The Enigma of Money

By RAYMOND V. McNALLY

TO the average man, money is the staff of life. Although it has reigned supreme in the human mind for thousands of years, there has been no progress generally in a real understanding of what it actually means. When we work, we receive money as wages. When we wish to satisfy our desires, we spend money. All kinds of property are referred to in terms of money. Practically everything we do is measured by money which is used as a common standard of value. In fact, it intrudes upon almost every phase of our existence. Therefore, as we think constantly in terms of money, it is raised to a position of exaggerated importance; and political economy, which is the science that treats of the nature of wealth and of the laws that govern its production and distribution, comes to be known as a money science.

Money was wealth according to the old English mercantile theory, and governmental policies, which tended to restrict the production of real wealth, such as the protective tariff, were built around this idea. Although Adam Smith made a valiant attempt to discredit the notion, now, more than one hundred and fifty years later, most people are seen to be suffering from the same complex. The depression has been manifested by a cessation, relatively, of the exchanges and the destroying of values, and so the cause of it has been attributed to the lack of money or to defects in our money and credit system which has unduly expanded or contracted the means of payment. More and more money then is believed to be the cure for unemployment. The business man complains about the lack of money in circulation. Some theorists, such as the noted English economist, J. M. Keynes, suggest an increase in the volume of money or credit; others recommend the transfer of money from one group of people to a less fortunate group, such as is done under the Agricultural Adjustment Act and by means of public relief projects. The popular belief is that there can be no employment without money—that it is people with money who give employment. And so saving by individuals is frowned upon and spending regarded as the road to prosperity. Money is regarded as the priming pump of production—that without it, labor could not work. But labor is not employed by money. Money is employed by labor. Men employed themselves before there was such a thing as money. If all of the money in the world were destroyed, could we for a moment believe that this would result in all people being idle? Down through the ages the unemployment problem existed under all kinds of money systems. I am not insisting, however, that undue contraction or expansion of money and credit plays no part in causing a depression or in prolonging it. The complexity and interdependence of modern industry have created such a delicate mechanism that the slightest shock tends to throw it out of balance. What I mean is that we cannot logically consider it as the *primary* cause of a major depression such as the present one. Money is essentially a labor-saving device. It facilitates the exchanges and in so doing, adds to the productive power of labor by permitting greater specialization and division of effort. If we regarded money strictly as a medium of exchange and a measure of value, we would readily see that, as long as our wants remained unsatisfied, any disturbance caused by the money system alone could only be temporary. But when we use the term "money" for such economic concepts as wealth, wages, value, monopoly, land and capital, we are very apt to overlook first principles. The result is a distorted picture of economic life which leads to a false diagnosis of our economic problems.

The person who is untrained in economic reasoning, does not realize that the careless use of the term "money" obscures certain fundamental facts that must be considered before he can really understand the phenomena of the present depression. He is easily confused by those economists who, in their intense effort to be scientific in their investigations and analysis, overlook first principles entirely by compiling huge masses of statistics on symptoms and concentrating on a mere medium of exchange. But the really scientific method of economic investigation requires first of all the precise use of words. The tendency to confuse money with wealth lies at the bottom of all of the popular analysis of the depression and of the government's measures to stimulate recovery. It is responsible for the AAA, the NRA, the Home Loan Corporation, the RFC, the public works programme, devaluation of the dollar, the banking bill, the various proposals for inflation, the reluctance to reduce the tariff, the various share-the-wealth and pension schemes and unemployment insurance. In connection with these, not the slightest attempt has been made to reduce the problem of unemployment to its simplest terms. In order to solve a problem in mathematics, we reduce it to simple factors. We do not tackle the problem by retaining complex equations and making them more involved. We try to obtain the simplest equation we can through the process of elimination. But the customary method of handling an economic problem is to assume from the beginning that it is very complicated and that it is impossible to simplify it. Thus the problem becomes more and more involved so that one finds oneself reasoning in a circle and losing sight of fundamental principles. And so the task assumes such alarming proportions that we find one man specializing in the study of prices, another in currencies, another in labor questions, another in taxation and so on, each one representing a distinct viewpoint but each failing to see the picture as a whole—a veritable jumble of disjointed and uncorrelated theories.

To understand the problem, we must begin with simple facts. The purpose of economic activity is to satisfy our desires, material and otherwise, with the least exertion. In other words, while we must work in order to live, we try to do as little work as possible. This is a fundamental law of human nature and universal as it is, it appears to be little recognized. Like the law of gravitation, it is a natural law and cannot be affected by human will. Our natural impulse is to make a job as easy as possible and the more freedom this impulse has, the more prosperous we are. Therefore, we use every labor-saving device that we can think of, including money and credit, in order to satisfy our desires with the least amount of effort. Limiting the use of machinery and shortening the hours of labor, as has been done under the NRA, are actions that are directly contrary to this law of human nature. They make the job more difficult than it should be, because more men are used than are absolutely necessary. The result is a lower standard of living for the community. When human effort is wasted, some of our wants must unnecessarily remain unsatisfied. Increasing techonological development cannot cause unemployment, because until our wants are fully satisfied (and I cannot conceive of such a happy condition), we need every man we can get to render us service of one kind or another. The remedies commonly advanced, however, for curing unemployment and stimulating recovery definitely ignore this self-evident fact. In fact, they imply just the opposite view, for they are based on the theory that there is not enough work for everybody to do and that therefore we must make work, regardless of what it might be, so that everyone will be employed. But if our wants have been fully satisfied, why should it be necessary to make more work? Work is not an end in itself but a means to an end—the satisfaction of our desires. The answer is obvious. Our wants have *not* been fully supplied and probably never will be, and while that condition exists, it should not be at all necessary to spread the work in private industry and to create artificial jobs on public relief projects in order to relieve unemployment. There is plenty of real work to be done. What is lacking is not work but the *opportunity* to work. Involuntary unemployment, therefore, can be due only to some maladjustment in the natural order of society. The fact that we deem it necessary to adopt unsound remedies based on false assumptions, while the real work is being neglected, should be sufficient warning that we are doing nothing to correct this maladjustment.

Those who favor the creation of artificial jobs by means of public relief projects, claim that they will eventually lead to real jobs, because the spending done by those who receive these artificial jobs, will stimulate private industry. But transferring purchasing power from the taxpayer to the unemployed cannot lead to increased business. Better business can only result from an increase in the opportunities for real work and these opportunities do not lie in public spending. In the natural order of things, as long as human wants remain unsatisfied, there should be no limit to the opportunities for employment. Why is it then that men remain idle instead of employing themselves? The socialist would reply that they had no capital, but he overlooks the fact that capital, which consists of buildings, machinery and goods in the process of production, is made by labor just as consumer goods are made by labor. This capital is obtained by exchanging consumer goods for it, through the medium of money or credit. The socialist would not admit this, because he holds the theory of the classical economists that labor is maintained by capital. But this notion was thoroughly discredited in the nineteenth century. Labor produces its own wages and subsistence. The average business man is inclined to admit this but then proceeds to offer and to uphold opinions that imply the classical concept of the relation of capital to labor. The false concept led to the fallacy that capital limits employment, a fallacy that runs through current popular economic thought and has resulted in the various inadequate explanations of the causes of the present depression. Capital, however, does not limit employment, but it may limit the *form* of employment—that is it may determine the direction that production will take and in that way limit the productiveness of labor. But while capital may limit the form of production, in actual practice it is seen that even this does not actually take place. To say that men cannot employ themselves until they have capital is to put the cart before the horse. Capital is the product of labor and obviously the product cannot come before the producer. This fundamental fact is doubtless obscured by the complexities of modern industry.. To make this point absolutely clear, it might be desirable to submit a detailed analysis of the processes of production and of the dynamics of capital production, but the lack of space limits us to a discussion of unemployment from the money angle. When men start in business, they either borrow capital that has been made by other men or they use their own savings to obtain it. The savings are the result of their own labor and consist of either actual money or of bank deposits. They do not represent real capital but abstinence from consuming that share of the wealth produced to which they are rightfully entitled because of their contribution to production. While it would appear from this that capital *is* necessary before men can employ themselves, it must be kept in mind that the capital they use has been produced by other men, because the spending of the savings of the former has directed production to that end. This is not to say that savings limit employment any more than capital does. As far as the whole community is concerned, the employment of labor does not depend on accumulated savings. All that is necessary is that some men devote their time or part of their time to the production of capital while other men devote their time to producing wealth for immediate consumption. Nor are accumulated savings absolutely necessary, as far as individual employment is concerned. Capital and also subsistence may be obtained by means of credit—not necessarily bank credit, but the credit extended by one business man to another.

It should be clear from the foregoing that the exaggerated emphasis placed upon money is due to confusing money with wealth and with that part of wealth that is used to produce more wealth. Those who believe that the spending of money is necessary in order to stimulate recovery and to cure unemployment, have fallen victim to the false notion that capital employs labor and that capital limits employment. When they talk of money, they are unconsciously referring to capital. Money is not capital. It has a characteristic in common with capital, however, in that the use of it adds to the productive power of labor. But this is not the same thing as saying that money is necessary before there can be any employment. Employment precedes both money and capital. Yet we hear all about us the statement that before unemployment can be reduced, there must be more confidence in the capital market. Idle funds must be invested, is the cry; but idle funds are not capital nor do they consist of money except to a limited degree. They represent mostly bank deposits and government securities and these constitute claims on wealth that is being produced or that is to be produced. The false notion that these idle funds have the power to give employment and to stimulate industry underlies the consternation that has been caused by the proposal to tax large incomes. It is pointed out that a tax on large incomes will tend to discourage productive effort and to divert capital from productive investments into tax-exempt securities. Insofar as the tax falls on *earned* incomes, productive effort may be discouraged, but all large incomes are not earned wealth. However, a tax on incomes, large or small, does not discriminate between what is earned wealth and what is unearned wealth. For this reason, it cannot be justified on moral grounds, whatever we might think of its economic expediency. At the same time, it cannot be denied that it is less injurious to industry than the vast majority of indirect taxes that are a direct burden on production and increase the cost of doing business.

The old classical theory that capital limits employment is the basis for the socalled modern doctrine, made prominent by J. M. Keynes, that spending (money being substituted for capital through the confusion of terms) leads to prosperity. It is said that there are many people with large incomes who do not spend enough—that they accumulate enormous savings that constitute funds which belong normally in consumptive channels. When they fail to spend, it is claimed that business suffers. This springs from the erroneous impression that there is a strict limit to human desires. When people save their money instead of spending it directly for commodities, they are only refraining from taking their share of the wealth that they have helped to produce. They have not done the community the slightest harm. If there were ~~a limit~~ to human desires, it would mean that the community would work less in order to satisfy its needs.

Naturally, under conditions in which all desires have been fully satisfied, there can be no involuntary unemployment, for where involuntary unemployment exists, human wants have not been entirely supplied. But in a dynamic society, such as we live in, human desires are unlimited. Therefore, if some people save their money instead of spending it, what these people fail to consume, others will consume. In other words, there will be no surplus of goods in the aggregate that remains unsold. But for the sake of argument, let us assume that a surplus has been created because these savings are not in circulation. The value of the savings, therefore, must be equivalent to the value of this surplus. But a surplus of goods for which there is no demand can have no value, and this means then that the savings that derive from this alleged surplus, also can have no value. This, of course, is contrary to fact, and so we are forced to the logical conclusion that saving money instead of spending it does not create a surplus of unsold goods. What actually takes place when some people save their money is that labor is freed so that it can supply to a greater extent the rest of the community with more consumer goods (there being no limit to the desires of the community) or, if the savings are invested in industry, with more capital goods. The failure to see this is due to confusing money with wealth, and this error has led to the idea that capital profits at the expense of labor. It is claimed that the wages of labor are not sufficient to enable it to absorb all of the goods produced, that the huge profits of employers have been diverted into building up an excess plant capacity and that this has resulted in an even greater overproduction of goods.

The average person seems to picture a supply of goods on one hand and a quantity of money equal in value on the other. If some of that money is removed, say for the purpose of saving it, he believes then that the supply of goods exceeds the demand for them. In confusing money with wealth, money is here regarded as purchasing power, but as a matter of fact, money only represents purchasing power. Purchasing power is wealth or goods and therefore springs from the ability to work. When a man works, he receives his wages in money, which is an order certifying to the fact that he has contributed to the production of wealth and that he has the right to claim a part of it. The demand for goods really lies in the goods themselves, and consequently supply cannot exceed demand, for when considered in the general sense, supply is demand and demand is supply. What stimulates business then is not money but work. While it is true that without money we would be living on a lower standard, it is not because money is purchasing power but because by facilitating the exchanges it adds to productive power by permitting a greater specialization and division of labor. But credit does this to an even greater extent, because most business transactions are made by means of credit, even though they are customarily spoken of as involving the transfer of money. The popular demand for increasing the volume of money in circulation, or the volume of credit, by such means as minimum wage laws, public relief projects, or by liberalizing the banking system is not for the purpose of increasing the productive power of labor but for the purpose of building up purchasing power.

Eliminating the false notion, however, that money is purchasing power gives us a much clearer view of the whole matter. While a depression manifests itself in a diminution of purchasing power, we know now that it is not due to overproduction proceeding from a lack of money or credit or from a faulty distribution of wealth between labor and capital. On the contrary, it is plainly evident that it is caused by underproduction which is due to a restriction of the natural opportunities for work —a restriction that results in a contraction of purchasing power which propagates itself throughout the entire industrial system. This is not to say that the distribution of wealth has nothing to do with the problem of unemployment. From the observation of phenomena and the examination of first principles, it is clear that the problem of distribution and the problem of unemployment are one and the same thing. Solve distribution and we solve unemployment. Thinking in terms of money, however, will not lead us to the correct solution, for then it becomes a matter of dividing wealth between those who have money and those who haven't. Capital is regarded as possessing all of the money and labor as having none and therefore being subject to the will of the former for its wages. And so for thousands of years, men have tried to divide wealth by government fiat but have always failed, because any interference with distribution shows itself in lessened production. As I have already pointed out, labor produces capital and so neither can have a permanent advantage over the other. Large aggregations of capital appear to have labor at their mercy, but that is only because they can take advantage of the maladjustment in the natural order which restricts the opportunities for employment. While it is true that in any dispute between labor and capital, the latter may be able to hold out longer (capital wastes when idle but labor perishes), if the returns to capital rise, more labor will turn to producing capital and the tendency will be toward an equalization of the returns of both. Some economists include the entrepreneur as a factor of production and believe that he should be considered in any discussion of the distribution of wealth. But the entrepreneur is only a laborer, in the economic sense, and receives only what he contributes to production.

Before we can determine how wealth is distributed, we must know what the fundamental factors of production are. These will be clear to us when we fix in our minds just what production is, or what amounts to the same thing, just what employment really means. Employment is the expenditure of human exertion in the production of services, both tangible and intangible. Tangible services are embodied in tangible products, such as food, clothing, shelter and all of the numerous articles that administer to our comfort. They form the basis for the enormous volume of intangible services which otherwise could not be rendered. Only the tangible services or the tangible products are wealth. The materials that go to make up these products come from land. Labor does not create these materials but merely removes and processes them so as to fit them for the satisfaction of human desires. Nothing is wealth, therefore, that is not the result of the application of labor to land. Many people cannot see what land has to do with modern industry. Land to them is only something that farmers use, but this narrow concept is a surviving relic of nineteenth century economics. Business is not carried on in the air. Land includes not only farm lands, but coal lands, oil lands, mineral deposits, forests, water, building sites, business locations and rights of way for pipe lines, railroads and public utilities. All occupations are founded on the primary occupations that are directly related to land, such as farming, fishing, mining, etc. The manufacturing and exchange occupations, while they use land directly only for standing room, are merely cooperative steps in the long process of production, because they handle the materials that come from land and from nowhere else. Land, obviously, is the source of all employment and therefore the source of all wealth. In the last analysis then, employment is the expenditure of human exertion on land, and the fundamental factors of production are seen to be Land, Labor and Capital.

Wealth is distributed among these factors and any attempt to solve distribution must embrace all three or it will be a complete failure. All legislation of the past and present has considered only labor and capital and has consisted of unscientific efforts to interfere *directly* with distribution by means of minimum wage, maximum hour and price-fixing laws. They have all failed for while weatlh that is already produced can be divided in any way that men wish, wealth that is being produced or is yet to be produced cannot be divided by human will except *indirectly*. Interfering directly with distribution results in lessened production, but fair and expedient distribution must be coexistent with greater and ever increasing production. Distribution must be tackled *indirectly* by *directly* reaching production, that is, by removing all obstacles to production. This would be in entire harmony with the natural order because distribution is determined by the natural law, previously stated, that men try to satisfy their desires with the least exertion. If they had free access to land, there would be no problem of unemployment to solve. But as all of the best land is privately owned, every single individual who works must pay for the use of it, directly or indirectly as the case may be, whether he be a bookkeeper on the top floor of a New York skyscraper or a miner in the coal pits of Pennsylvania. This payment is economic rent and the value or selling price of land is determined by capitalizing it, less any taxes that are levied on it, at the current rate of interest.

Obeying their natural instincts, men try to obtain land that will yield them the best living with the least effort, whether it be a busy corner on which to sell hats or a mine or a farm near transportation facilities. It is the power to save human effort that makes some land more valuable than other land, the difference in productiveness being economic rent. This superior productiveness is not due to any effort on the part of the individual who happens to own the land. It is due to greater population, closer proximity to the center of trade and commerce and to better governmental services —in other words, to the collective effort of all the people. This productiveness, therefore, is a social, not an individual value. Labor and capital generally, as producers of wealth, do not profit from this superior productiveness, because they must pay for it as economic rent. Their returns are limited to what they could obtain on the least productive land in use with the same effort. The huge profits of some producers are largely economic rent because these producers are also landowners. This fact is obscured, particularly in the cases of large corporations whose land ownership is represented by stocks and bonds that are owned by many people. While any increase in the productive power of labor due to invention and discovery or due to improvement in manners, morals, education and government tends to increase economic rent, the natural tendency is also to increase the returns of labor and capital. However, the tendency of material progress to increase economic rent, combined with our unscientific system of taxation, encourages speculation in land. Future increases are anticipated by owners in the prices or rents that they demand. Land is held out of use (twenty per cent of New York City's land, for example, is listed as vacant—not that there is no demand for it, for the fact that it has value indicates there *is* a demand for it for the purpose of using it), *creating an artificial scarcity, until prices are met by labor and capital. Unlike the return to capital, economic rent cannot be held in check, for land cannot be reproduced. In the keen competition for land, the price is bid up and up and labor and capital are forced to yield the returns that would naturally accrue to them from material progress. Some producers will be forced to less productive land where less wealth will be produced with the same effort and this is the point at which the returns of all will be fixed. Billions of dollars are poured into land, and speculation, aided by liberal bank credit and the optimistic attitude of investors, becomes more intense. Mortgages and funded debts are piled up, and finally land values are bid up to such a point that producers are forced to yield not only everything above their customary returns but part of those returns as well. If they are unable to increase their productive efficiency or to adjust living standards downward fast enough, receiverships, bankruptcies, liquidations and foreclosures result. Thus production is checked, unemployment follows and purchasing power declines, spreading from one point to another until there is a general business slump and a collapse of land values. Is it not clear that an industrial depression is but the intensification of a chronic condition of bad distribution?

Modern society, in social matters, is no more intelligent than ancient society. Although society is entirely dependent for its welfare on the efforts of producers, it has entirely ignored the fundamental law of economics, that law of human nature which prompts men to seek the easiest way to satisfy their desires. While the government seems to be thoroughly confused as to the cause of the depression, it has been occupied for some time with treating the symptoms of land speculation as is evidenced by the refinancing of farm mortgages, the reclamation projects, the home subsistence schemes, the Home Loan Corporation activities, the slum clearance projects and the granting of credit to railroads, banks, insurance companies and industrial organizations. All of these measures have tended to prevent the establishing of a new equilibrium which was necessary in order to permit production to continue at the old tempo. This was possible only by a deflation of land values to their natural level, or by an increase in productive power due to new inventions, or by the willingness of producers to accept smaller incomes, or by the accomplishment of all three conditions. All of the superficial remedies that have been tried have succeeded only in laying the groundwork for the next depression. With millions of people unemployed, no attempt has been made to open up the natural opportunities for work. Instead we witness the strange spectacle of a desperate endeavor to *create* work by shortening hours and planning relief projects in a world in which there is plenty of *real* work to do. The failure to recog-

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nize first principles in a maze of modern complexities has obscured the fundamental fact that employment, in the last analysis, is the application of labor to land.

Treating the *symptoms* of bad distribution cannot solve the problem of unemployment. The cause must be eliminated. All of the attempts to increase the productive power of producers, who are also consumers, by means of government improvements, such as better roads, harbors, bridges, inland waterways, education, supervision of health, restriction of crime and vice, a sounder credit and money system, lower rates from public utilities, etc., will be of no avail, for they tend merely to increase rent, encourage speculation and widen the gulf between rich and poor. Furthermore, not even regulation of the stock exchange and of the underwriting of securities can benefit the majority of the people. The stock market crash was largely a collapse of land values. Stocks and bonds, particularly the speculative part, were based chiefly on capitalized economic rent. As the cause of bad distribution is the private appropriation of economic rent, the remedy suggests itself: Divert economic rent into the public treasury. This would make it unprofitable to hold land out of use and by increasing the market supply of land, would destroy the speculative element in the price that labor and capital have to pay. The best land would be brought into use and with lower prices and lower rents and greater wealth production, the returns to labor and capital would rise. With easy access to the source of all employment, the natural opportunities for work would far exceed the available supply of labor and capital. If economic rent were used to defray the expenses of government, labor and capital would be still further benefited by freeing them from the multitude of taxes that now constitute a deduction from their earnings and hamper them in their efforts to produce. Economic rent would be sufficient for this purpose, because the *necessary* expenses of government cannot exceed the advantages of living under that government and these advantages are reflected in economic rent. This remedy does not violate sound economic principles, because it does not interfere directly with distribution and thereby lessen production but tackles distribution indirectly by removing the obstruction at the source, that is, by freeing production. Nor does it violate sound moral principles. Individual values would be left entirely with individuals and social values would be taken for society. An objection might be raised that this would not be just to those who have invested their savings in land, but it is extremely doubtful if it was just to permit anyone to invest in something that is absolutely essential for human existence and that was not made by man. The abolition of an injustice can harldy be considered unjust.

While a remedy that is economically expedient cannot be anything else but the purest justice, any prolonged discussion of it can be of little value, until the principles underlying it are thoroughly understood. What is of prime importance at this time is the matter of acquainting ourselves with the fundamentals of economic life and of training ourselves in the precise use of words. Loose terminology has strangled thought in the economic field too long a time, and we would be taking a big step forward, if we could free our minds from all of the false concepts that have been engendered largely by the confounding of money with wealth.

Around The World With The Henry George School of Social Science

By GEORGE BINGHAM

Mr. Bingham is a member of the class in Journalism, a group of eighteen persons training themselves to undertake the education of the public in social and economic questions as newswriters, feature writers, editorialists and correspondents.

To provide the members of the group with experience, Mr. Monroe arranged that he should be interviewed by them. Instead of making a formal report to the movement, he is presenting his report through the newswriting group.—Editor LAND AND FREEDOM.

NEW YORK, JAN. 7, 1936

MORE than 1,200 students attended the courses of the Henry George School of Social Science at its national headquarters in New York and at extension classes throughout the country in the fall semester just ending, John Lawrence Monroe, field director of the School, announced tonight.

Progress toward the goal in 100 cities by July 1, and 100,000 students completely familiar with the philosophy of Henry George in five years was shown by the reports from extension secretaries in fifty-two localities. All of these will give courses in the winter and spring semesters.

Spread of the school movement over the world has also begun, the field director disclosed. Twenty-five copies of the Teachers' Manual prepared by the late Oscar H. Geiger, founder of the School, have just been sent to the Rev. David H. Stewart, pastor of the Baptist Church of Tauranga, North Island, New Zealand.

The Rev. Mr. Stewart is starting a branch of the School which, like the New York School, will organize extension classes throughout New Zealand. He had intended to start a school which was to have been called the Henry George Institute. But on learning of the activities of the nation-wide American School, he ecided that it would be best for the New Zealand movement to be identified with the American institution, the educational standing of which is attested by its charter from the University of the State of New York.

Not only in New Zealand but in Australia, the United Kingdom, Canada, Mexico and Peru, branches of the School are being established.

In Australia three headquarters cities are organizing