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# Economics of Democracy

*By F. MASON PADELDFORD, M.D. In this, the second installment of his article, Dr. Padelford, general medical practitioner of Fall River, Massachusetts, continues the compact and comprehensive summary of the Georgist philosophy which was begun in the December FREEMAN.*

In view of the fact that Political Economy, or Economics, has been taught for many years, as a science, in our leading colleges it would seem but reasonable to anticipate that among those who supposedly are qualified to speak with authority there will be unanimity of opinion both as to the cause, or causes, of our politico-industrial troubles, and the remedy, or remedies, therefor. But instead we find the widest disagreement; on every side is confusion. Every imaginable criticism is made, and all sorts of remedies are suggested. One group would have machinery operated at higher speeds, and labor-saving devices used, so that, in place of one unit of output for each five dollars of labor cost, two will be produced. Another group, equally well-inten-

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tioned, attributing our difficulties to "over-production," would reduce, by law if necessary, the length of the working day, and the speed with which machinery is operated. They would indeed discard some machinery, and return to hand labor.

If we increase machine speeds and adopt such labor-saving devices as are recommended we shall of course reduce the unit labor cost of production. But if, under present-day methods of manufacture, we are producing an unsellable surplus of goods, what possibly can be gained by doubling output, even though the selling prices of products are reduced fifty per cent? Sales may be twice as great, but as production will have been doubled also, there will still exist that troubling surplus.

If the working day is shortened, or if the speed of machinery is reduced, the worker will lose, even though his money wages are not reduced. Shortening the working day, or reducing the speed of machinery, reduces the per man output of the manufacturing plant. If money wages are correspondingly reduced the prices of products need not be changed. The worker will receive less, and therefore have less to spend. If money wages remain as before the labor cost, per unit of output, will necessarily

be greater. This must lead to an increase in the selling prices of products. As this automatically reduces the purchasing power of the dollar, it reduces real wages.

That the needy must be cared for is obvious. Almsgiving must at times be resorted to. Shortening, arbitrarily, the working day or week in order that employment may be given to greater numbers is but almsgiving under another name. Practically it is a pseudo-charitable scheme which provides, not that Peter shall be robbed to pay Paul, but that Paul shall be robbed to pay an even poorer Paul. It involves no increase in the production of wealth, and no increase in the aggregate purchasing power of the consuming public. It brings national purchasing power no nearer to the producing power level.

Men work, primarily, not for money, but for things. That exchanges of things may be facilitated, money is used. Money is not wealth; it is but a representative of wealth. It is defined as *a medium of exchange, and a common measure of value.*

As wealth production increases, and as real wages increase, it is but natural that fewer hours will be devoted to productive labor. But increase of leisure will be a result of better economic conditions, not the cause.

Civilization brings new privileges, and new powers; and it brings also new responsibilities. Increasingly, if civilization endures, machinery will be used. The machine will lighten men's toil, increase wealth, and bring increased leisure if, and only if, its products are equitably distributed. If they are not equitably distributed, complicated and expensive machines can but become so many instruments of oppression.

*Every worker is entitled to wages which are the equivalent of the whole product of his labor.* This is the moral law. If, in distributing labor goods, we violate this law sooner or later a privileged few will own the machinery and control the political State, and an impoverished many will constitute the subject class in a politico-industrial oligarchy.

A despotic government, by estimating needs, and by regulating production, regulating wages, regulating costs of transportation, and regulating commodity prices, may maintain equilibrium of production and consumption. But under this regime the individual has little choice as to occupation, income, or dwelling place. This is economic slavery. For centuries men have struggled for industrial and political liberty. Until this goal is attained there can be no lasting peace.

Those who urge that the working day be shortened lose sight of the fact that "leisure hours" may well be devoted to productive labor. Shortening by law the working day or week may not result in any lessening of production unless "leisure-time" activities also are brought under governmental control. Tyranny, to be successful, must be complete.

Minimum wage laws probably will benefit but little those who are unperpaid. They are quite as likely to have the opposite effect: To deprive of employment, and then of any wages at all, those who, physically or otherwise, are handicapped. The employer who is com-

pelled by law to make any considerable advance in wages must either charge more for the output of his factory, or discharge the least efficient of his employees. Competition will compel him, in many instances, to do the latter.

The fair exchange of commodities is possible only if relative values are known. These can be determined only in a competitive market. Competition is socially creative where industry and commerce are free; it is socially destructive when limited in its application, and a weapon of monopoly. It has rightly been termed "God's law of cooperation in a selfish world."

Economies in distribution, involving a reduction in the number of jobbers and retail dealers, and in the number of persons employed in selling goods, will no doubt make somewhat greater the purchasing power of the consumer's dollar. But where competition has free play no middlemen, or agents, except those who render necessary and economical services, can long survive.

The government, during periods of industrial depression, may undertake, by engaging in the construction of highways, canals, bridges, and public buildings, to provide work for the unemployed. But let us remember that this labor must be paid for, and that the government's only legitimate source of revenue is taxation. While those who find employment, under such conditions, will have more to spend, those who ultimately pay the bills will have less. The few will be helped; the already over-taxed many will be hurt. Nor will anything be gained, in market capacity, if by subsidizing agriculture, the purchasing power of farmers is increased. What the farmer gains the city worker will lose.

It is argued that surveys as to probable future demands should be made. Possibly so! But such surveys are, and must be, uncertain. In the case of foodstuffs, perhaps, some worthwhile information may be obtained. But as long as there are in the world multitudes of people who are starving, or near to it, it is absurd—even a crime—to contend that food is being produced in too great quantities.

Those who observe at all closely will have some difficulty in convincing themselves that there is any over-production of either clothing or footwear. In few homes indeed are the furnishings, either in character or quantity, all that the family might reasonably wish for.

As a matter of fact we know very little about potential demands. People's wants seemingly are insatiable. When incomes become such as to permit the rank and file to satisfy their reasonable requirements, we may witness a demand for merchandise of all kinds far beyond anything that we can now anticipate.

We shall do well if we postpone our official surveys until such time as the greatest possible increase in real wages has been made.

It may be contended that manufacturers and merchants are not paying in wages all that they can. To avoid argument we concede that this may be true. We insist, nevertheless, that employers, acting as such, are powerless; that they are not in a position to materially increase real wages. When they have reached the abso-

lute limit in this direction, other factors remaining the same, there will still exist so wide a gap between our producing power and our purchasing power that, periodically, and with a frequency which varies as this gap widens or grows less, we shall be confronted with unemployment and poverty, and all that these entail.

Old-age pensions, unemployment insurance, shorter hours of labor, reduced machinery speeds, efficiency methods of production and distribution, minimum wage laws, bestowals of subsidies, and attempts by governments to provide work for the unemployed, are palliatives, and this only. While collectively, they may suffice, for a time, to keep going institutions which already are tottering on the brink of disaster, they can afford no permanent relief. To regard them as curative remedies for our economic ills is folly.

Three factors are involved in the production of wealth. These are Labor, Land, and Capital. The returns going to Labor are Wages; those going to Land are Rent; and those to Capital, Interest.

Where the distribution of wealth is in accordance with justice, *Products* will equal *Wages* plus *Rent* plus *Interest*. Therefore *Wages* will equal *Products* minus *Rent* minus *Interest*. This seems simple enough and easy of attainment. The complicating factor is the matter of Taxation: Where is public revenue to be obtained?

Adam Smith's canon that "The subjects of every state ought to contribute toward the support of government as nearly as possible in proportion to their respective abilities," has gained general acceptance, and a futile effort is made—or a pretence is made—to apportion taxes in accordance with it.

Wealth used in the production of more wealth is Capital. Most of what is known as "taxable wealth" is Capital. A tax on a merchant's store and stock in trade will finally be paid by his customers. A tax on rented property will be paid by tenants. A tax on gasoline, collected from users of motor vehicles, and spent in highway construction, will bring about an increase in the price of land in the territory which is served. The owners of land will be the chief beneficiaries. The public, in the end, will pay twice—once to the government, once to landowners.

An excise tax is a consumer's tax. Of an import tax and a sales tax, the same is true. A tax on earned incomes is direct. On investment incomes it may be indirect, and then but another burden on industry.

The cost of *paying* income taxes is not a matter of public record. To compile the detailed reports which the government demands, bookkeepers and experts must be employed. The wages and fees of these, in the aggregate, must be many millions of dollars each year. This is added to costs of production and finally is collected from consumers of manufactured goods.

An earned income is an index of the value of the services which the individual has rendered, directly or indirectly, to society. For rendering such services the individual should not be fined. A tax on income, or upon wealth or capital which, it must be assumed, is but accumulated savings from income legally obtained

is, in effect, a penalty imposed for doing useful and necessary work. The greater the value of the work the greater the penalty. Only by specious pleading can this be defended.

Because improvements are taxed, antiquated and poorly constructed buildings, too often fire-traps, will be kept in use as long as tenants can be found; hence the slums. When buildings no longer are taxed slums will disappear.

As a general truth it may be stated that all taxes which are levied upon products of labor come finally to rest on the shoulders of consumers. The worker whose income is small, and whose family is large, will be the most grievously burdened.

The "ability to pay" theory, under any system of indirect taxation, manifestly, is unworkable. The owner of any capital-property which may be taxed will recover from those with whom he does business a sum equal to the tax, plus a profit. Every merchant through whose hands the goods pass will do the same thing. The final purchaser, the consumer, will bear the entire accumulated burden.

Currently produced wealth should be divided between those who work, those who own Capital, and the group which has a rightful title to Rent. Under a system of indirect taxation, and a non-ethical system of land ownership, a condition has developed wherein working people, as consumers, are required to pay, not only practically all the taxes, but also, either directly, or in enhanced commodity prices, speculative rents and speculative prices for land. Wages which should equal *Products* minus *Rent* minus *Interest*, now equal *Products* minus *Rent* minus *Interest* minus *Taxes* minus *Speculative Rent*. The poverty of the working masses is here accounted for.

We must have government. The government must be supported. The town-meeting, once adequate, has been outgrown. We now delegate to representatives our rights and powers. No assembly of representatives should be allowed to exercise any rights or powers except those which are delegated to it. No individual can delegate rights or powers which he does not himself possess. The right to take from any individual, without that individual's consent, any product of his labor, no person possesses. Therefore no person can delegate such power. Necessarily then, that government, in a democracy, which takes from individuals, by taxation, what their labor has produced or purchased, exceeds its rightful authority—is guilty of usurpation.

In a monarchical, or an aristocratic, State there exist a ruling person, or class, and a subject people whose natural rights are denied. The coming of democracy marks the acceptance of the principle that men have rights which are antecedent to, and independent of, any government. In so far as the government, in a democracy, exercises powers which are not delegated to it, and which the electorate are not competent to delegate, despotism exists. Taxation, as now practised, is a relic of despotic governments. In a democracy it has no place; it should not be endured.

(To be continued next month)