Economics of Democracy

The demands of a heavy medical practice have not prevented F. MASON PADELFORD, M.D., *Fall River physician and author of the pamphlet of which this article is the first installment, from finding the time, after ministering to the physical needs of his patients, to delve deeply into the economic ills that afflict the world.*

Writing of Dr. Padelford and his booklet in the November FREEMAN, *Dr. Janet Rankin Aiken of Columbia University, author of* Surely Goodness *and numerous other books and articles, said: "In twenty-eight pages he accomplishes the almost impossible task of presenting a complete summary of the Georgist philosophy so lucidly that to the student of fundamental economics it is inescapable in its logic."*

The author, a graduate of Boston College, writes: "I read Progress and Poverty *more than thirty years ago. The truths in George's books are self-evident. They made me a Single Taxer. I count it a privilege to have known John Z. White and James R. Brown. In my judgment, the Single Tax movement, with all that this implies, is the most important of any that confront the modern world."*

A previous article by Dr. Padelford, "Constitutional Taxation," appeared in the August FREEMAN.

★ THE PROBLEM of wealth production, as far as present-day, or near future, requirements are concerned, has been solved. The more vital problem of wealth distribution, however, has not been solved. This involves the problem of wages, for if wealth is to be equitably distributed real wages must be greatly increased. Simply to increase money wages will not suffice; the increase must be in wages measured in labor goods.

Wages has been defined as a fraction whose numerator is the amount received by the worker, the denominator being the whole product of his labor.

The fact that over a period of years the numerators of wage fractions have steadily increased is interesting, but it is not adequate as a basis for judgment; it is imperative that knowledge also be had of denominators. If numerators, even though increasing, fail to keep pace with denominators, we by and by shall have to deal with over-stocked warehouses and unemployment.

The market may be likened to an immense reservoir, and labor products to water. If the average worker carries to this reservoir, each day, from springs which employers own or control, ten measures of water, and is paid in wages a sum which enables him to purchase but five, and five barely suffices for his daily requirements, ultimately the reservoir will be filled, and in its neighborhood will be found idle men in dire need of water, of which there is an abundance, but which, because of their lack of money, they are unable to buy.

Recurring periods of industrial depression, during which men whose families are in want seek in vain to find employment, and merchants whose stores are well stocked strive unsuccessfully to sell goods, indicate clearly enough that wages have not kept pace with increasing production: People are unable to buy the equivalent of what they produce.

A very natural next step is an attempt to export surplus products. If these products can be disposed of in foreign markets and if, in return, gold, or silver, or other money-metal, can be obtained, and if these metals, either by free coinage or exchange, easily can be transformed into money, it may be that notwithstanding the failure of the domestic market to increase as production increases, our productive machinery can be continuously operated, and that periods of industrial depression will not recur—or at least that such of these periods as are due to "under-consumption" will not recur. But this, manifestly, is to demand the impossible.

No nation whose imports greatly exceed its exports, unless in possession of unlimited natural resources in gold or other money-metal, can pay with such metal its bills for imported goods, and keep intact its monetary system. This should be self-evident. The time may come when money which has no intrinsic value, or which is not immediately redeemable in some valuable commodity, will answer every purpose; but that time is not yet. Money metals still are needed. Paper money pays no foreign debts—nor, for that matter, does any money, as such. If gold, or any other metal, in any great quantity, crosses international boundary lines, it crosses as a valuable commodity—not as money, but as a representative of money. International trade is, and must be, barter.

It is but reasonable to expect that the country which has for export products of the mill and factory will make every effort to establish favorable trade relations with nations which produce chiefly, and have for export, products of the soil. No nation, and certainly no nation which produces for export only agricultural products can, for any extended period at least, pay in money for its imported merchandise; its payments must be made in products. This can but mean that the country which seeks to stabilize its industries by exporting its surplus of manufactured goods must import agricultural products of approximately equal value. The importation of these products gluts, and then ruins, the domestic market for products of the farm. The farmer then, if he is to carry on, must export *his* surplus. Obviously he cannot expect to sell agricultural products, in any great quantity, to a nation of farmers. Only nations which are engaged chiefly in manufacture can be expected to buy these agricultural products. Such nations can pay only with goods. If such payments are accepted, the domestic market for manufactured products, in its turn, is ruined. A vicious circle from which there is no way of escape seemingly is established.

Until the fact is generally recognized that a nation's exports can not exceed its imports, efforts no doubt will be made to find in international trade a remedy for domestic economic maladjustments. Obviously, if a country which is growing industrially manufactures a surplus of goods which, if sold at all, must be exported, it must have foreign markets of ever-increasing capacity, and a "favorable balance of trade." But as other nations develop they likewise have need of these same markets. Commercial rivalry therefore ensues. This leads toward war—is in fact the one great cause of war. That nation which would take the first step toward world peace should set in order its own house.

To bring about that much-talked-about, but undesirable "favorable balance of trade," protective tariffs are devised. If such tariffs increase prices they decrease sales, not only in domestic, but also in foreign markets. That nation which adopts a protective tariff policy gives to foreign manufacturers an advantage in foreign markets, and therefore destroys its own export business. If tariffs lessen imports they lessen also exports. They can facilitate in no possible way either domestic or international exchanges of goods. They cannot increase real wages. Wages are regulated, not by tariffs, but by supply and demand. When the supply of labor exceeds the demand, wages fall.

In the last analysis wages are a most important factor in the costs of production. There is little doubt but that many, if not most, manufacturing plants in this country are working on so close a margin that bankruptcy is inevitable if any considerable increase in money wages is not followed by a proportionate increase in the prices of manufactured goods. If the worker receives more money for his labor, and the cost of living increases quite as much, obviously nothing is gained.

Ten dollars a day may be a very small wage. Even a one dollar day wage may be very large. We have become so accustomed to considering wages in terms of money that we have lost sight of the major issue, which has to do with the purchasing power of the dollar rather than with the dollar itself. It is not enough to think of the individual as a producer only; he is also a consumer.

When a stage of competition, in some industry, has given way to a stage of monopolization, it may be difficult, or impossible, to determine what part of income is earnings and what part is merely tribute. A monopoly, having gained control of some franchise, or necessary commodity, may charge for service or products whatever promises to bring the greatest return. Selling prices now bear no necessarily fixed relationship to the cost of labor.

By resort to what amounts to force, Labor may exact from a monopoly an increase in real wages—that is, an increase in money wages which is not followed by a corresponding increase in the prices of what the monopoly has to sell. As a general rule, however, an increase in money wages must needs be followed by an increase in prices of products.

High wages in the building trades are necessarily followed by high rental charges for houses. High wages paid to railroad workers will be reflected in retail prices of transported goods. High wages in the textile industries raise the manufacturing cost of cloth. Operatives employed in the manufacture of furniture, because textiles and other commodities have advanced in price, demand an increase in pay. This goes on, in one field of activity after another, until the circle is complete. In the end no advantage is apparent. Money wages have increased, and the cost of living has increased also. Between income and outgo, the relationship is much as before. Nothing really has been gained.

It is axiomatic almost that if any gain is made in real wages, by any one group of workers, this gain will be at the expense of other workers, and not of Capital—except indirectly.

(To be continued next month)

As Simple as That

Two things, and two things only, are necessary for a prosperous postwar world and continued peace. These are: (1) the elimination of all trade barriers between nations and individuals, and, (2) a job for everyone who wants a job.

Obviously the first is easy enough to attain, provided, of course, that the lawmakers of the world are so inclined. Since every restriction to trade, regardless of its exact character, is the result of a man-made law, it is necessary only that all such laws be wiped off the statute books.

The second, too, a job for every man, can be brought about by remedial legislation. Rescind all tax measures and provide by statute for the collection of economic rent in lieu of the revenues thus surrendered. This would bring land into use.

History records no instance of widespread unemployment where land has been free. Doing away with unemployment means the end of mass poverty. Ending poverty and freeing trade would be the greatest guarantee of peace and prosperity that this sick and weary world could possibly have.