Full text of "Of work and wealth; a summary of economics"
ECONOMIC TRACTS. No. X.

OF WORK AND WEALTH: A SUMMARY OF ECONOMICS

R. R. BOWKER

NEW YORK: THE SOCIETY FOR POLITICAL EDUCATION
4 MORTON STREET
1883

PREFATORY NOTE.

This summary is re-worked from a chapter in a volume, not yet completed, on "The Arts of Life." It is intended to give a comprehensive view of the principles of Economics, in as simple a style as the necessary compression permits, defining economic terms chiefly by their use in the context, and not attempting detailed illustration. I hope later to develop this skeleton into a practical manual of Economics, more simple and easy because less compressed, in which principles shall be illustrated from American facts.

It has not been practicable to give detailed credit to the economists upon whose thought I have freely drawn, as notably from Walker, from Jevons, and from Henry George, whose kindling fervor one may acknowledge without accepting the extreme conclusions he draws from his premises. For some suggestions in this summary, I cannot hold any one but myself responsible, as, for instance, the analysis of taxes according as they belong to preventive or to constructive government, the use of the word Director, and the analogies between land and 'brains."

I dedicate this attempt to serve the cause of Political Education to the honored memory of Richard L. Dugdale, first Secretary of the Society, whose efficient enthusiam for the work can never be forgotten by his sorrowing associates.

R. R. Bowker.

1 November, 1883.

V.— OF PRODUCTION AND DISTRIBUTION: LAND.

By means of Exchange, with money as its chief instrument, the result of Production becomes thus the subject of Distribution, and each factor which contributes to Production has a corresponding right to a share in Distribution. The principal factors are Land, Capital, Labor, Brains, contributed by the Land-owner, the Capitalist or wealth owner, the Laborer or hand-worker, the Director of production (entrepreneur) or brain-worker, who are paid respectively by Rent, Interest, Wages, Profits. The functions of any or all of these contributions to wealth may be united in the same person, as when a man owns his farm, has money enough to stock it, works on it himself, and himself manages any help he employs; or as when a corporation, renting land and hiring labor, supplies its own capital and commutes the share of the director by paying him a salary and taking the balance of profit. But the price of each of these functions will always be paid, somewhere and somehow.

There are other apparent items in distribution, which nevertheless do not affect this analysis. As the Land must be returned to the owner, so the Principal or its equivalent, as well as interest, must be returned to the capitalist. Taxes are an item of distribution in all business reckonings. They belong in part to wages, so far as the government is preventive and is paid for public-service as a watchman is paid, and in part to interest, so far as the government is constructive and furnishes roads, bridges and other capitalist elements in production. A constructive government easily becomes a paternal government, fathering all sorts of enterprises. The comparative usefulness of preventive and paternal functions in government is rather outside of Economics, but it may be here noted that this seems to vary with the development of a people, a government which takes upon itself wide constructive work being the most useful in communities in which, as in India, the body of the people lack mobility, organizing capacity and foresight, and look to government to supply this lack of mastership, and least useful in communities which have these qualities in high degree, are their own leaders, and are self-regulating. A paternal government is always in danger of making wholesale mistakes, and becoming maleficent instead of beneficent accordingly. Insurance is another item hidden away in this analysis. It enters into each of the elements of distribution as a provision against risk of loss — the deterioration of land, the loss of principal, the possible inactivity of labor, the failure of other transactions; but it is chiefly visible as it increases interest.

Of these four elements two are directly concerned with labor in the ordinary sense, for capital is but stored labor. Land, which comes first, the use of which is paid for by rent, is, on the contrary, a natural element, valuable in exchange because it is limited in quantity as well as various in quality. This is the one great exception to the general truth that all wealth comes from work, for the remaining factor of the four, the Director, contributes brain-work. The air, and other natural elements or forces, are unlimited, at every man's service, equally productive throughout — therefore of no value in the sense of power-in-exchange. But land — the primal source of all wealth, extracted by labor — is otherwise, and the man who in some way has obtained actual or legal possession of it will not let another man put his labor upon it to make its potential values actual values, by raising potatoes or digging gold or building a mill alongside the stream which runs through it, without paying him rent. Land, in the economic sense, includes all property connected with the earth, as water-power, or mines, or shooting rights, or shore rights, or the right to fish in privately owned waters; in brief, anything that is "rented," not of human origin. Ricardo, the greatest political economist who followed Adam Smith, has shown (adopting Anderson's doctrine) that actual rent is determined by the greater productivity of the piece of land in question above the land least productive, and it follows, because rent is a charge for increased productive power, that the price of produce does not depend upon rent. It is an element of cost, but not of price. For, if the better land will produce five times more product with the same expenditure of labor, the equivalent of the labor so saved can be and is paid as rent. Rent is thus the equivalent of labor saved. It does not increase price any more than a labor-saving machine increases price; the amount paid — rent in the former case, the making of the machine in the latter case — enters into the cost of producing, but does not increase the price of product, because in both the as costly or more costly labor is dispensed with.

As Land is limited in quantity, so it is limited in quality or power of production. By tillage and finally by high fertilization, irrigation and like processes, men increase the natural product of land, at first with increasing success, but afterwards with increasing difficulty. There comes a stage where the labor of an additional man cannot get as much new product as each man before him has been able to get; at this point, if ten men have been working, the next man cannot get one-tenth more, and so each worker averages less. This principle is known as "the law of diminishing returns." It does not hold, or holds in very small degree (though it has analogies), in the ordinary processes of manufacture: and it is one of the peculiar elements of difficulty in the land question. This fact led to the doctrine of Malthusianism, the fear that population would ultimately outrun food, a fear emphasized by the fact pointed out by Carey that the "best lands" are taken up first. But this last means really that the accessible lands most immediately productive are taken up first: the bad land of a miasmatic swamp, properly treated, may prove the richest land, and much of the "great American desert," as the far West was called in Carey's time, is now one of the most productive parts of the earth.

Accessibility is in fact one of the elements of productivity: land so distant from a market that it costs two bushels out of twenty to bring the crops to a market is economically of the same degree of productivity as land at the market which has a productivity of only eighteen bushels. This is the key to the great influence of the wheat-fields of the far West upon the value of agricultural holdings in England. The cost of wheat produced at greatest disadvantage, i. e., on the poorest land or at the greatest distance, fixes the price of all the wheat that comes to the English market. The farmer who can produce at less than this price gains; he who can't produce except for more, loses and stops producing. If these Western lands are so much more fertile than certain English lands as to outbalance the cost of transportation, it will not pay to cultivate the English lands, and they produce no rents. The loss is the landlord's under a year to year rent: the tenant's under the fixed rent of a long lease.

Rent, then, is the greater productiveness of the land rented above the poorest land actually cultivated. Rent thus tends to increase, as increasing demand (by increase of population or of wants otherwise) brings poorer and poorer land under cultivation. When all the arable land of the world is taken up, that land which can only be made to produce a bare subsistence for the laborer becomes the no-rent land, or standard from which rents count, because from it the laborer gets no surplus above bare subsistence to pay rent. If rent were paid, he has not enough to live on, and as there is no cheaper land, he would die. But still the Ricardo theory of rent shows that rent would not be a part of the cost of agricultural product, because it is only the equivalent of saved labor, and the extreme statement is made that if the whole $200,000,000 paid in England as rent for cultivated lands were remitted it "would not add a pinch of flour to the sixpenny loaf." For the price of bread is not made by the English farmer, but from the far-off wheat-fields of Dakota, which pay no rent and with which he must compete. This price is that of the product produced at greatest disadvantage; the remission of rents would be to the English farmer so much gain, which for the first season he would gladly pocket himself. At once, therefore, rents would again commence; the landlord would demand part of this gain, which is rent, or the tenant would sub-let and live on the gain, receiving rent instead of paying it. So long as some land is better than other, and on this better land labor is saved, the price of this labor will in the order of nature be somehow paid as rent. If the whole world were re-divided into equal lots, at no-rent or equal rent, the rent process would instantly re-commence.

The Ricardo theory of rent, however, is in practice much modified as to the amount of rent paid, by many considerations, especially by public opinion as expressed by custom, exerted in favor of the tenant as in England, and by the immobility of the occupying class, acting against the tenant as in Ireland. Metayer rents, such as are frequent in England, and in Iowa and other Western States, where one-half or one-third the crop is paid jointly for the land and the capital in the farm-house, etc., also practically affect the operation of this law.

This greater productiveness of one piece of land above another has not come from human labor, but is the gift of Nature. Human labor realizes this value, and increases the exchangeable value of its product by bringing markets to it as the country "develops," or by building railroads which bring it nearer to a market; until finally, when the land becomes itself the seat of a market, it takes on a still greater value as city land. But the highest city rents still do not affect the price of commodities sold there, because "good stands" produce so much more business. Thus Mr. Stewart's store, on most costly land, sold goods lower than the little stores which at little rent did little business. This increment of value is seldom contributed by the man who owns the land, or by those before him • it is contributed by others, by those about him, by "society," by "the march of progress." And since original productiveness is not the result of human labor, but the gift of Nature, and "development" is in no wise the result of the human labor of the particular owner, present or past, but "the work of "society," it has become a question whether any particular owner should own the land. It is by singling out this element of rent as the one cause of present misery, and recommending that it be disposed of by making land-owners pay over all their rent as taxes to the Government, that Mr. Henry George has become the most popular of political economists. This question is the most difficult real question before economists: its solution is not so simple a matter. The private ownership of land, though its abuse may have wrought great wrong, has been one of the great incentives to progress, and so long as land differs in desirability (because of natural productiveness, or position, or other reason) no "equal division of the soil" can last. It is true of land as of any kind of property, that if it were communistically redistributed at any moment, the men with more brains in a time of peace or of more force in a time of war, would presently get hold of a larger share than the men of less brains or less force. The confiscation of rent by a tax equal to its amount would be simply an artificial means to make all land equally valuable or valueless, and could be no more successful than attempts to keep down brains to the minimum of earning power of the hand-worker. The opinion of economists is, however, drifting toward the more moderate doctrine that land, and especially the unearned increment of value, is a proper object for the chief burden of taxation, a doctrine advocated by Mill as President of the Land Reform Association. The taxation of all land, unimproved on the same basis as improved, so that it cannot be "held for a rise" without cost and thus accumulated into great fortunes, may prove to be the chief method of raising revenue in the future.

Land, then, is the first element of production, the *sine qua non*: in distribution it claims its share as rent, however this rent may be concealed, or cloaked, or called by other names, or temporarily balanced by confiscating taxation. Without land, labor has naught from which to produce. The earth is in truth the mother of us all and of all our wealth.