50

INTEREST

Gratiano speaks an infinite deal of nothing. . . . His reasons are as two grains of wheat hid in two bushels of chaff: you shall seek all day ere you find them, and -when you have them, they are not worth the search.—William Shakespeare, *Merchant of Venice*

UNDOUBTEDLY, no part of political economy has been snarled into such hopeless confusion as has interest. The following are only a few of the strange, groundless ideas relating to interest that have grown in the minds of the public at large:

Interest is the robber of industry. (We can thank the Marxists for this strange concept.)

Interest is any income, other than wages, we can get. Interest is what we get for lending our money to a person or a bank.

Interest is the premiums that bond and preferred-stock holders receive.

Interest is what the boss has left after he pays his help and operating expenses.

Interest is profits made by speculating on the stock market.

Interest is the difference between the value of present and future goods. (Bohm-Bawerk gave us that one.)

Interest is the payment made to capitalists as a reward for saving their wealth—for abstaining from using it.

Interest is any wealth obtained by exploiting labor. (Another Marxist idea.)

None of the above is logically sound. Some, upon careful examination, become absurd. Most of them have nothing to do with interest, but are more closely related to *tribute, usury, insurance,* and *managerial wages.* The temptation to reveal the fallacies in each one of the weird ideas of interest we've listed is almost irresistible. But to do so would require a dozen pages that might be used to far better advantage. Instead of proving what interest isn't, let's find out what it is by considering its nature.

It seems that economists who have started out to discover *what interest is* have ended up, invariably, by explaining why a borrower should pay a moneylender for the use of his money. It's like starting out to learn what a pig is and ending up by explaining why an elephant can't ride a bicycle. Perhaps it is because interest is too simple to understand, too simple to be worthy of scholars who aren't satisfied to match their intellect against any problem that isn't beyond human understanding. Whatever the reason, the fact is that almost every current economic textbook speaks of interest as that which a borrower pays for the use of money or goods.

But that can't possibly be interest in the economic sense! As we have seen, three factors — land, labor, and capital — contribute toward the production of wealth. All three play a part in increasing the stockpile of wealth, which is then shared by the owners of land, labor, and capital. Rent, we learned from Ricardo, is that part of the stockpile that resulted from the use of superior land. Wages, as almost everyone knows, is that part for which labor, the second factor, was responsible. And it seems self-evident that interest, if anything, must be the remaining part that was produced by the remaining factor, capital. Nothing could be neater, or easier to understand. And yet, present-day economists and professors of political economy just can't or won't see it.

Most economists agree that interest, as our drawing indicates, is the part of the stockpile that is caused by the capital used. They further agree that money is not capital. And then, through some strange reasoning process, they conclude quite illogically that interest is an amount of money paid to a moneylender by the borrower. That's like saying that man is part of the human race; horses are not members of the human race; therefore, man is the payment made for a horse. Obviously, interest just can't be an increase in production and at the same time be a premium paid for the use of money or goods. As any good dictionary will tell us, it is *usury*—not *interest*—that is *"a* premium paid for a loan of money or goods."

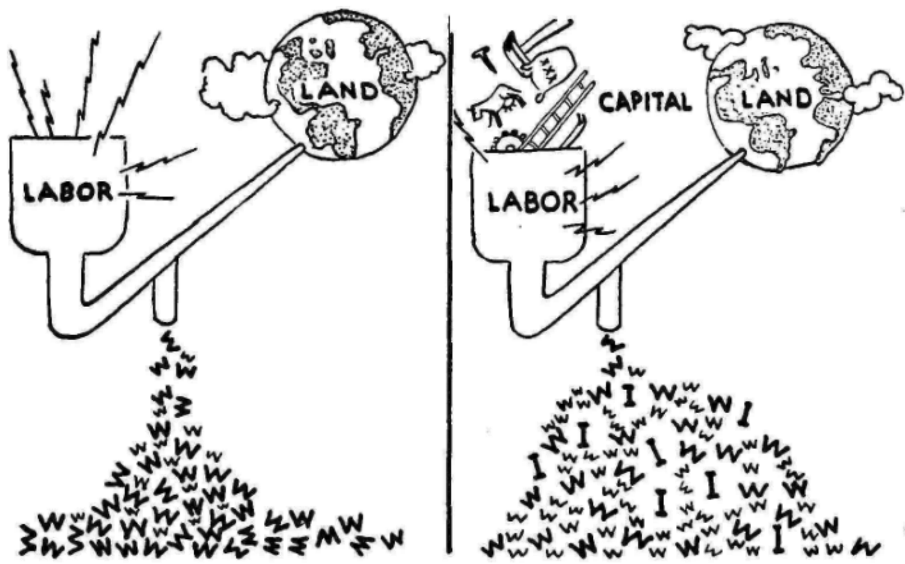
There may be some excuse for moneylenders avoiding the word *usury.* They may be somewhat ashamed to use the word because of the bad name Shylock has attached to their profession. But the economist can't expect to be forgiven for deliberately avoiding the use of the word, since he, above all people, should know the difference between usury, which is the payment for the use of money, and interest which, he agrees, is an increase in the stockpile of wealth. If he agrees that money isn't capital, and that only capital can produce interest, logic demands that his conclusion be: payment for the use of money or goods cannot be *economic interest.* And yet, in most of our universities today, professors go right on teaching that interest is the 4% or 6% that the borrower pays the bank, insurance company, or other moneylender.

If the word *interest* is to be used to symbolize the payment of a fee made by the borrower to the lender, in all fairness let its use in that sense be limited to the field of finance where it belongs. That's the sense in which Aristotle used it when he wrote:

The most hated sort [of wealth-getting] and with the greatest reason, is usury, which makes a gain out of money itself, and not from the natural object of it. For money was intended to be used in exchange, but not to increase at interest. And this term interest, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent. Wherefore of all modes of getting wealth this is the most unnatural.

If the reader has been following the Poleco-ist closely, it must be quite clear to him by this time that since capital, like labor and land, is a factor of production, it must produce something—

it must either add some material goods to our stockpile of wealth, or *it isn't a factor of production.* Whatever increase capital *and capital alone* added, that increase is interest. That is why, when the Poleco-ist uses the word *interest,* he means only one thing: *that part of the stockpile of -wealth that resulted from the use of the capital used in its production.* He might further define it as *all that's left of the stockpile of wealth after rent and wages have been deducted.*



51

LABOR-SAVING CAPITAL HELPS ADD WAGES TO STOCKPILE

Judge not according to the appearance .
. . —John 7:24

EVERYTHING in our stockpile of wealth that would have been impossible to produce without capital isn't necessarily interest. For if it were, our entire stockpile would be interest, because practically all of the wealth found in a civilized society is produced with the aid of capital of some kind. On the other hand, since no wealth can be produced without land, it might be argued just as reasonably that the entire stockpile is rent. And an equally sound argument could be advanced to prove that all wealth is wages because without labor no wealth whatsoever could be produced. All three arguments can't be true, since each contradicts the other. None is true. For it is only that part of the stockpile that resulted *entirely* from the labor used that is properly wages; it is only that part that resulted *entirely* from the *superior* land that is rent; and it is only that part for which capital was *entirely* responsible that is properly interest. And while there is a difference between interest and wages, it is so slight that one might easily be mistaken for the other. To demonstrate, let's return to our old friend John Dough, the baker.

If we had climbed down the flour-covered stairs of his basement a year ago, we'd have seen John busily cutting out rings of dough with a cookie cutter and then dropping them into a caldron of boiling oil. Soon, beautifully golden doughnuts would have bobbed gaily to the surface, to dance among the bubbles until John removed them and set them aside to cool and drain free of oil. Doughnuts, let's pretend, were quite popular in John's neighborhood, and he had been selling them as fast as he had been able to make them. But making them by hand and selling them at fifteen cents a dozen took so much time that John didn't make much on them.

That is why, when a doughnut-machine salesman called on John some days later, he had little trouble making a sale. In the automatic machine, John saw an opportunity to make more doughnuts faster. The salesman explained that the new machine would soon pay for itself out of the greater number of doughnuts John would be able to make with it. If we should ask John, he would say that his new machine represented a capital investment, and that all of the doughnuts it would produce above the number he produced without it would be the interest earned by his capital. Many economists would probably agree. And yet, as we shall see, those extra doughnuts would not be interest.

Let us say that John used to make 25 dozen doughnuts a day without the machine. At 15¢ a dozen, he used to take in $3.75. But with his machine, John can fill it up with batter, push a button, and then walk away from it to do other work while his doughnut maker all by itself turns out two hundred dozen doughnuts. Sold at the same price, they will bring in $30.00. We would then see an increase in our stockpile of wealth: 175 dozen additional doughnuts. All those extra doughnuts certainly seem to be interest.

Before long, however, other bakers will have heard about John's earning $25.00 extra every day since he got his new doughnut maker; and, being human, they'll rush to buy machines like his. Soon, as a result of all of the bakers stepping up their doughnut production, there'll be more doughnuts on the market than people will buy. After all, there's a limit to the number of doughnuts a person can eat. Rather than be stuck with a supply of unsold doughnuts every day, the bakers will *naturally* cut down on the quantity of doughnuts they make. They won't work their machines full time, but just long enough to make the doughnuts they know they can sell. Eventually, John, like the other bakers, will be making no more doughnuts with his machine than he did in the days before he bought the doughnut maker. However, John will find that his machine enables him to produce as many doughnuts as he did before, but with less effort and in less time; and that of course means that his wages per hour, as a doughnut maker, has been increased. For just pushing a button, he is rewarded with the same number of doughnuts—$3.75 worth—as he formerly received for cutting out rings of dough, dropping them into boiling oil one at a time, spearing them, and finally arranging them on brown paper to dry. In other words, there will be no greater number of doughnuts on our stockpile than there were before; but those that are there will still represent mostly *wages,* since they are the product of John's labor, just as they were before John bought his machine.

The time John saves, he can use to produce eclairs, biscuits, or cookies. An increase of those things on our stockpile will also be *wages,* the return for the greater efficiency of John's labor— labor made more efficient by capital—by a machine that permitted him to produce as much by pushing a button as he formerly did by cutting out and fussing with doughnuts.

Or let's suppose we are talking about a shoe factory completely equipped with the very latest types of high-production machinery. Certainly that factory and its equipment would be considered to be capital, and the huge volume of shoes it turns out with so little labor might seem, at first, to be interest, since it is undoubtedly adding so many shoes to our stockpile of wealth. Actually, however, it doesn't necessarily add a greater number of shoes, but less expensive ones. The mere invention of shoe-making machinery doesn't increase the number of human feet in the world; and there can be no more shoes made than there are feet that can afford to wear them. And so, again, it isn't an increase of capital—interest—that the machine-made shoes represent, but the earnings of labor made more efficient through the use of machinery. If the extra shoes produced with machinery were interest, the rate of interest would increase just as fast as labor-saving machinery is improved. The rate of interest would be greater when the sewing machine was invented than it had been in the days of hand sewing. It would go still higher with the development of mass-production sewing such as we find in the garment trades today. But the facts are quite the contrary. Interest rates have steadily fallen with the development of each new invention. But wages, that is, the amount of food, shelter, and clothing that a day's labor will buy, have steadily increased with the advance of invention and the development of faster, more automatic machines. Even a tramp, today, thanks to improvements in road-making machinery, can bum along smooth, clean highways, whereas the hobo of fifty years ago had to stumble along dusty, bumpy, and muddy roads.

One more example, this time in a very simple sort of industry, will be sufficient to mark the almost invisible difference between wages and interest. Let's imagine, this time, an apple picker who earns his living by shinnying up a tree, loading his arms with as many apples as he can safely hold, climbing down, placing his fruit carefully on the ground, and then shinnying up again for another load. If he continues to work that way all day long, he can probably gather as many as a hundred apples. They will of course be his wages, the produce of his labor. Now let us suppose he is approached by a bag-and-ladder maker who explains the advantages of owning one of his bag-and-ladder combinations, and who then offers him a "ten-day FREE trial.*

The bag and ladder he borrows is certainly capital, wealth used to produce more or other wealth. With their aid, he can climb up and down the tree faster and with less labor. By filling the bag slung over his shoulder, he finds he can gather larger loads. The bag, therefore, saves him the trouble and time he formerly spent climbing up and down the tree. Most important, he ends his day's work with seven hundred apples—six hundred more than his labor unaided by capital formerly produced. But we can't say, simply because the extra six hundred were made possible by the bag and ladder, that those six hundred apples are interest. If they were, the bag-and-ladder maker would have a right to demand all six hundred apples that were produced by his capital, since he still owns the bag and ladder. But no man in his right mind, even if he had no understanding whatever of economics, would pay the bag-and-ladder maker six out of every seven apples he picked.

Rather than pay so much, or even three apples out of every seven, for the use of the ladder and bag, our apple picker would take a little time out to make his own. Or if he lacked the skill to do that, he would certainly shop around among other ladder-and-bag makers and buy from them at the lowest possible price. (We must presume that there are other ladder-and-bag makers, for if we don't, the payment of six out of seven apples would be *tribute* demanded by a monopolist rather than "interest" charged for the loan of capital.) If our apple picker should buy the ladder and bag, there'd simply be an exchange of wealth, the apples of the apple picker for the product of the ladder-and-bag maker. Since such an exchange, in itself, does not add a single apple, bag, or ladder to the stockpile of wealth (the same number existed before and after the exchange), no interest has resulted from the transaction, but simply an increase of satisfactions for both men, which is the invariable result that follows every exchange of goods.

But there was an increase in our stockpile—six hundred extra apples—after the ladder and bag were *put to use.* Yet, although, the bag and ladder did make the extra six hundred apples possible, we can't say *they* produced the increase. The bag and ladder did no more than add to the efficiency of the apple picker's labor. Before he used the labor-aiding capital, he had to spend much of his labor in tree climbing, a form of labor that didn't produce a single apple. But the tools he used later permitted him to spend more of his time and labor in *actually picking apples,* labor that was highly productive. The six hundred additional apples, then, resulted from this more efficient use of the apple picker's labor, and since it was a product of more efficient labor, the increase is more properly wages—not interest.

At this point in our investigation, the reader might suppose that the Poleco-ist is saying that capital doesn't produce interest; that everything that isn't rent is wages. But that isn't quite so. The Poleco-ist simply says that *dead* capital usually adds to the efficiency of labor, thereby increasing wages; but he concedes that *live* capital, the kind that produces its own increase *without the help of labor,* does, as we shall see, add *economic interest* to the stockpile of wealth.

52

LIVE CAPITAL PRODUCES INTEREST

He [the farmer and stock raiser] is, therefore, the sole source of the riches . . . because he is the only one whose labor produces over and above the wages of labor.

—Turgot

IT WILL BE RECALLED, from our chapter on capital, that some forms of capital—machinery, tools, factories, bags and ladders, etc.—are dead; useless unless they are employed by labor, since they cannot operate themselves. It will also be remembered that some forms of capital—animals, plants, and any other forms that grow and reproduce themselves—continue to produce wealth even after the laborer has gone to sleep. They are live.

A man who invested his wealth in producing lawnmowers or factories would require roughly twelve times as much labor and capital to produce twelve as he would to produce only one. But if he wanted twelve rabbits or cows, he'd simply put a male and female of the species together in a field and let nature do the rest. It would be only a matter of time before he would have many more than the dozen animals he wanted. Twelve would require no more labor and capital than one. All of the animals other than the capital he started with (one pair of rabbits) would certainly be *economic interest,* since almost no labor was involved in producing the increase.

A candymaker would have to spend a dozen times as much in labor and raw materials to produce a dozen times more candy; but a beekeeper can produce pound after pound of honey and wax with no more effort than is needed to place one queen bee inside a hive. She does the rest. She attracts the workers and the drones, produces baby bees, keeps the whole hive busy, and in time what started out as one lonely but mighty attractive insect in a wooden box finally becomes pound after pound of nutritious honey and valuable beeswax. Since there was no labor added after the queen bee was set up in business, all of the increase is obviously interest, *entirely* the produce of *live* capital. Most of the sweet, sticky honey we now find in our stockpile of wealth is undoubtedly interest. And so are the millions of pounds of beef, eggs, milk, corn, wheat, and other products of *live* capital. Such things were produced, for the most part, without much help from man's labor. So, for the most part, they can't be anything but interest.

It becomes clearer now that all wealth used to produce more wealth does not, in itself, produce an increase. A thousand dollars' worth of gold and silver placed in a chicken coop or in the safe of a factory will not, in a year, increase itself by one thin dime. But a hundred dollars' worth of hens, and a conscientious rooster, placed inside the same chicken coop during the same time will increase themselves not only in numbers but in pounds of meat, feathers, eggs, and fertilizer—all salable wealth. That is true, of course, only if man provides plenty of food and keeps natural enemies away from the coop. But even with food and protection supplied, neither money, gold, nor silver can increase itself. We might safely say, then, that only living capital—plants and animals—produces an increase with almost no help from labor. In other words, *only capital having the power to reproduce itself can possibly produce real interest.*

But—and it's a very important *but*—the idea of capital isn't any one thing, but is all of the things in our stockpile of wealth that are removed and put to work producing more or other wealth. Capital isn't the surplus wealth of one neighborhood, or of one country, but is all of the surplus wealth-producing wealth that exists in the world. And it is that fact that leads the Poleco-ist to suspect that all capital, both the live and the dead forms *combined,* produces an average increase in our stockpile of wealth. Just as we say that chickens produce eggs, although we know that even the most determined rooster, a chicken, can't lay one, the Poleco-ist says capital produces interest, understanding, of course, that it is only the live kinds that actually do the producing. Nor is that simply the Poleco-ist's way of weaseling his way around an obstacle. For just as the rooster, a nonproducer of eggs, is still a very active factor in the poultry business, so is dead capital—machinery, etc.—very necessary to the increase produced by live capital. True, to imagine a world without live capital is to imagine a world without any

capital whatever, since the raw materials of all industries—except the mineral and fuel industries—are of the living capital variety. On the other hand, without dead capital—barns, fences, tools, feed, fertilizer, mills, factories—man wouldn't be able to use interest-producing live capital.

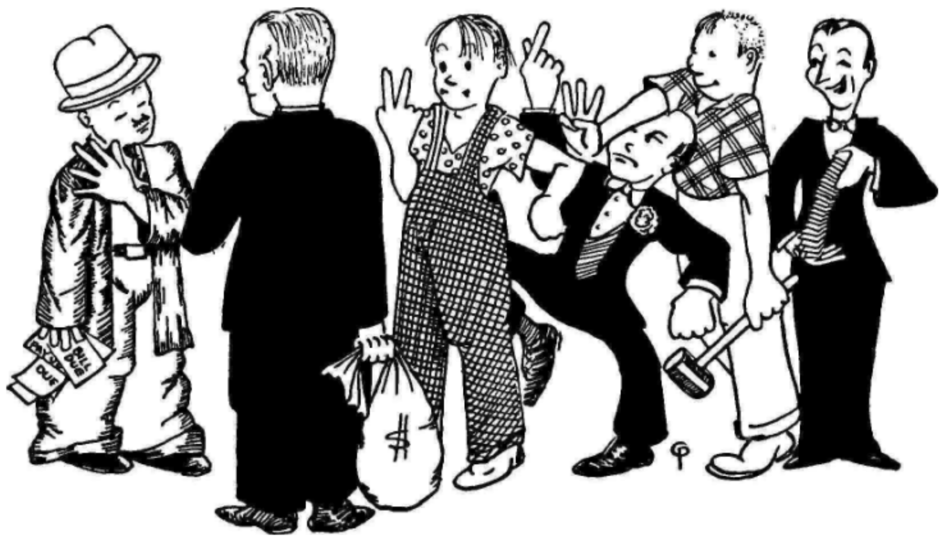
The initial cause, then, of true interest, would seem to have something to do with life and the power to reproduce. And since any natural increase in living capital requires more or less time, it becomes obvious that time also must be related to interest. With those characteristics of interest in mind, we should be able to see more clearly why people are willing to pay for the use of capital, why moneylenders are able to collect payment for the use of their money without the aid of a baseball bat, and why the rate of interest is two percent sometimes and ten percent other times.

53
WHY MONEY IS LOANED OUT

The way to gain power and influence is by lending money confidentially to your neighbors at a small interest, or perhaps no interest at all, and having their bonds (promises to pay) in your possession.—Samuel Johnson

A MAN with money may do with it as he pleases. He can invest it in a farm, seed, and fertilizer and take a profit from the increase he harvests at the end of the year. Or he can use it as capital to go into the manufacturing business by buying some machinery and raw materials. He can use his money as capital by exchanging it for retail-store equipment and merchandise. He can gamble with it, give it away, or lend it out as a moneylender. It's his money to do with as he chooses; and in the economic sense, one way is just as respectable and natural as another.

If he is a normal human being he will invest his money where he thinks it will bring him the biggest return in additional wealth or pleasures—whichever he wants more. The prime characteristic of all normal beings, the desire to satisfy their wants with as little effort and risk as possible, brings the various profit opportunities into competition for man's surplus wealth. If wheat is selling at an *unusually* high price, a man may put his surplus wealth into wheat farming. If a big demand should boost the profits in turkey raising or beekeeping to an *unusually* high level, his money will probably go into producing such things. He may see a chance to make a bigger killing in manufacturing radios or buttonhooks, or perhaps in selling glorified hamburgers through a chain of lunchrooms. He may feel lucky and imagine greater profits on his surplus wealth if invested on the stock exchange or at the race track. Wherever he sees the greatest promise of biggest returns with the least effort and risk, his surplus wealth will naturally flow.



And just as naturally, if he is approached by someone who wishes to borrow some cash, he considers the borrower nothing more than another opportunity competing for his surplus wealth. He doesn't care whether the borrower eventually uses his money to buy capital with which to produce more or other wealth, or to buy a car, or to entertain and make a play for the boss's daughter. All the lender wants to know is: will the borrower pay him as much for his money as the same amount, with no greater risk, would earn for him if he invested it in farming, manufacturing, retailing, or gambling? If he has reason to believe this borrower will pay him more for his surplus wealth than he can get elsewhere, he'll lend him his money. What is true of our individual moneylender is similarly true of banks, insurance companies, pawn shops, and other moneylending in situations. That is why we find the funds of such moneylending agencies invested in all sorts of things—in farm, factory, and retail-store mortgages; in large housing projects; or in plain and simple moneylending. And, *risk being equal,* the return that promises the greatest profit will decide how much they will demand for the use of their money; whether they will lend it to a department-store owner, to a farmer, or to a speculator; whether they will use it to erect huge public housing projects; whether they will lend it to the government in return for tax-exempt bonds, or whether they will use it to bribe a public official. The individual with surplus wealth on his hands thinks the same way.

54

WHY A PREMIUM IS PAID FOR THE USE OF MONEY

A *bird in hand is worth two in the bush.*—Cervantes

BUT WHY SHOULD the borrower be willing to pay a premium for something that may or may not bring him a profit? A farmer who borrows money in the spring has no way of knowing how big his crop will be in the fall, how high a price it will sell for, or what return he will finally harvest on money he borrowed and used. Nor does the businessman know, when he borrows money, whether it will earn as much for him as he agreed to pay for the loan. Nevertheless, he willingly borrows the money and solemnly agrees to return it, plus a little extra, on a certain date, whether he makes a profit or loses his shirt. Clearly the borrower doesn't pay "interest" because of what the borrowed money, if invested, will earn for him. He pays, it seems, for an advantage of time. That is, when faced with the choice of either saving his money for a year or borrowing as much as he might save in a year, he prefers to borrow. Therefore, it seems quite likely, as economists of the Boehm-Bawerk school believe, that man places a higher value on present wealth—wealth he can enjoy today—than he does on wealth he might be able to accumulate at some future time. The difference between the value he places on present and future wealth decides the amount he is willing to pay for money he borrows.

This idea of the borrower placing the value on money is quite noticeable among "small loan" borrowers. A man of small income might be able to save a little money each week for a year or two and finally have enough cash to buy a two-thousand-dollar car. And yet, rather than wait, he willingly pays from sixty to a hundred dollars to borrow the two thousand dollars with which he might buy and enjoy his car today. The advantage of time seems to be worth that much to him. And generally the payment for the use of money or goods—usury—is the purchase of a year's time—making next year's pleasures enjoyable today.

55

HOW EARNINGS OF ALL INDUSTRY LEVEL OFF

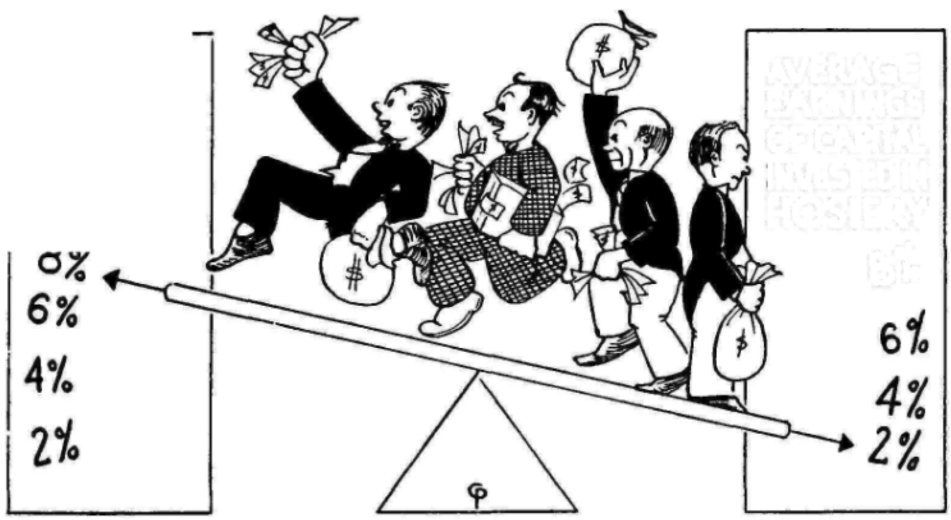
Every individual is continually exerting himself to find out the most advantageous employment for •whatever capital he can command . . . the study of his own advantage naturally . . . leads him to prefer that employment which is most advantageous to society.— Adam Smith, *The Wealth of Nations*

IN THE LONG RUN, $2,500 worth of capital invested in any business will earn no more nor less than the same amount of capital will earn in any other business. If the average earnings of capital should be around 4%, as it was said to be in 1949, $2,500 worth of capital put into any business would—on an average—earn around $100. If any business is to tempt the three little men to toss their surplus wealth (capital) into it, that business must offer more than the average return—more than $100.

If one type of business is riskier than average, it must certainly offer our three little men more than $100 if it is to tempt them to part with their surplus wealth. And, quite naturally, if the risk is smaller and there is little danger that their invested capital might be lost, they'll be quite satisfied with somewhat less than $100 in *contract interest.*

Because one business is always riskier than another, we must expect to find that the returns for the use of $2,500 worth of capital will be sometimes more and sometimes less than the average \$100. But if we imagine, just for the sake of argument, that all industries are equally risky, we shall find that *contract interest,* the charge for the \$2,500 worth of capital, will usually rest around the same figure for *all* businesses. This leveling off of *contract interest* is natural. It happens automatically, without the help of financiers or politicians. In fact, it happens in spite of all they try to do to stop it from behaving as it naturally does.

If farming, for example, happens to be enjoying a high-price period, and if \$2,500 invested in fertilizer, seed, and farm equipment will produce \$110 in interest, we'll see the three little



men putting more of their capital to work farming. That would indicate more farmers putting their savings and borrowings to work in farming in order to take advantage of the higher prices offered for farm products.

In time, because so many more farmers are producing crops, the market must become overloaded with wheat, corn, cotton, etc., and the prices of such things must fall to a point giving less than the average return—perhaps as little as \$90—about three per cent.

On the other hand, while the prices of farm produce may be falling, there might be better-than-average interest being earned in the hosiery-manufacturing business. Like the human beings they are, always out to get the biggest return with the least risk, our three little men will stop putting so much of their capital into farm production and more of it into hosiery making. That is, we shall see fewer tractors being bought, less seed being planted, and less fertilizer being used. But at the same time we shall also see more hosiery mills and machinery (forms of capital) put to work to get in on the better-than-average profits to be made in hosiery making. Drawing capital away from farm production will naturally reduce the supply of farm products, and that must result in higher agricultural prices. And increased volume of capital shifted from farming to hosiery making will have the opposite effect; it will cause an overabundance of hosiery which must lead to a falling off of hosiery prices.

We'll then see our little fellows pulling their capital out of manufacturing and back to farming where, as a result of shortened supply, prices have again risen to a point more attractive to our three little men.

56

RATE OF INTEREST

The virtuous Brutus lent money in Cyprus at eight-and-forty per cent, as we learn from the letters of Cicero.—Adam Smith, *The Wealth of Nations*

IN MOST COLLEGE economics courses, the term *rate of interest* is given far more attention than it deserves. For the term is financial rather than politico-economic. It refers to the number of pennies a borrower must pay to a moneylender for every dollar he borrows. With it, economics professors try to teach their students why it is wise to pay 4% for the use of money sometimes, and 2% or 30% at other times, according to how much the borrower expects to make if he invests it in some form of productive capital. Since the borrower has no way of guessing in advance how much his borrowed money will earn for him, he can't possibly know what *rate of interest* he can profitably pay. Because such knowledge, therefore, is obviously useless, the student might spend his school hours more advantageously studying how to fight with windmills; or how to speak effectively with a mouthful of taffy and a borrowed set of teeth.

The rate charged for the use of money, as we have remarked, is more properly a usury rate. Yet, even the usurer's rate, like so many other economic phenomena, is determined at the margin. A review of earlier chapters makes that quite clear.

First, it will be recalled, the earnings of all capital used in all fields of production tended to level off to about the same rate for all. (Chap. 55.)

Next we observed that it was the interest earned by *live* capital that kept the earnings of *dead* capital in balance. (Chap. 52.)

And from our chapters on rent, we saw that interest on the very best land was no more than it was on the margin, and that interest fell as rent increased.

All of which adds up to an explanation of what determines the rate of interest. It might be stated as a law: the *rate of interest* (usury) is fixed by what, *on an average,* all *living* capital can produce when put to work on the least productive land in use: the margin; plus insurance for risk.

We can see the influence of the margin on the usurer's rate quite easily if we imagine all of the users of living capital—the farmers, ranchers, chicken raisers and dairymen—all investing their capital in the spring, each investing $2,500 worth of capital. At the end of the year the capital of every one of our investors will not have earned an equal amount of interest. But let us suppose that the $2,500 worth of cattle that each of the ranchers sent out in the spring all came back at round-up time so much heavier and with so many calves, the ranchers averaged

$70 after wages, rents, and the cost of replacing their capital were subtracted. The $70 is, of course, interest. And let us suppose each of the farmers' $2,500 worth of seed and fertilizer grew up to become a crop that brought an average interest return of $80; and that the chicken raisers and dairymen averaged $75 in interest. Simple arithmetic quickly reveals that the *average* earnings of *live* capital that year was $70 + $80 + $75 -f- 3—or $75, which equals 3%. Three percent, then, will be the *rate of interest* in all industry because, as we observed earlier, the interest earned by all industry—farming as well as manufacturing—tends to level off at a common point.

That doesn't mean that anyone putting $2,500 into a business of any kind will automatically earn exactly 3% on his investment, but rather that all capital invested during that period, when averaged, will earn that return. Nor does the Poleco-ist suggest that anyone going out to borrow money will pay only 3%. Malcom Buckmaster might pay only 3%, or less, because he's a substantial citizen who has plenty of collateral to guarantee that he can easily pay back the money he borrows. On the other hand, if the borrower is a young man named Joe, who owns little more than the clothes on his back plus a few sticks of furniture; and if he has a job that he may or may not lose before he can repay the borrowed money, he will have to pay a much higher rate for a loan. Several New York lending companies, lending money to little people who can't get credit from a bank, advertise in subways and cheap newspapers to tempt Joe into borrowing money, and once they've snared him, charge him 15%. The "interest" Joe pays is still only 3%; but the other 12% represents a penalty he must suffer for being a poor risk—or, as the moneylender would call him, a potential dead-beat. Any difference, therefore, between the average earnings of live capital on the margin and the amount the moneylender charges isn't interest of any kind, but is *insurance* against risk —a bonus offered by the borrower as a substitute for more tangible collateral. The rate of interest, then, finds its own level as a result of the competition among farmers, hosiery makers, and other borrowers. It is the average earnings of live capital at the margin *plus insurance for risk* that determines the usurer's fee—the *rate of interest.*

57

WAGES

Ye *have sown much and bring in little . . . and he that earneth wages earneth wages to put it into a bag with holes.*—Hag. 1:6

BEGINNING with the day we leave school to go to work, and throughout the rest of our lives, we try to become as intimately acquainted with wages as we possibly can. But in spite of the irresistible fascination gathering pay checks holds for most of us, the meaning of wages remains almost as vague in our minds as any of the other economic terms we've been analyzing.

On the other hand, at this stage of our investigation we do have a clearer picture of wages than we had when we first began to plow through the pages of this book. For our scrutiny of rent, the margin, and interest occasionally revealed unexpected glimpses of wages, too. For example, while examining rent, we discovered that as it increased to take a greater share of the wealth in our stockpile, it left a smaller share to be divided between interest and wages. When we observed the natural movements of the meaningful margin, we discovered that all wages fall *as a proportion* as less productive land is put into use. And in analyzing interest, we found that parts of the stockpile that at first sight appeared to be interest were more properly wages.

The fact that labor-saving capital produces wages and not interest can most easily be demonstrated by our imagining a contractor being called in to dig a foundation for a building. We don't ask him how much capital he will use, or how modern his capital is. We don't care! We simply agree to pay him a certain price to dig a hole of a certain size within a certain number of days. We pay him the same price if he uses dozens of steam shovels and trucks or if he digs the hole with his fingernails. If he uses a million dollars' worth of capital to dig the hole, he can't collect a nickel more than if he used only twenty dollars' worth of picks and shovels. In other words, he will collect the same wages he could earn digging foundations with his fingernails, but not a cent more, even if he used tons of the most modern equipment as capital. If anything, we will have to pay him less, because it costs less to dig a foundation with steam shovels than with a crew of men equipped with picks and shovels.* Clearly, then, the contractor's capital produces no interest, but merely enables labor—his own and that which he hires—to produce wages faster, more easily, and more pleasantly.

Even a good part of the increase that live capital adds to the stockpile is not interest but wages. For just as efficiency is an attribute of labor, so is intelligence. That a considerable amount of intelligent labor goes into producing the agricultural products we find on our stockpile is evident if we compare the milk production of specially bred cows with that of ordinary ones; common Indian corn with man-developed hybrid varieties; the juicier fruit that man has developed with the puny wild varieties from which they evolved. Moreover, the additional eggs, milk, corn, fruit, and wool which have resulted from man's patient, intelligent crossbreeding must, *to a great extent,* also be considered wages.

But there are still many things about wages that aren't too clearly understood. For example, almost every economics textbook treats wages as if it were the money one man pays another

* This is true only in prosperous countries and in prosperous (war) times, when the competition for jobs is not so keen as it more often is.

for his labor. In other words, most economists today think only in terms of *contract* wages and, as a result, overlook the obvious fact that all productive laborers produce wages—the "boss" as well as his employees. Most people—educated and uneducated alike—are satisfied that wages is the stuff they find in their pay envelopes at the end of the week. But it isn't. The bills and coin they receive are merely receipts or claim checks entitling them to draw a certain amount of food, clothing, shelter, and gadgets from the stockpile that their labor, with the aid of their capital, has produced. The idea of money would be much more easily understood if the printed matter on our paper money read:

CLAIM TO WEALTH

The bearer, having produced a dollar's worth of food, clothing, shelter, or gadgets, has deposited it on the world's stockpile of wealth, and he is, therefore, entitled to take a dollar's worth of goods from the stockpile any time he pleases; and if he prefers, he may give this Claim to Wealth to another person in return for services, or for any other reason he chooses, in which case the last holder may redeem this certificate for a dollar's worth of food, clothing, shelter, or any other goods on the stockpile.

To put it simply, wages is what the stuff in the pay envelope will buy. Even though a man might get the same number of dollars in his pay envelope, his wages is actually cut in half if the cost of living doubles. Coal miners know this to be true, and only too well. For in spite of their having won innumerable pay increases through years of "successful" strikes, they are still living very poorly, and only because their cost of living has gone up just as fast as their wages has increased.

Another strange idea most of us have picked up is that only hired laborers earn wages. But if we remember that it isn't only the labor of the overalled lad carrying a lunchpail in one hand and a Social Security card in his other that produces wealth, but that all productive labor does, it becomes quite evident that all productive laborers produce their wages. With the exception of the rare employer who takes no part whatever in operating his business, "bosses" as well as their employees produce, and therefore earn, wages. In fact, their incomes (if they are not enjoying monopolistic privileges) are almost entirely wages, plus winnings which are the reward for gambling, or risk taking.

58

WAGES OF HIRED AND SELF-EMPLOYED LABOR THE SAME

There is in every society or neighbourhood an ordinary or average rate both of wages and profit in every different employment of labour and stock.—Adam Smith, *The Wealth of Nations*

As WE LEARNED while watching Butch apply to Al for a job, the wages of Al the employer and Butch the employee were exactly the same. True, there was a thousand-bushel difference between their incomes; but those thousand bushels, it will be remembered, were the earnings of Al's land, and not of his labor; they were, therefore, rent and not wages. The same principle holds true in our present more complex society just as it did in Al's newly settled Fourland. The same quality and quantity of labor will produce the same wages whether the man exerting the labor works for himself or hires his labor out to another.

But that is not to say that the income of grocer Cadwallader will be the same as his income would be if he closed his store and went out to take a job as a grocery clerk. As a clerk, Cad wouldn't be exerting the same quantity and quality of labor. He'd do little more than sell goods over the counter, keep his stock neatly arranged on the shelves and, after eight hours or so, he'd go home to do as he pleased. But as his own boss, Cad would have to do all the things a clerk does, *but in addition* he would have to order merchandise, pacify bargain-hunting customers, keep books, guard his credit, and work from early in the morning until late at night. So, in addition to earning a clerk's wages, the self-employed grocer would also earn managerial wages—wages he produced managing the business. If we compare the wages, per hour, of a hired manager of a chain grocery and of a self-employed grocer, we'd find them hour for hour to be almost identical.

In addition, the self-employed Cadwallader earns a sum above wages. When he buys merchandise at a certain price, he has no way of knowing that he can sell all of it at a profit. Between the time he buys and sells, the retail prices may fall. If he isn't careful, he'll buy things that can't be sold at all. Therefore, every time he buys merchandise he's gambling, taking a chance. And when he rents a location on which to build his store and promises to pay a certain amount, he actually gambles that the location will put at least as much economic rent in his pocket as his landlord will take out of it. When he hires clerks, he's gambling that their labor will produce as much for him as he's agreed to pay them. In other words, Cadwallader the grocer is not only a laborer but is a gambler as well. If he guesses right, he'll win; but if he guesses wrong, like any other gambler, he'll lose. His income therefore consists of ordinary wages, plus managerial wages, plus winnings.* If it were possible to subtract what Cadwallader gets as a reward for his successful gambling, we should find his income when employing himself in his own store to be no more than his wages would be if he sold his store and continued to run it as manager for the new owner.

* Because businessmen are, to some extent, gamblers, economists classify them as *entrepreneurs,* a French word that means *risk takers;* and they call the *entrepreneur's* reward for his risk his *profits.* The Poleco-ist doesn't use the word *profits* at all, because it can mean too many different things: wages, interest, and/or rent, or a combination of these, or winnings in speculation, or even gains resulting from monopoly.

Before we leave Cadwallader, it might be well to remind the reader that as a gambler the businessman doesn't always win. He doesn't always make a profit on the land, labor, and goods he buys. In fact, it is a matter of public record that far more than half of all new businesses fail within two years; that the percentage of businessmen who guess wrong and fail is even greater during the first five years, and still higher over a ten-year period. Between 1930 and 1947, the number of bankrupt cies in the United States each year averaged 14,440. These figures, reported by Dun & Bradstreet, don't include all busi nessmen who guessed wrong. They don't include the many who simply walked away from their businesses in disgust, the banks that failed, or the farmers who lost their farms through fore closure; but only those who were involved in bankruptcy court proceedings.

59

THE HIRED LABORER PRODUCES HIS OWN WAGES

The produce of labour constitutes the natural recompense or wages of labour.—Adam Smith, *The Wealth of Nations*

PERHAPS the least logical idea relating to the subject of wages is the one that stems from the long-debunked *wages-fund theory,* which is described in *Webster's Unabridged Dictionary* this way:

Wages-fund theory. A theory generally held by economists from 1830 to 1870, that the rate of wages depended on the ratio between the amount of capital available and the number of laborers. It has been abandoned because an amount of capital divided by a number of laborers cannot, in the nature of things, give a *rate* of wages.

Except for an unimportant error in dates, and the naive supposition that the absurd theory *has* been abandoned, Webster's account is quite accurate. The fact is that the wages-fund theory, absurd as it is, is still the foundation for much of our economic thinking today. The argument of Republicans, Democrats, and Socialists—"if business does not provide the capital to provide sixty million jobs, government must"—certainly stems from the idea that without a fund of capital there can be no employment and therefore no wages.* The statements of labor-union officials—"allowing foreigners into the country means lower wages for American labor because a greater number of workers will have to share in the nation's wealth"—is certainly an expression of the wages-fund theory. All we need do is consider the arguments of those favoring birth control to see that they, too, are based on the idea that there is only a certain amount of wealth in our "fund of capital" and that the greater the number of humans born to share in that fund, the smaller the share for each must be. But the greatest harm that has stemmed from thinking in terms of a wages-fund is the groundless belief that wages are drawn from capital at all. As F. A. Walker, the American economist, wrote in his *Wages Question* a long time ago:

It is, then, for the sake of future production that the laborers are employed, not at all because the employer has possession of a fund which he must disburse; and it is the value of the product . . . which determines the amount of the wages that can be paid, not at all the amount of wealth which the employer has in possession or can command. Thus it is production, not capital, which furnishes the motive for employment and the measure of wages.

Wages, of course, are not drawn from capital. In spite of the fact that the "boss" does hand us our pay at the end of the

* John Maynard Keynes, whose economic philosophy has influenced most of today's fashionable economic thinking and teaching, holds that employment Cannot increase unless investment increases. However, Keynes agrees this might be true only where competition isn't actually free. The Poleco-ist always speaks HI terms of an *absolutely* free economy.

week, he doesn't provide us with wages. For it is the stockpile of wealth, our production, and not the "boss's" accumulated capital, that is the source of all wages.

There are times when wages really do seem to come from a fund of capital saved up or borrowed by an employer. For example, a man working in a shipyard certainly doesn't seem to be paid off in the aircraft carriers his labor produces. For at the end of the first week, before he has even finished a small part of a carrier, he receives a week's pay. It seems beyond argument that his wages must have come out of a fund of capital

which the shipyard owner saved up. But if we examine our example a bit more carefully, we find that the laborer's wages do indeed come out of his production, and that he *is* paid off in aircraft carriers. For if it takes a hundred days to build a million-dollar carrier from start to finish, after each day's work the carrier will be 1/100th nearer to being worth a million dollars. In other words, at the end of each day, 1/100th of a million-dollar ship, or ten thousand dollars' worth, has been completed. Obviously, then, the laborers working in the shipyard produced their own wages. When they are paid off at the end of each day, their share of the ten thousand dollars' worth of carrier that their labor produced is being bought from them by the shipyard owner. Even the law seems to recognize this fact, for until the shipyard owner has paid all of the laborers employed in building the carrier, until he has given them money in exchange for the wages their labor produced, the law doesn't permit him to sell the ship.

60
SUPPLY AND DEMAND DOESN'T DETERMINE WAGES

. . . when it is said . . . that the general rate of wages is determined by supply and demand, the words are meaningless. For supply and demand are but relative terms. The supply of labor can only mean labor offered in exchange for labor or the produce of labor, and the demand for labor can only mean labor or the produce of labor offered in exchange for labor. Supply is thus demand, and demand supply.—Henry George, *Progress & Poverty*

IT'S ALMOST a rule, nowadays, to answer most economic questions with "It's the *law of supply and demand."* Generally, the law of supply and demand has little meaning in the field of political economy, especially when related to wages. It is supposed to mean that wages go up when the demand for labor is greater than the supply of laborers. If that were true, low wages should be a sign that there are more laborers than there are jobs for them to do. That sounds reasonable enough, but it doesn't always hold up under examination, except in instances of a particular shortage of a particular type of labor in a particular industry. It is never true when we speak of labor, wages, and jobs in the general sense; and it is the general and not the particular with which the Poleco-ist *is I* always concerned.

During a depression, according to the law of supply and demand, wages should be low, for there is an "oversupply" of laborers. Many men are out of work and they earn *no* wages, so their wages are neither low nor high. But those who are lucky I enough to have jobs, even though they might earn fewer dollars! than they formerly did, are able to buy more with their dollars, because during depressions the cost of living falls. Since wages are the amount of food, clothing, shelter, and gadgets that dollars can claim from the stockpile, it is evident that the money earned by those who *are* working during a depression will buy| more of those things. Therefore, in spite of an "oversupply" of unemployed laborers, the real wages of those who have jobs* are comparatively high. Further disproof of the same "law" may! be found in the tropics, where there is usually a scarcity of will-; ing labor. It's hard to get the natives to work for the white man, because all the food, clothing, and shelter the natives desire'} may be taken directly from nature. Since the "uncivilized" natives are human, and humans won't work if they can do just; as well without working, the white man has had to tax them,^ punish them, or fool them into taking a job of work. Because, labor is so scarce in the tropics, then wages, according to the law of supply and demand, should be very high down there; | but anyone who has visited those parts of the world knows how miserably low the wages there really are, and what a shamefully small portion of the wealth produced by the natives is returned to them as wages.

Logically, there can't be an oversupply of labor as the "law" of supply and demand suggests. Since the wants of all humans are unlimited, and since they can't satisfy those wants without their producing wealth (or giving a valuable service to those who do), there must—*under natural conditions*—always be more than enough jobs to be done. To be sure, as things usually are between wars, millions of men who want work can't find it. But that isn't because there are no jobs to be done, for that would imply that everyone had everything he wants, which is of course absurd. Multitudes of men are out of work because of some kink in our economy—a kink that doesn't permit them to use their labor to earn wages for themselves or to hire out their labor to others. No creature in the animal kingdom would lie down to starve rather than search, climb, or even fight for food. Certainly man is no different in that respect. Therefore, if he isn't earning wages, if there *seems* to be an oversupply of labor most of the time, it must be because man, in some way or other, is being forbidden to earn wages, just as surely as the animals in the zoo are forbidden by their barred cages to catch or gather their "wages."

61

WHAT IS THIS STUFF CALLED WAGES?

The power of the labourer to support himself . . . does not depend on the quantity of money which he may receive for wages, but on the quantity of food, necessaries, and conveniences become essential to him from habit, which that money will purchase.—David Ricardo, *Works*

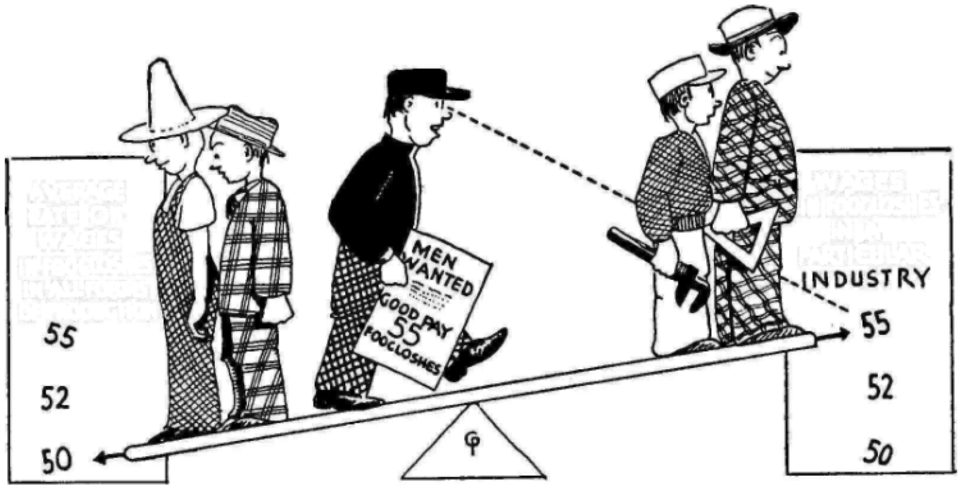
To AVOID THINKING of W3gCS 3S a certain amount of dollars, let's not use the word *dollars* at all in the next few paragraphs. Instead of referring to dollars, pounds, francs, pesos, guilders, and so on, let's make up our own word for money. Let's combine the first letters of the three words *FOOd, CLOthing,* and *SHelter* to form the word *fooclosh,* understanding that a *fooclosh* is a unit of money like a dollar, a franc, a pound, a peso, or a guilder. And let's suppose that fifty foocloshes can be earned by ordinary labor on the least productive land in use. Since wages on such land, at the margin, is just enough to feed, clothe, and shelter a man and his family decently, plus enough to replace the capital he uses to produce his wages, we may assume that fifty foocloshes is a living wage. To clarify the idea in our minds, a man who earned fifty foocloshes wouldn't grow fabulously rich; but he wouldn't be poor either.

Since wages on the margin is fifty foocloshes, fifty foocloshes would be the wages *for the same quantity and quality* of labor everywhere, in all industries, on the best land as well as on the poorest in use. But that is not to say that every person who earned wages would earn *exactly* fifty foocloshes. A man who put additional labor or more efficient capital to work, or one who was more skilful, would earn more than the man who put less of such things into his production. We may be sure, however, that an average amount of labor and capital, used anywhere, in any industry, will produce no more wages than it would on the least productive land in use.

For example, the average fisherman, if he turned to farming, ditch digging, building, or truck driving, would earn approximately fifty foocloshes. He might, now and then, get a little more (in money) if he went to work in a factory. But he would soon discover that his cost of living in a factory town would be so much greater, his real wages would buy no more than he earned as a fisherman—and perhaps less. This comes about quite naturally. For if factory work paid much better (as such work did when we first became an industrial nation), fishermen and farmers and miners would pile into the cities for the better paying jobs, and before long there'd be so many men looking for the few available jobs, wages in factories would fall back to the general level of wages: fifty foocloshes. If factory wages fell below fifty foocloshes, factory help would desert to go back into better paying fishing, farming, or ditch digging.

But, in our example, fifty foocloshes is the wage for ordinary laborers, laborers of ordinary intelligence and strength who required no particular training or knowledge for their jobs. The wages of more experienced fishermen and wiser farmers will be higher, for their labor will produce more wealth, more foocloshes. Listless and stupid farmers and fishermen will produce less wealth and will, therefore, earn proportionately less.

Carpenters, tinsmiths, plumbers, and other skilled laborers *in the long run* will earn no more than farmers and fishermen. For



their trades are easily learned, and if their wages should at any time rise above the general level, men in other occupations, including farmers and fishermen, seeking to satisfy their desires for more money with less effort, will pour into the better paying trades in such numbers, competition among them will soon pull the wages in those trades down to the common level. Labor unions have long tried to prevent this natural tendency for men to pour into high-pay trades and thus bring wages in those trades down to the common level; but by and large they have had little or no success. Organized labor does not *earn* more than labor in unorganized fields.

Again we must fix the thought in our minds that the fifty-fooclosh wage we're talking about isn't the number of foocloshes we find in our pay envelopes, but refers to the value of the food, clothing, shelter, and gadgets which our foocloshes entitle us to remove from the stockpile. In parts of the country where the cost of living is low, the number of foocloshes we are paid will be fewer than the average fifty; and where the cost of living is high the wage rate will be higher than fifty foocloshes.

But it isn't food, clothing, shelter, and gadgets alone that comprise the wages of man. Schoolteachers, clergymen, and bank employees are typical of many who work for fewer foocloshes in return for the prestige their work gives them in their communities, and for the authority over other humans their work allows them. Large corporations invariably hand out vice-presidencies and other executive titles more generously than they hand out additional foocloshes in pay envelopes, because they know that their employees don't mind earning a little less if they're given shiny desks, responsible positions, or impressive titles that suggest responsibility. Consequently, we often hear of mechanics earning far more money than bank managers, corporation vice-presidents, and college professors; but that isn't to say they are better paid.

Security, or what is the same thing, assurance against being thrown out of work periodically, is also part of contract wages. That is why civil-service employees—public-school teachers, policemen, firemen, and post-office employees—are notoriously ill-paid, so far as money is concerned. The civil-service employees willingly work for even less than the fifty foocloshes because part of their contract wage is the knowledge that they needn't fear losing their jobs if they report to work on time, do as they're told, refrain from thinking, and go home on the moment of quitting time. Part of their wages is the peace of mind they gain from the knowledge that after a certain number of years of being an unthinking, obedient, and often unnecessary cog in an inefficient machine, they will receive a pension on which to retire . . . like a horse that has served his master well.

In jobs where the chances for success seem high, contract wages will be lower than average. Prominent examples are the extremely low wages of hard-working law clerks, hospital interns, unknown actors, architectural draftsmen, young engineers, advertising personnel, and, currently, television writers, directors, and actors. All of these are perhaps the most poorly paid of all labor. Their pay is far lower than the average fifty foocloshes we have arbitrarily selected as being marginal wages. They willingly work for less than average pay because the lucky ones who finally succeed have a chance to earn so much more than ordinary marginal wages. Adam Smith thought this to be as it should be:

In the great part of mechanic trades, success is almost certain; but very uncertain in the liberal professions. Put your son apprentice to a shoemaker, there is little doubt of his learning to make a pair of shoes: But send him to study the law, it is at least twenty to one if ever he makes such proficiency as will enable him to live by the business. . . . In a profession where twenty fail for one that succeeds, that one ought to gain all that should have been gained by the unsuccessful twenty.

Whether a job is pleasant or unpleasant will also cause variations in take-home pay. A man who has an opportunity to choose will demand and get more foocloshes for cleaning sewers than for cleaning florists' shops. Driving a dynamite truck will pay better than driving a milk wagon. A stenographer will earn more in an office located in the slaughterhouse area of a big city than she would, doing the same work, in an advertising-agency office located in exciting, ultramodern Radio City. Chances of finding a suitable husband, one who can actually support a wife, is often just as much a part of a girl's wages as money entitling her to draw food, clothing, shelter, and cosmetics from the stockpile. That is why successful Park Avenue doctors and large advertising agencies and other employers who do business with well-to-do and marriageable men can get beautiful and bright young ladies to work for them at far below average wages.

For very short periods, in new industries, wages may shoot up higher than average, as they did when the automobile industry was young. In the early days, mechanics and chauffeurs were unusually well paid, because men who understood automobile motors and those who could drive anything more complicated than a horse-drawn brewery truck were hard to get. The same was true when the radio, neon sign, and television industries first took hold. Trained help was scarce in those new fields for a while, and as a result those who were even partially equipped to do the work were paid far above the average rate. But, as might be expected, the high wages paid in those industries soon encouraged so many people to train themselves or their children for such jobs, competition quickly set in and wages in those fields fell to the same level that prevailed in all industries. So, we might say that while special skills will enable a laborer to earn better than average pay temporarily, they soon become common skills and consequently command only common wages. Not long ago a young man with a high-school education or a young lady who could typewrite well and take shorthand was able to command a somewhat superior salary. As a result, even the poorest families made every sacrifice to give their sons better than average educations and to send their daughters to secretarial schools. Today most Americans in cities are at least high-school trained, and a large proportion of our girls can type and take shorthand. The result has not been to increase wages but to make such education so common that the ordinary hired American today is. expected to hold at least one college degree if he is to hope to earn as great a share of the existing stockpile of wealth as his almost completely unschooled American grandfather did. Anyone who remembers conditions during the depression of the '308 will recall that a girl had to have a university degree from a *better* college, besides more than average beauty and charm, in order to get a job selling goods over a department-store counter, a job that paid less than twenty dollars a week. Obviously, then, *in the long run* education doesn't enable the laborer to earn more than the wages of ordinary labor employed on the least productive land in use.

It is only when individuals are fortunate enough to have been born with a special talent that they can hope to earn more than average wages. Such individuals are very rare. Those who work with very costly materials and who, therefore, must be exceptionally alert, patient, and careful—diamond cutters and fur workers, for example—ream higher-than-average wages consistently. They are paid not so much to cut diamonds or to make fur coats as to avoid ruining their employer's capital: his rare stones and skins. Doctors and dentists also work on unusually valuable materials: our bodies and health. That's why we willingly pay them so much more for their time than we would for that of a watchmaker or shoe repairer. A person having a beautiful voice, unusual beauty, exceptional personality, or two heads, can, as an entertainer, command somewhat more than average pay. That parents realize this to be true becomes evident to anyone observing mothers who drag their children to dancing schools, modeling schools, and musical conservatories. It's impossible not to marvel at the almost insane determination in mamma's eyes as she compels her child to work desperately at developing any spark of talent the child may possibly have. The result: Hollywood and Broadway are so overloaded with so much talent that entertainers *on an average* earn far less than ordinary shipping clerks. To be sure, quite a few actors, musicians, and prize fighters earn fabulous sums; but for every one who does, thousands can't even keep themselves in coffee, cake, and cigarettes.

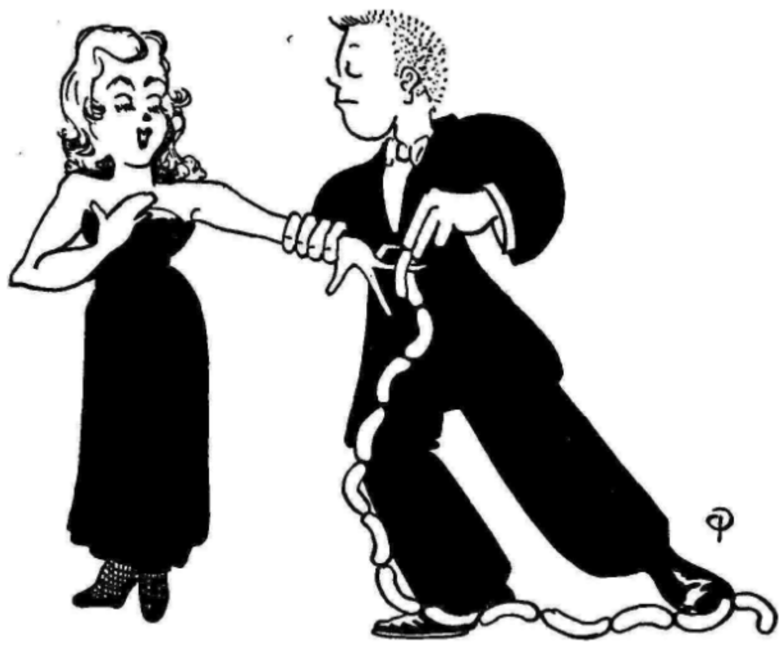
Clearly, then, wages consists of *all* satisfactions, and not merely the food, clothing, shelter and gadgets the money in our pay envelope will buy. Pleasantness of work, steadiness of employment, security, honor, chances for winning success, and even romance and excitement are as much a part of our wages as the foocloshes we find stuffed in our pay envelopes.

To summarize:

Wages is a part of the world's stockpile of wealth. It is that part which has resulted from the world's labor, mental and physical, that was used to produce that stockpile.

Wages is dl that is left of the stockpile after rent and interest have been subtracted. As rent increases to take a greater portion of the stockpile, a smaller share is left as wages and interest; as rent decreases, more of the remaining stockpile is wages and interest.

Wages is not a certain amount of money found in a pay envelope. It is any part of the stockpile that can be bought with money. Money wages is a receipt for the food, clothing, shelter, and gadgets which have been added by man's labor to the stockpile; a receipt that entitles him to remove an equal amount of



goods from the stockpile whenever he likes. If his labor adds a sufficiently large number of frankfurters to the stockpile, and if he doesn't at that time want to take an equal amount of wealth from it as his wages, he may take money—foocloshes— instead. At some later date, when he finds the "one girl in the world" who, tired of waiting for a knight in white armor to gallop up to rescue her from her dull and unromantic existence, consents to marry him, he can surrender his foocloshes and thus claim the right to select a diamond engagement ring from the stockpile in exchange for the frankfurters he added to it, perhaps years before. If he should manage to get the ring onto the hand of the one girl in a million before she comes to her senses, she will in effect be wearing on her dainty little finger the miles of plump frankfurters he had added to the stockpile.

In addition to material food, clothing, shelter, and gadgets, wages also consists of immaterial though equally valuable things, i.e., honor, authority, responsibility, security, opportunity for future success, pleasantness, romance, excitement.

Wages isn't drawn from accumulated capital. It is the actual wealth labor produces, or the wealth of others for which it can be exchanged.

As poorer land is put into use, wages as a proportion of the stockpile will fall, because when the margin is extended to less productive land that part that is rent increases to take up the difference.

Contract wages, interest, and rent are paid by one man to another. Economic *wages, interest, and rent are never paid but are collected* from the stockpile of wealth that all three factors —land, labor and capital—combine to produce.

The contract wages a hired man can get for his labor depends on the economic wages his boss hopes the labor he hired will add to the stockpile. The hired man won't work for less in *contract* wages than he can earn in *economic* wages as his own boss.

Labor-saving capital produces wages and not interest. Since dead capital—machinery, tools, minerals, etc.—consists of land to which labor has been added, it may be considered stored up, canned, or preserved labor. When a man produces a lever—of strong wood or metal—he has stored up some of his intelligence and muscle in dead materials. The lever by itself can move nothing; can produce no increase. It is dead and can exert no energy. But in man's hands, the intelligence he had stored up earlier in designing the lever now multiplies his labor power many times to enable him to move greater weights with far less labor. Therefore, anything produced by labor-saving capital is more properly wages, not interest.

The difference between economic wages and economic inter-

est is indistinct. No sharp line can be drawn between the two, except by definition, because only *living* capital is capable of adding anything at all to the stockpile of wealth without the help of man's labor; and even such capital must be assisted by man's labor in the form of intelligent and skilful crossbreeding, selection, fertilization, and irrigation. Any increase of *dead* capital is, as we have seen, wages and not interest. Therefore, much that appears to the casual eye to be capital's earnings—interest —is in reality labor's earnings—wages.

Only productive labor produces wages. Since wages is a part of wealth, only *productive* labor produces wages. Doctors earn fees, beggars earn charity donations, the thief earns loot, the racketeer earns tribute, the gambler earns winnings or prizes; but only *productive* laborers earn wages. Wages are drawn directly from the stockpile—in goods or in foocloshes—by those who produce material wealth. But fees, donations, loot, and tribute are not drawn from the stockpile but are paid by the productive laborer out of his accumulation of foocloshes. Those foocloshes represent food, clothing, and shelter above what the productive laborer needed for his own use. Doctors, teachers, entertainers, and other *unproductive* laborers then give their services to the *productive* laborer in exchange for foocloshes, which they later redeem at the stockpile for the wealth they want. But obviously they cannot possibly draw wages *directly* from the stockpile, as the *productive* laborer does, because they produce no wealth and therefore no wages.

Wages are not earned only by overalled labor-union members, but by all productive laborers. Hired labor and self-employed; free labor and slave; mental labor and physical; all, so long as such labor adds material goods to the stockpile, produce wages —not necessarily for the actual laborer—but *for the owner* of the labor used.

The wages of hired labor and self-employed labor, under natural conditions, are equal. The wages of either can be no greater, on an average, than labor can earn on the least productive land in use.

Unusual skills and knowledge only temporarily command more than average wages. For the lure of better wages invites others to develop these money-making qualities in themselves. Consequently, what had been unusual qualities become quite common and eventually earn but common wages, i.e., the average wage that labor can earn at the margin.

Such is the nature of wages.

62

THE PARTS AND THE WHOLE

All are but parts of one stupendous whole. . . .

—Alexander Pope

MANY PAGES back we started out to discover why, in many parts of the world today, man—the builder of teeming cities, the designer of wonderful machinery, the dropper of atom bombs, in short, man the genius—is still living in caves, is still eating whatever scraps of food he can find on a garbage dump, and is still wearing only the clothing he can beg or steal.

Another answer we hoped to find was one to explain who, or what, is in favor of poverty. That someone, or something, is in favor of poverty seemed evident, because anything as widespread and thoroughly disliked as poverty couldn't exist today if it weren't wanted. It would have been stamped out long ago, as smallpox and bubonic plague were. If poverty weren't of some benefit to someone, it seemed only reasonable to expect that research organizations backed by millions of dollars, like those that investigate the causes of cancer, tuberculosis, and infantile paralysis, would have been set up to discover the cause of poverty and, by this time, would have done away with it.

When we began our investigation, we hoped to ferret out the real cause of unemployment in a world where there is so' much work that needs doing. At the same time, we expected to discover the cause of periodic business depressions during which rich and poor alike suffer.

We hoped, too, to discover what manner of ferocious monster so frightened the inquisitive professors of old who came, saw the causes of poverty, and then fled in terror, never stopping until they were safely back in their schoolrooms teaching the same high-taxes-and-high-tariff philosophy that they know has eventually ruined every nation that has lived under it, and has always brought the most horrible suffering and bloodshed to the citizens of those nations.

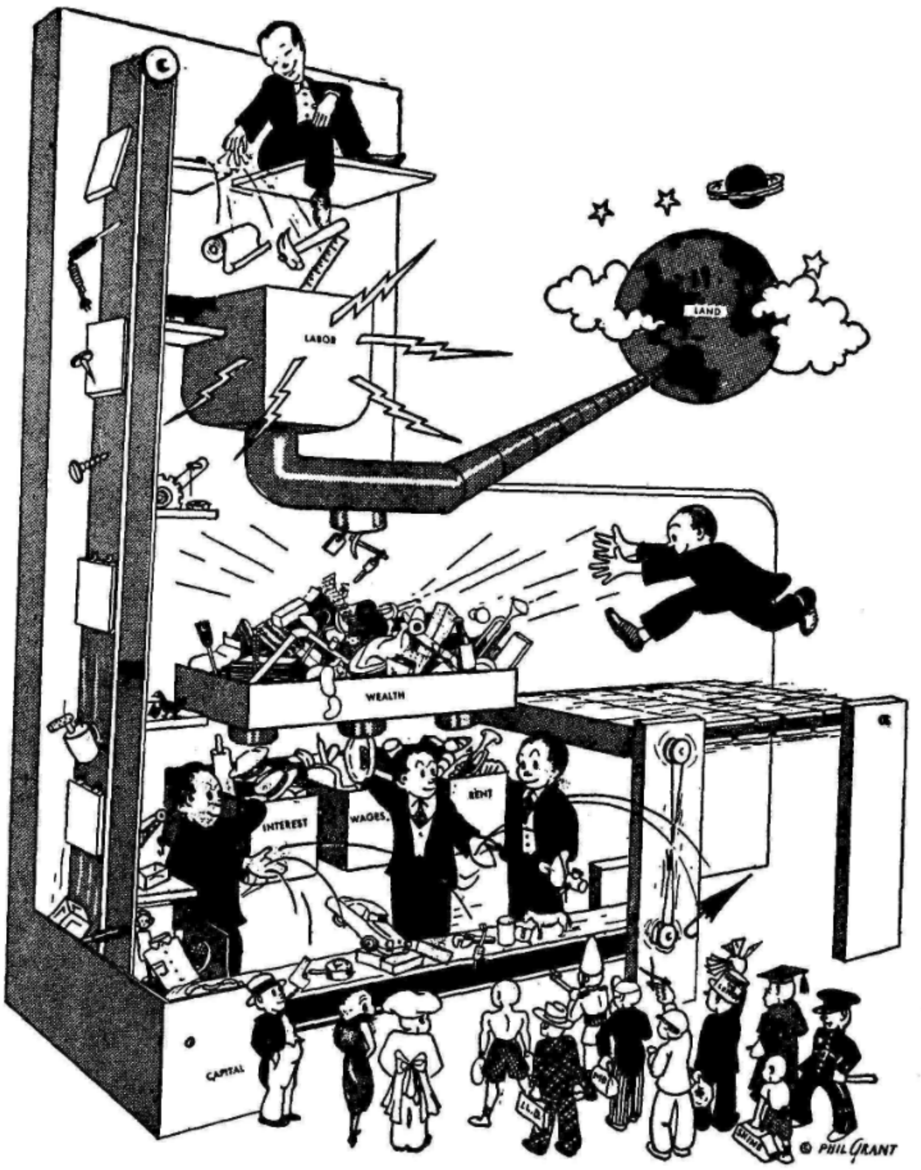
So far, after many pages and thousands of words, we have nothing more to show for all our hard work than several pieces of a jigsaw puzzle. They hardly seem worth the trouble and eyestrain we've spent gathering them.

Examined separately, no one of the pieces means very much. For what difference does it make, so far as the poverty of the world is concerned, whether land is just the dry surface of the earth or is, as our jigsaw-puzzle piece tells us, the entire universe, including the skies, the seas, the planets, and all the wild life that runs, swims, crawls, flies, or hops? What good will it do the college graduate who can't find a job to know that the bonds, mortgages, and stocks in Buckmaster's safe aren't wealth? What's gained by understanding that only productive labor adds wages to the stockpile, if those whose labor produces those wages can't get their hands on it? Do we need a piece of a jigsaw puzzle to tell us that our desires are unlimited? Or that we try to satisfy them in the easiest way we know? Let's face it. There's nothing new or startling in any of the pieces we've gathered after so much work.

But if we should put the pieces together, we shall see something quite important, something chock-full of answers—the answers we are seeking as well as many others we didn't expect to find. For, by putting the pieces together and observing each part in relation to all the others, we are able to see them all as parts of one whole.

Many things are too big for man's field of vision. For example, we cannot *see* that the earth is indeed a big ball so long as we stand on a small section of it; but its roundness becomes more and more obvious as we fly higher and higher above the earth's surface. A visitor walking through the streets of our nation's capital might wonder why Washington is said to be the most perfectly planned city in the United States. The streets and buildings are quite ordinary. But when he flies over the city and looks down, he sees that the broad avenues and circular intersections have been laid out most carefully in order to form one geometrically beautiful pattern.

If we stand too close, we find "seeing" abstract ideas just as difficult as seeing material things like cities. If we are laborers we see only wages; if we are employers we see only profits; if we are landlords we see only rent, and if we are economists we are inclined to forget the purpose of our study and see only our graphs and statistics. But Poleco, as we tried to demonstrate in our preceding pages, must concern itself with several parts other than rent, wages, and interest. There are also wealth, land, labor, and capital. And let's not overlook human nature, the thing that makes our economy tick. We've examined and analyzed each of these parts with a thoroughness bordering on the boring and are at last ready to assemble all of them to form one complete unit. If we should do that, and then step back far enough to see the whole thing at one time, we should be able to understand how our economic system works. Then, if we have as much intelligence as our primitive friend who puzzled over the pie-baited mantrap, we should be able to discover quite easily the probable causes of many of our social maladjustments.


LABOR
LAND
WEALTH
INTEREST
WAGES.
RENT
CAPITAL
© PHIL GRANT