cost him to produce. At that price he just breaks even. But with the same amount of capital and labor—$200 worth—Obie harvested 1,000 bushels, which enables him to offer his crop, if he wished, for 20¢ a bushel without taking a loss.

If Obie dislikes Zeke more than he likes money, he might actually offer to sell his crop on the market for 20¢ a bushel. If he does, Zeke must meet that price or be stuck with his crop; for no one will pay him 25¢ for wheat he can buy from Obie for only 20¢. If Zeke should stubbornly refuse to take a loss of 5¢ a bushel by selling his crop at 20¢, he will lose the whole $200 in labor and capital he invested. If he does sell at 20¢ he will still lose 5¢ a bushel, or a total of $40. True, his neighbor Obie will make no profit by underselling Zeke, but he will at least break even.

It is more likely that Obie will not cut his price to 20¢ just for the fun of seeing Zeke lose $40. Not because Obie likes Zeke, but because, like most humans, Obie likes to make a profit. Accordingly, he will more likely offer to sell his 1,000 bushels at the same price Zeke puts on his 800 bushels—25¢. Zeke at that price will take in $200 and get his money back; but Obie, having 200 bushels more than Zeke, will take in $250.

Since both Obie and Zeke used the same amount and quality of capital and labor, the extra $50 that Obie took in cannot be either wages or interest. Ricardo would say that the extra $50 that Obie happily finds in his wallet is rent, because nature happened to have made the soil on his land more fertile than Zeke's. In other words, nature slipped an extra $50 into Obie's pocket.



It isn't only fertility that can make one piece of land superior to another. Nearness to the market makes one piece of land better than another to magically produce a rent. For example, let's look at the two fisheries. The one way up the coast belongs to Caleb Finn and the other, on the edge of town, belongs to Goodman Pike. Again, let's understand that both men are equally good fishermen, equally energetic and skilful. Both use identical nets, hooks, boats, and other equipment. And for the sake of argument, let's also agree that both are able to catch an average of 50 pounds of fish a day. Mr. Pike, who is nearest to the market, can fish all day and sell his catch right at the dock on the edge of town. But Caleb, living so far away from the market, must spend half his labor traveling to and from town, which leaves him only half a day's labor to fish. And so, with the same amount of labor and capital, the fisherman in town can catch and sell 50 pounds of fish each day, while poor Caleb must be satisfied with only half-a-day's catch, or 25 fish. The difference between the incomes of the two fishermen is due, as in the case of the farmers, to the superiority of Mr. Pike's land, which is superior only because it happens to be closer to the market. The difference, measured in fish or in money, is rent, since the increase wasn't due to either capital or labor but to the superior location of one piece of land. A better location put 25 fish a day extra into Mr. Goodman Pike's pocket.

Some land is superior because of richer mineral deposits. The ore of one of the mines in our drawing is richer than that of the other. The same labor and capital used in both mines for the same number of hours might dig out the same quantity of ore, the rock containing the tiny specks of iron. But after separating the iron from the worthless rock, we will find that one mine has yielded more *pure* iron than the other. The difference, then, between what one mine owner gets out of his mine as compared with what the other mine owner gets out of his—with the same labor and capital—is a free gift of nature. She just happened to deposit a greater proportion of iron in one stony hill than she did in another.

Now let's look at the two mills in our illustration. The mills and the skill of the labor operating them are identical. So is the machinery. But there is one important difference, and that is, one mill is built at the foot of a waterfall while the other is farther down the stream. That difference in location is important, because the machinery in both mills is run by water power. And since the stream naturally runs stronger at the foot of the waterfall, and spends its energy as it continues its journey down the hillside, the mill farthest from the falls will not get quite so much power to turn its mill wheel as the one built at the foot of the falls. In other words, even though the machinery is identical in both mills, the huge circular saws at the falls will operate with greater power and speed; and at day's end, as a result of the natural water power, one mill will have ground more corn or will have sawed more boards or will have produced more of whatever it is the mill produces. Since that extra wealth produced could not have resulted from either capital or labor, since those factors were exactly the same in both mills, and since the increase could have been due to nothing but a superiority of water power given by nature to one piece of land, the difference in goods produced can be nothing but rent.

Apparently, then, it isn't necessarily greater fertility that makes one piece of land superior to another. Nor is it always nearness to the market nor richer mineral deposits. It may be any natural or artificial advantage. In our example of the two mills it was water power. But there are many other natural opportunities that might make one piece of land more productive than another. Wind to power windmills, for example, or sunshine to attract vacationists or to power solar engines; river, lake, and ocean harbors to make shipping easier—all of these opportunities are natural qualities of the land that are not produced by man but are given freely by nature. The rent they produce is a gift of real dollars-and-cents wealth given to the lucky man who happens to produce on any land that is better than the least productive land *in use.*

43

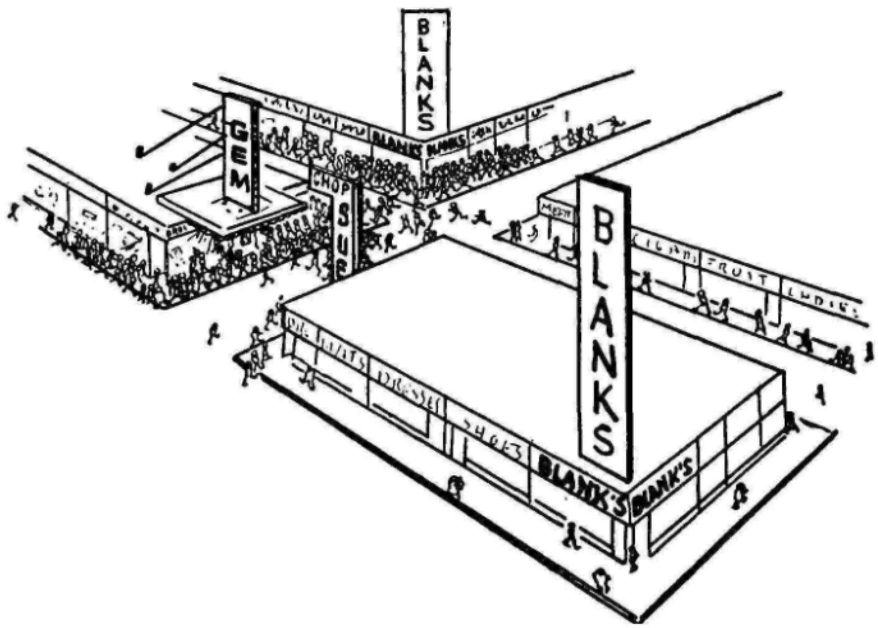
POPULATION PRODUCES RENT

J *conclude, that as People double faster now than they did in former Ages, so ye Rents of Lands must also rise proportionately. . . .*

—Sir William Petty

WE HAVE SEEN how rent comes into being through the qualities of land itself, qualities provided by nature with no help from man. We have seen how richness of soil, nearness to the market, the concentration of mineral deposits, and the strength of natural forces have produced rents of the kind Ricardo revealed. But by far the most important producer of rent is population—large numbers of people simply walking over the land. The two stores in our drawing will serve to demonstrate how it works.

Imagine the two stores to be in any city in the world. We can do that because the Law of Rent is a natural law, a universal law, that always works the same way everywhere, in New York as well as Squeedunk. If it didn't it couldn't be called a natural law. Therefore, to make it easier, let's say that the two stores we are imagining are in the reader's home town, the city he knows best. And let him further imagine that in his town, a Mr. Seller owns two identical shops, and that he owns the land upon which they are built. Both shops are exactly alike in every respect. They're the same size, they're designed alike, they feature the same merchandise at the same prices. The fixtures and window displays are also identical, and the employees are equally efficient and conscientious. The stores differ only in location. That is, one is located on very busy Main Street and the other on Joy Street, where fewer people stroll and shop. Naturally, the store on busier Main Street sells more than the other. For the sake of argument, let's say that it does $200 more a week in sales than the Joy Street store. Since all other things were equal—same labor, same capital, same management—the only possible cause for the $200 difference between the business done in Mr. Blank's two stores is the greater number of people in the busier area. Because the $200 was an increase for which the superiority of one piece of land was responsible, the extra $200, Ricardo would say, is *economic rent.*



The superiority consisted of heavier population—a greater number of people passing a given spot each hour.

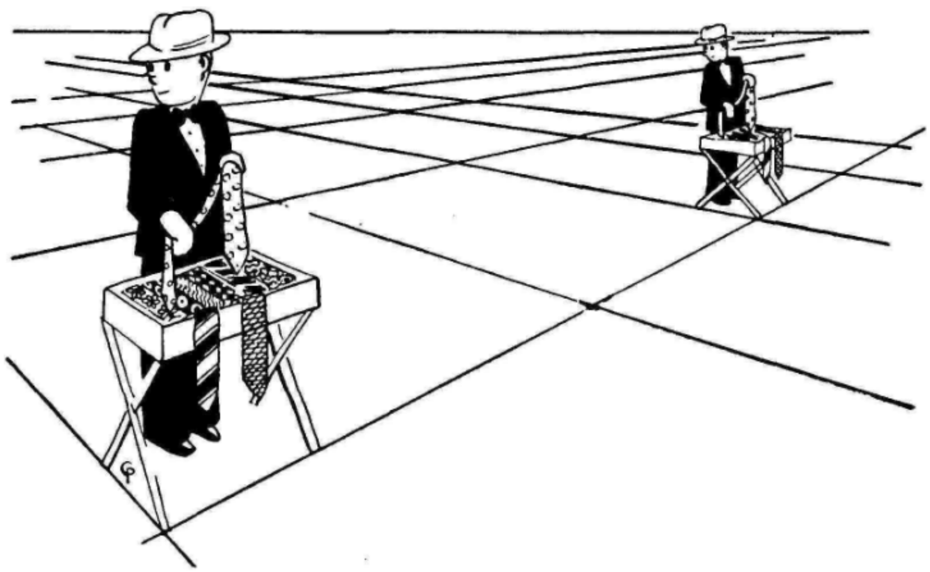
To prove that crowds do in fact produce rent, the Poleco-ist asks us to imagine that a year or so later some theaters are built on Joy Street and that the busline that formerly ran along Main Street changed its route and now travels down Joy. Any merchant will agree that more people who formerly paraded along Main Street will change their habits and will begin to stroll and shop on Joy Street instead. Mr. Blank's Joy Street store will then do more business as a result and his Main Street store will, of course, do less. The Main Street store, now the less productive of the two, will no longer produce a rent, but the Joy Street store, now doing more business than the other, will. Rent grows wherever the crowd goes.

In our example, Mr. Blank owned the stores as well as the land upon which they rested. If he didn't, he would have been compelled to pay a different amount of money to whoever owned them for the right to use the locations. The amounts he would have to pay—in *contract rent*—would have been at least equal to the *economic rent,* the rent he collected in extra business from the more advantageously located store. As a result, Mr. Blank would have made no more, after he paid *contract rent,* in one location than he would have made in the other. The additional business produced by society, *economic rent,* would have had to be paid to the owners of the land he used. As owner, Mr. Blank paid the rent to himself, simply taking the rent he collected from the better location from his one pocket and paying it into his other.

So we see there are actually two kinds of rent: *economic rent* which develops by itself from the natural qualities of land, and *contract rent* which is simply a payment made by one man to another for the right to use a piece of land. *Economic rent* isn't paid, and it can't be paid, by one man to another. It can only be collected by the user of land from its superior qualities. *Economic rent may be collected even where no rent is paid.* That may seem confusing to the reader at first, but can be shown to be true quite easily if we imagine two brothers peddling neckties on the street corners of New York.

One of the brothers, Alphonse, sets up his "pitch" on the 42nd Street side of the Public Library, and the other brother, Basil, sets up his suitcase on the 4©th Street side. Since they are using public streets, neither is paying rent to anybody. To make sure that we keep our two stands absolutely equal so far as capital, labor, skill, and ambition are concerned, we must imagine that every hour the two brothers change places. By doing so, each of the brothers spends half his time on 42nd Street and half on 4oth. Both sell neckties of one quality, at the same price, and of the same range of patterns. Their stands and signs are duplicates. In other words, the stands (their capital) and the amount and quality of the labor used are exactly alike on both streets.

In spite of their alikeness, the stand on 42nd Street, as any New Yorker would guess, must sell many times more neckties than the other, simply because thousands of people pass there every day while only a handful of people use 4oth Street. If we assume that the 42nd Street stand earns fifteen dollars a day, it is unlikely that the 4oth Street stand would earn more than eight dollars. Clearly, since the seven-dollar difference between



the incomes earned on the two locations cannot be due to either labor or capital, which were identical on both locations, it must have been produced by the superiority of 42nd Street over 4oth Street. The seven-dollar difference obviously was caused by the heavier traffic on 42nd Street—by humans passing by—and therefore can be nothing but *economic rent.* Although the brothers *collected* rent—in actual dollars and cents—from the 42nd Street location, they didn't pay any. When the brothers, whether Al or Basil, peddled on 40th Street, no rent could be collected from that location because it occupied *marginal* land—by definition *the least productive land in use,* and, according to Ricardo, *there is no rent on the margin!* That "margin" of which Ricardo speaks is, perhaps, the most important idea in political economy. It's rather difficult to understand, but once it is understood it opens a world of answers to some of our most perplexing problems. So, in the following chapters, let's examine it slowly and carefully.

44

THE MEANINGFUL MARGIN

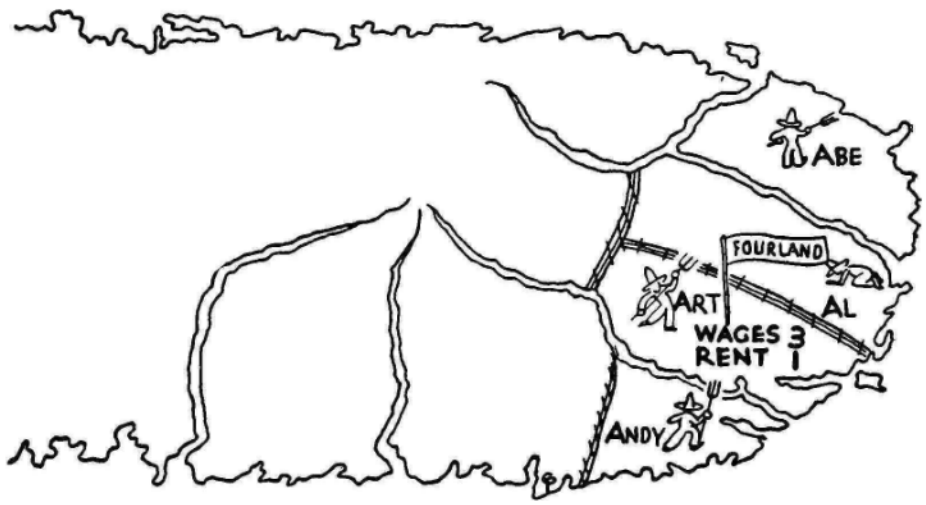
Yet, in every colony settlers could find land on which to produce. . . . Nothing was needed to furnish a generous and diverse food supply from the cultivating of the earth except implements, skills, good management, and hard labor.
—Beard, A *Basic History of the United States*

VARIOUS NAMES have been used to express the idea of marginal land. Economists, speaking of the least productive farm land, call it the *margin of cultivation.* If it is city land used to manufacture or to trade goods, the same economists might speak of the *margin of production.* Since there is no fundamental difference between agriculture and manufacturing, both being part of all production of wealth, we may with more safety and with less likelihood of confusion simply call the least productive land in use, regardless of what it is used for, *the margin.* But let's remember that the words *in use* are the important ones. According to Ricardo, the *margin* is not the least productive land that exists, but is the *least productive land actually in use.*

To understand more fully the nature of the margin and how it affects almost every event in our lives, let's imagine a new, unsettled area, a wilderness thrown open to settlers, as this continent was to the Pilgrim fathers, or as the West was to our own pioneers and frontiersmen. The first settlers entering the area, like the human beings they are, would undoubtedly select the best land they could find and would immediately fence it in. Now let us suppose that the first settlers, Abe, Al, and Art, have fenced off a section of the very finest land for themselves. On their lands, a certain amount of labor and capital will produce four units of something: four bushels of corn, four tons of iron, four thousand pounds of beef on the hoof, four million dollars in retail sales—four of *something*. Exactly what form of wealth is actually produced on this land isn't important to our purpose. So, to avoid confusion, let's agree that Abe, Al, and Art are producing wheat, four thousand bushels of it, and that all use the same amount of labor and capital to do so. As our story opens, Fourland (that's the name of the community Abe, Al, and Art have settled) is the only land in use. That means that, since it is the only land in use, it is the very best and at the same time the very poorest in use. And since the poorest land in use is *the margin,* all land at this stage of our story is *marginal land*. Because there is no rent on marginal land, every grain of wheat that the boys produce on their piece of land is their wages and interest, for all of it is the product of their labor and capital. If Al works harder, that is, if he puts more labor into his land, he will collect more wages in the form of extra wheat from his land. If he should use more—or more efficient—capital (seed, fertilizer, machinery) he may reap more bushels as interest. Or, if Art should put less capital and labor to work, he will find less in wages and interest coming up out of his land in the form of wheat. But in our example let's imagine that all three men work equally hard, with equal skill, and with identical capital. Each then earns four thousand bushels of wheat, and it's all wages and interest.*

* If the reader is being confused by our speaking of receiving wages and interest in the form of wheat, let him imagine that the three men sell their crop at one dollar a bushel. Then, clearly, each man will receive four thousand dollars in wages and interest out of his land in return for the labor and capital he put into it.

We can well imagine how the people far .from Fourland reacted when they heard about Abe, Al, and Art, and of the free land the boys had taken for themselves, and of the fact that everything produced in Fourland is wages and interest for the producers. They behaved exactly as the Europeans and Chinese did when they heard of the free land and high wages in America;

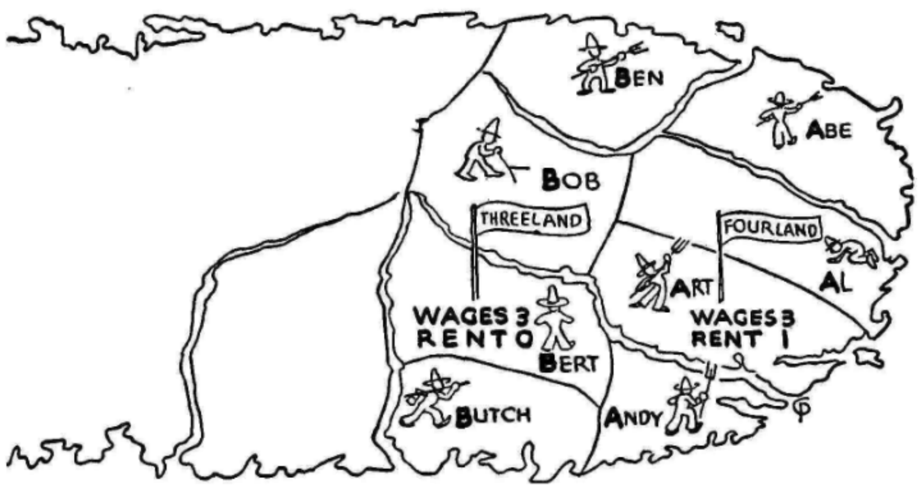


exactly as the Easterners did back in 1849 when they heard about the free gold in California that belonged to anyone who staked out a piece of gold-bearing land for himself. The following lines from the "National Histories Supplement" of *Webster's New International Dictionary* may give us some idea of how fast people pile into a territory where free land is to be had:

In 1790 a civilized population of about 109,000 lived west of the Alleghenies. In 1815 there were about a million; and by 1830 about 2,300,000. Cheap public lands and the opportunities to develop homes on the fertile soil attracted immigrants from all the Eastern States.

So, without too much sorrow, those who heard of the good fortune of Abe, Al, and Art tore themselves away from their "happy" homes and swarmed into Fourland. Unfortunately, when the first of the newcomers, Ben, Bob, and Butch, arrived, they found that all of Fourland was already owned by Abe, Al, and Art. Accordingly, they satisfied themselves by grabbing as much of the next-best land as they could fence in, and they called their community Threeland. The name was quite appropriate, since by using as much labor and capital as the Fourlanders did, they got only three thousand bushels out of their land. Mother Nature, it seems, hadn't made Threeland quite so fertile as Fourland.

Once the newcomers had gone into producing crops, Fourland was no longer the margin, the least productive land in use; Threeland was. And of course everything Ben, Bob, and Butch produced on their land—the whole three thousand bushels—



was their wages and interest. Since the extra one thousand bushels collected by the Fourlanders was not the result of their labor or capital, they must have been rent. They still collected four thousand bushels of wheat from their land, but now only three thousand are wages and interest; the other thousand bushels is rent.

It may be argued by the reader that calling one of the four thousand bushels *rent* doesn't necessarily make it so. Since the Fourlanders keep the whole four thousand bushels, just as they did before the Threelanders arrived, the reader might quite understandably suggest that the Fourlanders are earning four thousand in wages and interest while the Threelanders are earning only three thousand. But we need only imagine that Butch, a Threelander, for some reason or other chooses to go to work for Al, and we shall see quite clearly that wages and interest are, in fact, three thousand bushels on Fourland as well as on Threeland.

Let's suppose Butch walks over to see Al, and asks him for a job.

"Yes," Al might say, "I could use a man like you around here. I've certainly got more land than I can work alone. Most of it is idle. With your help, I could farm twice as much of my land."

"Good. I'll bring my own tractor, seed, and other stuff—my capital—and start working right away."

"Just a minute, Butch. I think we ought to talk a little more about it. How much wages do you want?"

"Whatever I and my capital produce. Whatever wheat I get out of the ground will satisfy me."

"On *my* land? No. That won't do. That way I'd be getting nothing at all out of my land and I'm getting that much now leaving it idle. I'm sorry, Butch."

Butch starts to walk away somewhat disappointed. Suddenly he stops, turns around, and says, "I guess you're right, Al. I wouldn't let anyone work for me either if I didn't get *some* benefit out of it. How much will you pay me?"

Al thinks a minute or two, before answering. "What do you say we split half and half? My idle land, if worked, can produce four thousand bushels. Let's divide it equally, two thousand for you and two thousand for me."

"Nothing doing. I can make more than two thousand bushels with the same amount of work and capital on my own Threeland. Why should I work just as hard to make only two thousand working your land?"

"I see what you mean, Butch. I wouldn't work for someone else either if I couldn't make as much as I could working for myself. Okay, I'll pay you three thousand bushels; as much as you earn on your own land. That'll leave a thousand bushels for me."

Butch is a shrewd bargainer. "Make it 3,200 bushels, and we'll call it a deal."

After a moment's thought, Al agrees. Even if he pays Butch 3,200 bushels he'll still be making eight hundred bushels off land that would otherwise be idle—and, best of all, he won't have to do a bit of work to earn it.

It may seem to the reader that the Poleco-ist was wrong when he said that wages and interest were the same on both Fourland and Threeland. For, according to the above incident, Butch's wages and interest on his own Threeland were two hundred bushels less than his wages and interest on Al's Fourland. But we haven't taken human nature into account. When Ben and Bob, the other Threelanders, hear that Butch is making two hundred bushels more than they by hiring himself out, they're going to act like all human beings—they're going to run over to Fourland for jobs, too.

"Hello, Al," Ben might say. "How about giving me and my capital a job?"

"Well, I don't know. How much do you want?"

"Same as you're paying Butch. I'm just as good a farmer as he is."

"Yes, I know you are. But I don't need any more than one man. Might just as well keep Butch. Why don't you boys run over and see Abe and Art? They've got some Fourland, too."

"We saw them. They don't want to pay us more than three thousand bushels, maybe a hundred bushels more. We can make pretty near that on our own land."

And then, as men always do when there are more men than jobs, Ben and Bob began to bid against each other. Ben offered to work for 3,175 bushels. Bob said he'd work for 3,150. Before long, Al had to enter into the bidding to protect his position, and eventually the job paid three thousand bushels, exactly what the boys could earn working for themselves. *Wages and interest at the margin are the wages and interest on the best land, too.*

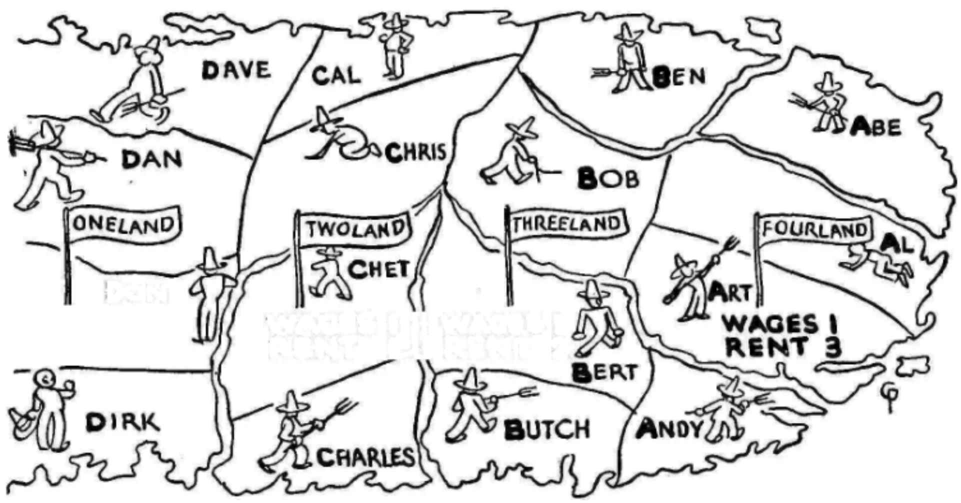
There is still plenty of free land around our imaginary settlement, and consequently more pioneers come in to get some of it. But when they arrive, they find that the best land is already fenced in by the Als, Abes, Arts, Bens, Bobs, and Butches. The land the latecomers Cal, Charles, and Chris finally fence in for themselves can produce only two thousand bushels if they put in an amount of labor and capital equal to that used on the better lands. Of course, they call their lands Twoland. Since theirs is now the least productive land in use, the margin moves down from Threeland to Twoland and, as might be expected, two thousand bushels becomes the wages and interest on the best land as well as the worst. The Fourlanders now collect two thousand bushels as rent, the difference between what can be

produced on Fourland and what can be produced on the least productive land in use (4,000 — 2,000 = 2,000). The Threelanders, who before the arrival of Cal, Charles, and Chris collected no rent, now collect one thousand bushels in rent (3,000 — 2,000 = 1,000). And of course the Twolanders collect no rent, since they are using marginal land.

Still later another batch of land seekers comes. The best they can get is land that, with the same amount of labor and capital, produces only one thousand bushels. They, the Daves, Dans, and Dons, settle on their Oneland, and as they begin to produce, the margin falls again. Now, only because poorer land was put into use, wages and interest drop to only one thousand bushels on

Oneland, Twoland, Threeland, and Fourland. At the same time rent naturally shoots up to one thousand on Twoland, two thousand on Threeland, and three thousand on Fourland.

If Butch should ask Al for a job now, we may be sure he couldn't expect to earn as much in wages and interest as he could working his own Threeland. For Al can hire all the Onelanders he wants for much less than the three thousand bushels he offered when Threeland was the margin. Onelanders would jump at the chance of earning even fifteen hundred bushels, since that's



much more than the thousand bushels they can make working for themselves. So, since all of the Onelanders would compete for any such "marvelous" wages, Al wouldn't have to pay a bushel more than one thousand bushels, the wages and interest that might be earned on the least productive land in use. By simply allowing Onelanders to work his land, and by allowing them to keep as much as their labor and capital would produce for them on their own land as their own bosses, Al can claim three out of every four bushels they produce. Al, without doing a lick of work and without investing a nickel's worth of capital, earns three times as much as his tenants.