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AN EXPOSITION IN OUTLINE OF THE RELATION OF CERTAIN ECONOMIC PRINCIPLES TO SOCIAL READJUSTMENT

AN INQUIRY INTO THE MOST GENERAL PRINCIPLES OF PRODUCTION AND DISTRIBUTION AND THE NATURE OF VALUE FOR THE PURPOSE OF ASCERTAINING THE POSSIBILITY OF EFFECTING BY SOCIAL ACTION A MORE EQUITABLE DISTRIBUTION OF WEALTH THAN NOW PREVAILS

A DISSERTATION SUBMITTED TO THE FACULTIES OF THE GRADUATE SCHOOLS OF ARTS, LITERATURE, AND SCIENCE, IN CANDIDACY FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

DEPARTMENT OF SOCIOLOGY

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CONTENTS.

INTRODUCTION.

The connection between the economic and the sociological part of this dissertation requires a word of explanation. If there were perfect agreement as to the true principles of economics, it would only be necessary for the writer to postulate those principles, and then show that the possibility of effecting, by social action, a more equitable distribution of wealth than now prevails, was in accord with them, illustrating his thought by reference to some special line or lines of social readjustment. The fact being, however, that there is not entire agreement as to the true principles of economic theory, it becomes necessary, for one who would appeal to such principles in support of his social doctrine, to set forth that which he regards as the true economic theory. The outline of economic theory thus required, the writer has endeavored to keep within the bounds which its subordination to the purpose of the essay requires; and he has accordingly confined himself in the main to such a brief statement of the most general principles as should be consistent with an adequately suggestive presentation of the point of view. That he should be entirely successful in giving to each element of economic theory to which reference is made its due prominence, and no more, is hardly to be expected. In large measure he believes his economic theory to be in accord with that generally accepted by economists, and he has therefore felt at liberty to pass over the field very lightly, and to present in briefest outline so much of it as it seemed necessary to present at all; but at certain points—as in his explanation of interest, which differs somewhat from that of any other writer—he has felt obliged to speak with greater fullness.

If interest is to be justified, its relation to capital and to rent and wages must be understood. The most adequate, and at the same time the simplest, explanation of interest, it seems to the writer, has been overlooked: and the explanations commonly offered have been so unsatisfactory as to lend color to the socialist's contention that interest is necessarily unrighteous. According to the writer's view, the true explanation rests upon the theory of value; and he has therefore discussed that theory at considerable length, not because he regards the theory itself as at this day an open question, but because its applications have not been sufficiently considered, and because he believed that by concentrating attention upon the theory he might succeed in making the corollaries derivable therefrom more evident.

The justification of interest supported by the theory here presented gives us negative assistance in determining the direction of social effort for reform, by affording us reason for *not* resorting to certain measures usually advocated by socialists for effecting a more equitable distribution. If, furthermore, there is an independent element in the determination of wages, over and above the relation of labor to the other factors in production; and if there is a similar determining element in the case of rent; while there is no such independent element in the determination of interest, the latter depending wholly upon the relation of capital to the other two factors in production,—then in a search for means of effecting a more equitable distribution of wealth we may confine our attention to wages and rent, in the confidence that interest will be determined by these two. If, again, the independent determining factor in the case of rent is not only less potent than the corresponding special factor in the determination of wages, but is the result of a more or less arbitrary human institution (private property in land) which may be done away with, then the element of primary importance in the determination of all three distributive shares—interest, rent, and wages—is the independent factor in the determination of wages (to wit, the standard of living). If, finally that which does away with the independent element in the determination of rent (land nationalization), and leaves the special element in the determination of wages in possession of the field, can at the same time be shown to be highly efficient in raising the standard of living, then this land nationalization, if desirable in itself, is doubly commended as a measure of reform, and may well be considered as among the chief means of raising the standard of living. To indicate the line of argument establishing what is put hypothetically in this paragraph is the purpose of this dissertation.

The necessity of indicating his whole economic theory so far as it bears upon the sociological doctrines here considered, has, as the writer has already intimated, seemed to him to forbid elaboration in the presentation of his theory — even of so much of it as is original. It should therefore be borne in mind that this essay in not intended as an elaborate argument, but as the presentation of a somewhat new point of view as to the relation of economic principles to certain doctrines which belong in the field of sociology — the line of argument in support of which is indicated but not worked out exhaustively.

PART I

ECONOMIC THEORY

ECONOMIC THEORY.

I. THE FACTORS IN PRODUCTION.

Land and *labor*[1] are the primary factors which unite in the production of wealth.

Land signifies all the matter in the universe, with all the forces and opportunities embodied therein, outside of man himself.

Labor is all human exertion.

Generally speaking, we may say that to land all wealth is indebted for its material, and to labor for its form (or position); that land is natural opportunity, and labor is human activity applied thereto.

Production in its simplest form, and all (economic) production in an ultimate analysis, consists in the application of human activity to natural opportunity; a change in the relations of the parts of the material universe effected by human exertion; a movement of matter by man; that is, in fine, a combination of land and labor.

The product is called *wealth*. *Wealth*, then, is composed of land and labor, that is, it is the product of this combination. According as we regard it from the natural (using that term in contradistinction to, and as exclusive of, human) or from the human standpoint, we may

[1] Perhaps it would be more accurate to say "labor power," or "human power," since in strictness it may be said that labor does not exist apart from land. Labor is human *exertion*, not mere capacity for exertion; and exertion is impossible without something upon which to exert itself and some place in which to exert itself. It is, therefore, true that labor is human-activity-applied-upon-land, so that land may in a sense be regarded as a necessary part of the concept labor. From this point of view no two of the three entities, land, labor, and capital, are coördinate and distinct factors in production; but the first (land) is the condition of the second (labor), a complete conception of which necessarily includes the first; and similarly the second (labor) is the condition of the third (capital), into a complete conception of which the second (and with it, of course, the first) must enter. But this is a refinement into which I do not think we need go in the discussion which is to follow, and I shall proceed upon the assumption that it is generally unnecessary to distinguish in terms between labor and labor-power.

say that wealth is matter which has been operated upon by man, or that it is labor embodied in matter.[1]

It is obvious that the labor and land which are combined in, or fused into, wealth, may be further combined with other labor and other land and other combinations of labor and land, the result of which will be a new form of wealth. Wealth thus combined with labor or with labor and land, or with labor and other wealth, to produce more wealth or a different kind of wealth, is called *capital*,[2] and the process is called capitalistic production. Capitalistic production, then, differs from the simplest forms of production first described, in that while in the simplest forms of production there are but two factors, land and labor, in capitalistic production (which is the ordinary form of production), there are three factors, land, labor, and capital. But, inasmuch as capital is itself the product of land and labor, it will also be seen that capitalistic production may, in the last analysis, be described as the combination of land and labor.

II. THE LAWS OF DISTRIBUTION.

From the standpoint of distribution it was at one time common to speak of the division of wealth into rent, the share of the landlord, wages, the share of the laborer, and profit, the earnings of the capitalist,—this because the entrepreneur generally provided the capital, and it was hence assumed that his profit was earned *qua* capitalist. As the functions of entrepreneur and capitalist have come more and more

[1] It will be observed that this definition of wealth does not include land—*i. e.*, free land. Of course, inasmuch as wealth is the product of land and labor, the matter of all wealth is land; but free land, land unaffected by human labor, is not wealth, in our sense, however valuable it may be. Land, however, as well as wealth, is an economic *good*.

[2] Many economists, adopting a definition of capital very similar to that here given, so interpret the definition as to make capital a factor in all, even the simplest conceivable forms of production. What I regard as a most important distinctive element in labor—that it is the activity of a *living* being—is, under this conception, practically eliminated, and the laborer is regarded in the same way as a machine, an engine, which must be provided with fuel from hour to hour in order that it may play its part in production. As such fuel would be capital, so the subsistence-wealth which is used to keep the laborer alive is regarded as capital. I cannot state here the reasons which lead me to reject this interpretation of the meaning of capital (despite such advantages as it indubitably has), and to prefer one which permits us to conceive of non-capitalistic production; the discussion would carry us too far. One of the

to be exercised by distinct individuals, there has followed a clearer recognition of the difference between profit and interest, the latter of which is spoken of as the reward of the capitalist, and the former as the reward of the entrepreneur. For some purposes it is important to recognize the distinct function of the entrepreneur in production as different from that of the common laborer, as well as from that of the capitalist or the landlord; but in the scheme of production set forth in the preceding chapter there is but one place for the entrepreneur, and that is in the ranks of labor; and as it is not necessary for our purpose to go into the details of the division of labor, and as it is important to keep clearly before the mind the fundamental distinction between labor and land (and capital, the product of the two), I shall not in the general discussion which is to follow distinguish between entrepreneur activity, other forms of highly skilled labor, and the common labor which requires little skill.[1] Including entrepreneur activity with labor, then,

reasons, however,— the difficulty of consistently carrying out the theory here referred to,— may be suggested by the inquiry: What part of the $20,000, say, which a rich man managing a large business annually sets apart for household and personal expenses, is capital? Certainly much of it, on the theory referred to, since it keeps him in excellent condition, contributes to the efficiency of his labor, and so "assists in production." But is wealth thus expended actually reckoned as capital or as wealth withdrawn from "production" and devoted to "consumption"?

[1] At this point it may be proper to suggest the considerations which seem to me to dispose of the notion—which lurks in the minds of so many— that "profit," in the sense of surplus value, or excess of value of the product over the price originally paid for the several units of land, labor and capital employed in producing it, belongs by right wholly or in the main to the entrepreneur. Although, as we have remarked in the text, there are purposes for which it is advisable and convenient to consider the exercise of entrepreneur ability apart from that of common wage labor, it cannot be too strongly insisted that the basis is the same in each — the reward of entrepreneur labor, however, like that of all forms of skilled labor, containing a larger proportion of "scarcity rent" than that of the lower forms of labor. The entrepreneur is a skilled laborer. As such his service rightly commands a higher wage than that of the common, unskilled laborer. Further, as the higher we go in skill the less exactly alike are the abilities, the serviceablenesses, of laborers, the more difficult it is to determine either the average or the minimum value of these higher forms of labor. Statisticians distrust averages drawn from few individuals; and the fewness of the individuals constituting the classes of skilled labor is greater than it might at first seem, from the fact that although we may be reasonably confident that the skill of different men is of the same *rank* or *grade*, we cannot equate them directly, because, being different in *kind*, they do not come into direct competition. The skill of a blacksmith and that of a cabinet-maker may be like in degree, but, not being like in kind, it is difficult to

we have, as before, land, labor, and capital as the factors of production; and it is common to speak of *rent*, *wages*, and *interest* as the respective shares of the product going to the owners of the land, the labor, and the capital. Before passing to the discussion of these terms, however, we must notice that (true, or net) interest is essentially different from rent and wages, in that while rent is the whole return for the use of land, and wages the whole return for the expenditure of labor, (true) interest is but a part of the return made for the capital employed. The cost price of all the capital consumed is ordinarily returned, and the interest is an addition thereto, a surplus thereupon. The nature of this surplus we shall consider in our discussion of value. For the present we need only notice that the payment of rent, wages, and (true) interest does not exhaust the product of land, labor, and capital, but that the share of the capitalist is not (true) *interest*, but *the amount* (to use the terminology of commercial arithmetic); that is to say, (true) interest is but a part of the capitalist's return, he never gets true, or net, interest without first getting the full equivalent of the capital used up in the productive process. Although the term *gross interest*, used to describe this "amount" of the capitalist's return, consisting of the equivalent of the original capital consumed plus the (true) interest

classify the iron-worker and the wood-worker together. Now, this difficulty, which exists in the more ordinary forms of skilled labor, increases rapidly as we get to the higher forms of skill, where the members are absolutely as well as relatively small. That which distinguishes entrepeneurs as a *class* is administrative, or "executive," ability; but this is shared in a measure by their superintendents and foremen, and certainly by politicians, military and naval officers, educational directors, and many other kinds of "non-productive" administrators, who often work all their lives for small salaries, their love of and interest in the particular work in which they are engaged being greater than the love of money, or of wealth in the abstract. Often, I think, it is the latter love (which is sometimes a negative, rather than a positive, quality; being due to the absence of any natural bent, or of such culture as might have awakened interest in some specific field of work for its own sake) which makes an entrepreneur of a man of good but not extraordinary administrative ability. At other times, it is the direct control of capital which, combined with good executive ability, determines a man for the vocation of entrepreneur. The third class of entrepreneurs is composed of men who are such because it has chanced to them to have some special training or experience in a certain line of work, which makes them the fit persons (having that degree of administrative ability which must be the possession of all of the entrepreneur class, but which is not peculiar to them) to conduct certain enterprises. Finally, there is that numerically small but most important class of entrepreneurs who are such, not as is the case with most entrepreneurs, because, having a fair degree of thereupon, is objectionable in that it obscures the fact that it includes the base upon which the rate of net, or true, interest is computed, yet it has the advantage of brevity, and also of verbally justifying the common division of the product of land, labor, and capital into the distributive shares, rent, wages, and interest — this division being an exhaustive one, if by interest we understand *gross interest.*

For brevity I have spoken of rent in the last paragraph as though it were an unambiguous term, descriptive of the payment made to the landlord for the use of land. But it is not unambiguous, and we may not safely use any of these terms in explaining the distribution of wealth until we have carefully examined and distinctly defined them. I shall therefore now proceed to a more particular consideration of rent, wages, and interest; in which I shall endeavor to make clear the meanings of the terms, and the mutual relations of the phenomena described by them.

administrative ability, they were directed by other circumstances — love of wealth as such, lack of any controlling intellectual or emotional bent, possession of capital, or special training in some particular branch of work — to entrepreneur activity, but because they are the possessors of extraordinary administrative ability, which must find an outlet, and finds it most suitably in the management and direction of great industrial enterprises.

So much for the nature of entrepreneur activity in general. The point to which I wish to call especial attention is that, while the relative productiveness of industries depends in a measure upon the greater or less ability of the entrepreneurs at the head of them, it depends no less upon the amount of capital and labor involved (and the control of land, which it is not necessary to consider at this point). That is to say, the greatest conceivable entrepreneur activity, if it could obtain but a dozen laborers and a few thousand dollars worth of capital to work with, could make but a small surplus value, as compared not only with that which the possessor of ability could secure if he had the coöperation of a large capital and a large body of laborers, but also with the surplus secured by an entrepreneur greatly his inferior in ability working with a large force of labor and a great amount of capital. In other words, while there must be sufficient entrepreneur ability in the management (whether this management be the work of one man or of several) of any given enterprise, whatever be the size of the enterprise, to make it go; and while the productivity of the enterprise will have a tendency to vary with the degree of this entrepreneur ability (as it will have a tendency to vary with the proficiency of all other kinds of labor employed in it), yet granted a reasonable proficiency in his particular kind of labor on the part of the entrepreneur and on the part of each of the other laborers engaged in the enterprise, the product will vary directly with the magnitude of the combination of industrial factors. If this be true, then "profit," in the sense above defined, does not rightfully belong wholly to the entrepreneur. The entrepreneur may have exerted just as much ability

A. RENT.[1]

Without dwelling upon the popular use of the word rent, in the sense of income received on account of the use of anything — as in the expression, "the rent of a piano," "interest is the rent of capital,"[2] etc.— we observe that the several uses of this term in economic discussion, although having much in common, are sufficiently distinct to call for attention.

1. Perhaps the most general sense in which the word rent is used is that which expresses the return from, or payment received on account of, an advantage in the production of wealth arising from the limited quantity, and hence the "scarcity value," of the particular kind of that factor in production to which the rent is attributed. In this sense of the term, any one of the three factors in production may command a rent. Not only will *land* above the margin of use command such a rent, but so also will fixed *capital* ("capital goods") which for any reason cannot be freely duplicated to meet the demand, whether this be by reason of a patent whose owner can control at will the number of machines made; or the result of a sudden change in the direction of industrial activity, which few producers are prepared to meet, in which case the owners of the particular kinds of capital adapted to meet the demand will derive a rent therefrom until other capital can be changed into the desired form; or whether the peculiar advantage accruing to the capital in question be the result of the fact that such an enormous amount of capital and so much time must be used to

(and may have worked harder) when he was working with forty-nine other men and $50,000 worth of capital, as when he is working with fifty-nine other men and $60,000 worth of capital; yet the product is not 20 per cent., but may be 30 per cent. or even 50 per cent. greater. It is evident, therefore, that, in case the value is 30 per cent. greater, the 10 per cent. of this 30 per cent. increase, which is an absolute increase, is not exclusively the product of the services of the entrepreneur. It is due to the fact that the serviceableness of *every one* of the units of the factors of production is greater in a large combination than in a small one.

[1] In preparing this section, as in the work at large, I have given my attention chiefly to the more recent writers. I have compared the views of Marshall, Nicholson, Gide, Macvane, Walker, Cairnes, Mill, Laughlin, and George, and several less known writers, and have availed myself of C. W. Macfarlane's monograph on "The History of the General Doctrine of Rent in German Economics."

[2] These uses of the term are in accord with Rodbertus's definition of rent as "all income obtained without personal exertion solely in virtue of possession."—*Sociale Frage*, p. 32.

make another plant of the same kind, that others cannot afford to duplicate the plant or plants then in the field. In this sense, the word rent is even applied to *labor*, as when a great and sudden increase in the demand for some particular kind of skilled labor enables those then fitted for it, and those who can promptly adapt themselves to it, to command an extra compensation beyond that which laborers of equal general ability, but whose skill has been cultivated in a different direction, can earn. In this sense, too, rent is the chief element in the wages of genius or extraordinary talent. The difference between the reward of "ability," as Mr. W. H. Mallock uses the term, and the wages of (common) "labor" is in this sense a rent.[1] For lack of a better term, we may designate this conception of rent as *Scarcity Rent.*

2. Approximating this use of the term are the less extensive uses of it which would exclude those of the cases cited above in which the advantage was merely temporary, and which would exclude all cases which might properly be denominated monopolies, and all in which the extra compensation enters into the cost price of the articles produced, restricting the application of the word rent to the measure of the *differential* advantage which one producer has over another who produces the same kind of thing. The agricultural rent of the Ricardians belongs in this group. For convenience we shall apply to the conception of rent given in this paragraph the term *Marginal Rent.*

3. Whether or not their *theories* be broader, English economists have *in practice* generally confined their use of the term rent to land rents, and this fact has encouraged the last use of the term rent to which I shall refer, to-wit—the return for the use of land; payment

[1] Although for purposes of economic discussion we distinguish sharply between "nature" and "man"—between land and labor, or, more accurately perhaps, labor-power—it will do no harm to remember that in the larger sense of the terms "nature" and "natural," man is a part of nature and human efficiency is one particular form of natural power. Looking at nature in this large way, we understand how the same term should be applied to the reward for superiority in *human* productive power that is applied to the reward for superiority in *natural* (*i. e.*, land) productive power. The fertile land that yields a large agricultural rent as compared with low rent land, does so because it is more richly endowed by nature; and the man of extraordinary physical strength or great mental endowment wherewith he gets a much greater wage than his fellows, gets the difference in wage because *he* is more richly endowed by nature; and accordingly this difference is sometimes called a labor rent, as the other is a land rent.

for access to natural opportunity; the share of the product resulting from the application of labor or of labor and capital to land — that is, from the combination of land with labor or with labor and capital — which goes to him who owns the land as a return for its contribution to the result. This conception of rent [1] I shall designate as *Land Rent* or simply as *Rent.*

This is the sense in which I shall use the term in this dissertation. I regard it as essential to a right understanding of the problem of distribution that the fundamental difference between land and labor and their product wealth (including capital) be clearly apprehended and constantly kept in mind. And because of this conviction, it seems to me much more important for the purpose in hand to have a term which shall strictly and exclusively refer to the return which goes to the landlord as landlord that it is to dwell upon the conception of marginal rent and its (negative) relation to cost.

It will be observed that the conception of rent here adopted differs from the Ricardian conception of land rent (which, however, it includes), in that the latter is essentially *differential,* [2] while the former

[1] Nicholson, "Principles of Political Economy," vol. i, page 409, and Cairnes, "Political Economy: Its Character and Logical Method," lecture viii, sec. 3, refer expressely to this use of the term rent, although the latter questions whether it should be called "economic rent."

[2] For convenience in the explication of the Ricardian theory of rent, economists are accustomed to assume that there is land in use in civilized countries which does not pay rent, and to say that the lowest rent paid is not that for the poorest land in use, but that paid for the next grade above the poorest land in use. In the interest of the classical theory, Mr. J. H. Hollander, of Johns Hopkins University, has devoted a paper in the *Quarterly Journal of Economics,* for January 1895, to showing that the conception of marginal rent does not depend upon no-rent land, but is equally applicable whether or not all lands pays rent — and this I think is today the received opinion. (It must be said, however, that Mr. Hollander's historical work is better than his theoretical, and his explication of the no-rent use of land is not as clear as could be desired.) What I would call attention to is that the "orthodox" economists do not teach that there is no-rent land in civilized countries as a *fact;* no-rent land is with them only an hypothesis resorted to for the sake of simplicity in the exposition of the Ricardian theory. It is to be observed, however, that the "rent" of the poorest land in use is not the rent of the Ricardian formula, but is, in the language of Professor Cairnes (*Political Economy: Its Character and Logical Method,* p. 202), "a residual phenomenon." I differ from Professor Cairnes and from the "orthodox" economists generally as to the importance of the principle which this residual phenomenon illustrates, as compared with that of marginal rent.

is primarily *positive.* It is obvious that, in the sense of the term here adopted, even if all the land in use were of equal utility, and if there were a thousand times more such land than the population could use, there might still be rent if only all the land were the property of less than the whole number of people.[1] It is true that some rent, in our sense of the term, is higher than other rent, because some land is more valuable than other land, just as the hiring price of some pianos is higher than that of others, because some pianos are more valuable than others. This difference in the value of land is, however, a mere incident to rent considered as payment for access to natural opportunity; it is not, as in the conception of marginal rent, the foundation and explanation of it.

Not all land (natural opportunity) pays rent. The ocean, seas, and rivers, the air we breathe, the sunshine that warms and cheers us, much of the water we drink, and some of land-in-the-limited-sense—that is, *terra firma*, the earth's solid surface, the soil—in remote parts of the world where the population is sparse and civilization little advanced—are to be had without price, are free to all. And this we should naturally expect, for land is not only independent of human effort, which neither produces nor can increase or diminish it by a hair's breadth, it is the condition, the *sine qua non* of the labor and of the life of every human being,[2] abiding unchanged as the generations of men pass—

[1] This is perhaps the place to call attention to the fact that what I have here stated is no new heresy, but is widely admitted by the so-called "orthodox" economists—that is, by the Ricardian school. I have already mentioned Cairnes and Nicholson; and Walker, in his *Land and Its Rent* (pp. 11 and 12), says that when all the land in use is of one quality, "if the land in question be held by a number of competing owners, either no rent at all will be paid, or else *a rent so small that for purposes of economic reasoning we may treat it as no rent at all*, the principle *de minimis non curatur* applying with not less force in economics than in law." The assumption which I have italicized is what I protest against as unscientific. I have no quarrel with the Ricardian theory; I accept its truth, for what it is worth. I merely differ from Messrs. Cairnes, Walker, Nicholson, *et al.*, as to the importance to be attached to it in economic theory. The assumption of Walker which I have italicized is the result of an exaggeration of the effect of competition—an exaggeration, to which until very recently, our economists have been prone. As Nicholson has well said (p. 409), "the competition of the various owners of land would prevent them from exacting a *monopoly rent* [italics mine], but the competition of farmers would secure to them [the landowners] any differential profit obtained from the sale of the produce."

[2] It is amazing that this fundamental truth should be so little regarded as it is. Not only is it the popular impression that land is a thing of interest to farmers, and,

so that it may be regarded as the ever new gift of God to each generation of his children. That is, it might be, if human property-institutions did not interfere and give exclusive control of this free gift of nature to private individuals, thus enabling them not only during their own lives to tax all others who use it, and who must use it in order to live, but even enabling a few men in one generation to determine the conditions of access to land (and consequently the right to life) of

in less degree, to the users of business sites and to householders as such, but which does not concern the great body of men whose work is not directly applied to land; but one even meets students of economics who talk of withdrawing labor and capital from land, in case rents are high, and applying them "otherwise"! — apparently regardless of the fact that not only is land necessary as a *pou sto* for every living being and as a site for every exertion of labor, but that even if the material upon which the labor is exerted exists in the form of capital — has been previously drawn from the land and converted into wealth — yet this material, this capital, this wealth can only be obtained by resorting to the land, or, what is the same thing, by the working up of other, simpler forms of wealth, which must originally have come from the land (and the further removed the capital in question is from the land — that is, the more separate operations have been gone through in producing different forms of capital one from another — the greater, generally speaking, will have been the number of *land sites* employed in its manufacture); so that no form of production can avoid being, directly or indirectly, a demand for land. A shoemaker working in a little garret a hundred feet from the ground, which is both bedroom and shop, may not seem to have much to do with land; but we should not forget that not only is a large portion of his "room rent" a true land rent, but that his labor constitutes as true a demand (though a less direct one) upon the land as does that of the farmer. His leather, his tools, his wax, his thread, all come from the land. Leather were unobtainable without hides, and hides without beasts, and beasts must have food and standing room, if not pasture and herding ground — and with these we get back to the land. Even the man who contributes "services," rather than "productive power" — the domestic servant, the opera singer, or the physician — must have land; and, generally speaking, we may say that his demand upon the land is in proportion to the importance of his services and the size of his income. The singer must own or hire a hall, or some one must hire it for him; the doctor must have an office; even the servant must have his lodgings. And all of these draw their income indirectly from the land; that is, the salary of the singer, the fees of the physician, the wages of the waiter, are paid by men whose wealth comes from the application of labor to *land* (generally through the medium of capital). Again, the expenditure of the artist's or physician's or servant's income is a demand for land, as is the expenditure of the "producer's" income, whether he buy pleasure-grounds or sumptuous or plain apparel, food or drink, necessities or luxuries. In short, whether we regard them as "productive" workers or as mere renderers of services, whether we consider them as producers or as consumers, all men are continually making a demand upon land — that without which they cannot labor and cannot even live. (We may infer from this that when all, or even most, land comsucceeding generations, the members of which are thus deprived of what should be their birthright, if it be true — as almost all men are in theory agreed it is — that *the land belongs in usufruct to the living.*[1]

Before we undertake to state the law of rent we should consider what are the important characteristics of that kind of land with which we have to do in the problem of economic distribution, to wit, the earth's surface. They are, first, that it is a *free gift of nature* and that it is everlasting. Second, that its *quantity is limited*, being the same

mands a rent, the amount of direct and indirect rent (in the sense here adopted) which enters into the expense of every living soul, be he poor or rich, and whether or not he applies his labor directly to the land, is very great.)

[1] How it comes about that land monopoly, or, more accurately speaking, private property in land, should exist when it is so contrary to our sense of justice as to receive condemnation — at least, theoretical condemnation — from almost all the economists[1] and social students of our day, and from men at large in proportion as they have thought about it, requires explanation; and this explanation is necessary to a proper understanding of the origin and nature of rent. The explanation is, however, very simple.

We may see a parallel phenomenon in our own time. The people of a town covering considerable territory will he benefited by a tram-road running through it, or by having gas and water mains put into their streets; and so they gladly permit the first man or company who applies to have the privilege of laying tracks or mains and operating the car line or the gas or water works, throughout the town. But from the nature of the case, such a privilege is, in effect, a monopoly; it must generally be exclusive. What is the result? The franchise, which, as the city grows, becomes worth perhaps $100,000 a year, was given away or sold for a few hundreds at the outset, simply because at first it was worth little or nothing; the income of the company for the first few years may have been hardly sufficient to pay for the labor and capital invested, the franchise, the opportunity which the exclusive use of the street (the land) gave them, yielding no rent. Now, however, the largest part of the princely income of the company may be a rent yielded by this franchise, and each year this rent becomes larger. The inhabitants of the city, whose presence and labor give this value to the franchise, get nothing from it — it all goes to the company, because the franchise has been allowed to become private property. Had the townsmen foreseen the future, they would not have *sold* the franchise but would have *rented* it out, making provision for a readjustment of the rent at reasonable intervals, so that while the franchise was worth little it should pay little, but when the presence and labor of the large population had made the franchise of great value, the people of the town should get the benefit of that value in a large rent from the company. Such a course as this with regard to water, gas, transportation, etc., would do much to distribute the wealth and advantages of a great city among the people at large, instead of piling them up in

[1] See Walker, "Land and Its Rent," pp. 198, 199 (quoting Roscher), and compare the statements of Mill, Cairnes and Nicholson. "If we were to abide, then, by strict logic, land ought to belong to society," says Gide, p. 452.

now and forever and incapable of any considerable increase or diminution by any amount of human effort. Third, it is the *necessary condition of life*, the *sine qua non* of labor, the source of all wealth. Labor being the application of human activity to land or the product of land, when land is private property the landless man must pay tribute to some landlord (directly or indirectly) for every opportunity to labor. He is not free to labor, but must pay for the privilege of every stroke of work that he performs.

the hands of a few individuals and corporations. This is now recognized, and in the better governed towns and cities new franchises are let out in this way.

A similar lack of foresight — though one much more inevitable — might give rise to private property in land. Where the population is small, and there is enough good land open to all, land, as such, will naturally have no value; the only title will be possession. Men will naturally feel that whoever is using a particular part of the land should be undisturbed in his possession thereof; and if he is willing to abandon it, after having expended some capital and several years' labor upon it, what more natural than that anyone who desires to avail himself of the slight advantages which the the other's residence and labor and capital have given to this piece of land, should pay that other therefor? In a primitive social condition, the question is not likely to be raised whether this payment is a payment for the improvements or for the land; although, in fact, it may be the former, there will be nothing to distinguish it in form from the latter; there will simply arise the custom of payment from the transferee to the transferer whenever the land is transferred from the use of one man to that of another. As the population increases, and progress is made in the arts, the amount of land of the first quality will not be equal to the demand; and it is but natural that the rule, "First come, first served," shall determine who shall have the better land. Thereafter the fortunate possessors of the better land will enjoy a marginal rent from its possession, and if they give it up they will be likely to demand something for this natural advantage, as well as for their improvements; and if the transferee recognizes this natural advantage, he will be willing thus to pay for it, whether or not the transferer has done anything to earn it. He recognizes that "possession is nine points of the law"— that is, that the man now in possession of the superior land is under no obligation to give it up *to him*, and that if *he* is not willing to pay for the natural advantage, the transferer can turn it over to someone else who *will* pay for this advantage. So he pays. Thus *private possession* of land passes into *private property* in land. As the population increases, and the industrial arts improve more and more, the lucky possessors of the superior land find themselves richer and richer by reason of that possessory right which has become a property right. In all probability, whenever there are more than two qualities of land in use, men will have begun to realize the advantage to be derived from the mere ownership of land; and we may expect that they will then endeavor to possess themselves of larger tracts than they have actual use for, in order to derive an income from those who may, later, wish to use it. Or the changes in the mode of life and the uses of land may leave the heirs of those who formerly had large hunting and pasture lands, in possession of extensive tracts, which those who

Having thus considered the peculiar nature and the fundamental economic characteristics of land, we have an inkling of the law of rent. Analyzing what has preceded, we find that land rent is (or may be) composed of two elements, one of which arises from the difference in the value of different parcels of land, while the other is the result of land's being private property. But we know further, rent and wages being the distributive shares of the wealth resulting from *simple* production, that if more than half the product goes to the one, less than half the product will be left for the other — that is to say, as a proportion of the product, rent and wages vary inversely. Similarly, rent, wages, and gross interest being the distributive shares of *capitalistic* production, any one of these must, as a proportion, vary inversely as the other two — that is to say, rent varies inversely as wages and interest taken together,[1] or, in case either wages or interest be stationary, rent will vary inversely as the other.

Putting this together we may say :

come late upon the scene will pay them for if they cannot otherwise get access to good land. Private property in land once recognized, the time will soon come when *all* land, good, bad, and indifferent, will be owned. And when that time comes, all landless men will have to pay rent (*land rent*) ; *all* the land in use, the poorest as well as the best, will yield a land rent.

I do not mean to state that what I have just sketched is the actual history of the origin and development of private property in land. As a matter of fact, we know from history that land titles throughout Christendom are largely based on forcible appropriation, and upon the turning of common property into the property of the princes and nobles, who, for a time, held it as heads and representatives of the communities originally in possession of the land. But it seems to me important to show that, however private property in land *did* arise, it *might* have arisen without conscious wrong-doing on the part of anyone ; and that it would be strange if it had not arisen, for the evils which follow in its wake are not of a character to be readily foreseen. Only after they are upon us do we realize that in permitting private property in land, society has necessarily brought evil upon its head. Private property in land was not deliberately devised ; it developed of itself. Had society in an earlier stage the self-consciousness it has today, it might have seen that although land was then plentiful, it might not always remain so ; and that the way to guard against the injustice of depriving some men of access to natural opportunity (the condition of life) upon equal terms with their fellows, was simply not to allow the ownership of land to pass out of the hands of the state, but to make those who had the use and possession of superior land, and who thus had an advantage over their fellows, compensate their fellows therefor by restoring to the community the extra value of this land by paying a suitable rent to the state therefor.

[1] It must not be forgotten that this is asserted of rent, wages, and interest as a *proportion* of the product. As absolute quantities they may rise together ; that is,

1. *Land below the margin of use*[1] will yield no rent.[2]

2. *Land at the margin of use*—that is, land of the poorest quality in use—will yield a rent whenever any part of so much of this land as is required for use is appropriated by (*i. e.*, is the private property of) less than the whole number of those who must use it (provided the product is sufficient to leave a surplus after paying what is necessary to get the use of the capital employed and a sufficient wage to labor to induce it to exert itself; otherwise, of course, the alleged "appropriation" is not an *actual appropriation*, it is only a *claim*).

3. *Land above the margin of use* will yield a rent over and above that which may be yielded by land *at* the margin of use, the amount of which extra rent will be proportioned to the excess of product of the land in question over that of lands *at* the margin of use.

I think we may now formulate the law of rent as follows:

Land rent varies directly with the value, or power in combination,[3] of the particular land in question; and with the proportion between the amount of land at or above the margin of use that is appropriated [held as private property, *owned*] by less than the whole number of those who must use it and that is *actually in use*, and the *whole amount* of such appropriated land: and it varies inversely with wages and gross interest.

B. WAGES.

After what has preceded it will not be necessary to treat wages at great length.

with improvement in the industrial arts a much larger product may result from a given expenditure of land, labor, and capital one year than resulted from those factors the previous year; but in this case, while rent, wages and capital as absolute quantities may rise together, as proportions of the product they may not vary at all, or rent may become less as compared with one or both of the other distributive shares, or it may become greater.

[1] It will be observed that we speak of the margin of *use*, not of the margin of cultivation; for we are considering not the law of *agricultural* rent, but the general law of *land rent.*

[2] Because, no one using it, there will of course be no one to pay rent and no product with which to pay it. In other words, land below the margin of use does not enter into production, and therefore it need not be considered in the problem of distribution. Only supra-marginal land (land on or above the margin) has any economic importance.

[3] This expression will be fully explained in the discussion of value, which is to follow.

By *wages* we mean the share of the product resulting from the coöperation of labor with (that is, the application of labor to) one or both of the other factors in production, which is distributed to the laborer in return for his contribution to that product; or is it a portion of wealth, approximately equivalent to such share, advanced by the capitalist to the laborer before the completion of the product, its amount being determined by discounting the probable value of such share of the product in order to get its present worth.

In considering rent we found that that which was peculiar to the land that is considered in the economic problem of production, to wit, its limited quantity, taken in connection with its reduction to private property, gave us the distinctive element in the law of such rent (to wit, that it varies directly with the proportion between the amount of land at or above the margin of use that is appropriated and actually used, and the whole amount of such appropriated land). So, in considering wages, we shall find it important first to determine what it is that is the peculiar characteristic of *labor;* and by fixing our attention upon this we may hope to reach the distinctive elements in the law of wages.

The important and peculiar fact in reference to labor, it will doubtless be admitted, is that it is the activity of a conscious living being with certain physical, mental, and moral demands for satisfaction, some of which are more peremptory than others, but even the highest of which may become imperative when a certain stage of culture is reached. All will agree that wages cannot remain below the point of subsistence, but this is only half the truth; they will not remain below the *standard of living*, although that standard may be much above the point of subsistence. This, then, is the distinctive element in the determination of wages, — not the minimum of subsistence (in the sense of that which barely keeps sufficient breath in the body of the laborers to enable them to continue their labor and to procreate others to take their places), but the standard of living which custom and education have established for the class of laborers who furnish the labor in question.

I do not mean to say that the standard of living is entirely independent of the conditions of the market, or that it cannot be lowered by lowering the demand for, and increasing the supply of, labor. What I mean is that it is relatively inelastic, less elastic than supply and demand; and that when a fairly high standard of living has once been established it will take a very great decrease in the demand for and increase in the supply of labor to affect it; and that the immediate effect of such change will not be to *lower the standard of living* of the class of labor in question, but to *diminish the number* of the class—that is to say, some of the individuals of the class will be eliminated, but the standard of living of the class will be maintained for a long time. If the standard of the class is already very low the elimination of some of the members of the class may mean starvation and death. If the standard is relatively high the elimination of some of the members of the class will not mean their death, save in a very few exceptional cases; it will simply mean that the weaker members of the class will drop into a lower class of labor, or perhaps become tramps. And I think it may safely be asserted that where the standard of living of the lowest grade of labor in a given society is fairly high (as it is in America and England as compared with India and China) the class will allow itself to be exterminated rather than descend to a standard of living much lower than that which at the time it maintains. Of course, in one country, or at one time, the standard of living for the lowest class of laborers may be little, if at all, above the point of subsistence, while in another country, or in the same country at a later time, the standard of living may be much above the point of subsistence. In the latter case the laborers have become used to so much more than bare existence that they will not work for less than will supply them with certain decencies and comforts of life; they will starve rather than content themselves with the life of brutes. That which they now insist upon may include much that their ancestors would have regarded as luxuries, but for them at this time they rank as necessaries. His standard of living fixes for the laborer the relative utility of different goods and (what is merely the obverse aspect of the same thing) the amount of disutility[1] which he will undergo for their acquisition.

We may then state the law of wages thus:

Wages vary directly with the productive power in combination of the specific labor in question and with the standard of living, and inversely with rent and interest.

[1] Compare Böhm-Bawerk's "Ultimate Standard of Value," for a recent discussion of utility and disutility. His conclusions have recently been criticised by Mr. Carl Strœver in the Annals of the American Academy for November 1897.

C. GROSS INTEREST.

The problem of interest is regarded by not a few as the most difficult question with which the economist and the student of society have to deal. Yet I do not think it is so abstruse as it is ordinarily held to be. The relation between gross interest and true interest is the main problem, and that will be considered in our discussion of value. For the present we shall give our attention in the main to gross interest.

Gross interest is the total return for the use of capital; it is the share of the product resulting from the combination of land, labor, and capital, which goes to him who provides the capital, as a return for the contribution which capital has made to the result. In capital, as the product of land and labor, we do not find the distinct characteristic, marking it off from the other factors, that we found in land and labor. Capital depends for its value upon its power at any given time and place to increase the productivity of land and labor—that is, upon *its productive power in combination* with the other factors of production. But there is nothing distinctive in this; productive power in combination is an element (indeed, the primary element, although not the distinctive one) in the value of land and of labor. The law of (gross) interest, therefore we may expect to find simpler in statement than the law of rent or the law of wages. Unlike land, capital is capable of indefinite increase; unlike labor, there is no standard of living to determine its value.

We may therefore state the law of gross interest thus:

Gross interest varies directly with the productive power in combination of the particular capital in question, and inversely with rent and wages.

III. VALUE.

A. VALUE IN GENERAL.

Professor Gide has well said that "the notion of value is the basis of all political economy," and in view of that fact it would perhaps have been more logical to treat of it at the outset instead of postponing its discussion until now. My reason for the course adopted is the belief that a discussion of distribution, leading to a consideration of the problem of interest, would best prepare us to appreciate the importance of a right apprehension of the nature of value, and would enable us to apply our knowledge of the subject to the explanation of (true, or net) interest with the least repetition and waste of words.

Value is a relation. Hence it is liable to change with every change of relation. As nothing in the universe is permanent, as the relation of one part thereof to some, if not to all, other parts is constantly changing, it follows inevitably that the value of one part as compared with certain other parts, if not with all other parts, must constantly change. The paradox of science, that we are constantly under the necessity of measuring things while yet there is within the universe no standard of measurement,—nothing less than the universe as a whole being permanent,—holds in economics as it does in all other departments of study.

In his introduction to the *Theory of Value*, p. 6, Professor Smart says that "value in the objective sense is a relation of power or capacity between one good and another good;" and on the preceding page he tells us that subjective, or personal value is "the importance which a good is considered to possess with reference to the well-being of a person." In the words of Mr. McLeod "*the value of any economic quantity is some other economic quantity for which the first will exchange.*" That is to say, *value is the expression of the relation of exchangeability between the thing valued and one or more other things.* A few moments' consideration must convince us that the conditions which go to determine such a relation are indefinitely numerous and subject to constant change. Special circumstances, popular whim, fashion, may confer upon a particular item of wealth (or portion of land or kind of labor) the power to satisfy human desire in a high degree; and therefore, if the quantity be limited, its value will be high as compared with that of most other kinds of wealth. But a change in fashion or an improvement in the means of producing, and hence an increase in the quantity of, this particular kind of wealth, may greatly reduce its value in terms of those same kinds of wealth with which it was previously compared. Even supposing popular desire for the thing in question, and the quantity available, to remain about the same, a change in the supply of or demand for any *other* kind of wealth (and such changes are constantly taking place) is a change in the value of the thing with which we started *as compared with this other thing.* A certain quantity of wheat, for instance, may today have a value of $100, equivalent to 20 good hats, 10 pairs of fine boots, 34 barrels of apples, etc. A week hence, or even the next day, it may be worth $110. But instead of being worth 22 hats, 11 pairs of boots, 37 barrels of apples, etc., the value of *these* things in terms of money — that is, the price of these things — may also have changed; so that not only the *price* but the various *other* values of the wheat will have changed. The wheat may then have a value of $110, of 23 hats, of 10 pairs of boots, and of 27 barrels of apples. In this illustration we have brought out but a few of the many conditions which may affect a change of value, but it will doubtless suffice to put vividly before us the relativity of value. That is to say, that there is no specific value inherent in anything, but that with the change of time, place, and circumstance, value changes; and that the nominal value, at any given time and place, of a new steam-engine, a hundred gold dollars, or a horse, is no more the absolute value of the thing in question than is the present capitalized value of a tract of land which today rents for $10 an acre, but which twenty-five years hence may command a rent of $10,000 an acre. Of course the market value of the horse, the steam-engine or the gold dollar at any given time will probably be much nearer its value at any other time than will the capitalized value of land, particularly where the population is rapidly shifting; but the difference between the permanence of value in these cases is one of degree rather than of kind. The notion that an engine is worth, say, $700 once and for all time, and that if anyone makes $1000 out of it, gets $1000 of value from its use, there must be something wrong, some form of spoliation or robbery — is one of the corollaries of the labor-measure-of-value superstition,[1] and is as baseless as any other superstition. We cannot too strenuously insist that value is a relation between one thing and another or others; that specific value does not inhere in any given thing, but that the value of everything changes continually with the changes in the various relations of things; and that therefore,

[1] Although the purpose of this essay is not to criticise what seems true to others, but to present positively what seems true to myself, the constancy with which there crops out in social and economic discussions, even where it is not explicitly avowed as a principle, the notion that all value is the creation of labor, must be my excuse for referring to it, and indirectly combating it at the length I do in what follows. The fallacies upon which this notion is based have been repeatedly pointed out, and it seems strange that anyone familiar with the fact that land (upon which no labor may have been expended) has value, and the further fact that a farm upon which a great deal of labor and of capital have been expended is often less valuable, acre for acre,

while we may *formulate the conditions* which determine value,[1] we cannot *fix a permanent valuation* upon anything.

Bearing this truth in mind, and applying it to the problems to which production gives rise and which come to the surface during the process of distribution, it will be evident, I think, that the value of any one of the factors of production, or of a unit thereof, is not — cannot be — something fixed and constant, but that *the value of a given quantity of one of the factors of production varies with the conditions into which it enters.*

That is to say, a unit of labor in combination with a unit of land will have one value; when an additional factor, a unit of capital, is added, both the value of the unit of labor and that of the unit of land will be different from what they were before; if, further, we change the *number* of the units of capital or of land or of labor, or of any two or of all of them, the *value* of the units will change also.

We may illustrate this by the case of a settler, who, working alone, is able to erect a building in 100 days, but who, with four other men, having neither more nor less ability than himself, can erect the same building in 15 days, while 20 such men can complete it in 2 days. Supposing, for simplicity, that the land is rent free, and that the man working alone had at his disposal the same amount of capital that the five and the twenty men had, we have here 100 days' work (1 man, 100 days), 75 days' work (5 men, 15 days), and 40 days' work (20 men, 2 days), all producing the same result. Suppose we call this product x; then the labor of one man for one day, when working alone, is $\frac{1}{100}$ of x, — that is the productive power in isolation of one day's work is $\frac{x}{100}$; but the productive power of one man's labor for one day in combination with four other like units of labor — that is, the productive power of the same unit of labor in a group of five — is $\frac{x}{75}$.

The figures are not improbable as far as the five and the twenty men go; although in truth it would probably be absolutely impossible for

than another upon which less than one tenth of the labor and capital spent upon the first named farm have been employed — it seems strange, I say, that one to whom such facts as these are (or should be) familiar should still suppose that value is necessarily dependent upon the amount of labor expended in the production of the thing valued, instead of simply upon the demand therefor and the supply thereof — into the determination of which labor *may* or *may not* enter.

[1] As Professor von Böhm-Bawerk has attempted to do in his paper on "The Ultimate Standard of Value," already referred to.

one man, single-handed, *ever* to accomplish the task. But this does not affect the principle. There is, however, a point which was neglected in the hypothesis, to which we must now turn. As a matter of fact, the increased productive power *per capita* of a large as compared with a small force of laborers is largely due to the fact that the larger number makes possible a larger use of capital than was possible with but a few laborers. Indeed, ten men coöperating with only that amount of capital with which one man had previously worked, and which he had found ample for his needs, might produce not more, but less, than ten times as much as the one man did (although with *no* capital they would produce more than ten times as much as one man with no capital); because from insufficiency of tools and appliances they could not work to the same advantage as the one man who had all the instruments of production that he could use. But supposing there were at command ten times as much capital as the one man could use, then when ten men were employed the nine tenths of the available capital which was formerly unemployed, because one man could not handle it, would now be used, and the proportion between labor and capital would be the same as when the one man worked,— then one unit of labor to one of capital, now ten units of labor to ten of capital. In almost any such case as this, although the factors of production would only be multiplied by 10, the product would probably be more than ten times as great; let us suppose it would be fifteen times as great. Now to what is this increase due? *Neither to the increase in the amount of labor* (alone),— for that, we saw, might diminish the *per capita* product if there were no increase in capital; *nor to the increase in the capital* (alone),— for that, we saw, would be useless without increase in the amount of labor. In this case, then, we must say that the *productive power*, or the usefulness in production, *of both the capital and the labor is increased by their* combination, or COÖPERATION. We may go further, although it is not necessary to our argument, and point out that the coöperation of ten men would in fact make possible not merely the use of ten times as much capital as one man could use to advantage, but might make possible the advantageous use of fifty times as much,— that is, of five times as much *per capita*. Here the coöperation of nine men with the first one, would make productive 49 units of capital which could not be advantageously used so long as but one man worked; and, conversely, 50 units of capital would give a productive power to the labor of each of the ten men much greater than such labor would have had without the coöperation of capital or than it would have with the coöperation of less capital.

The illustration just used shows us that this variation between the minimum productivity and the several degrees of productivity which the same unit will have in different combinations, holds not only of labor, but likewise of at least one of the other factors in production. We have just seen this in the case of labor and of capital. So with land. Land at the mouth of a navigable river, if it have but one man to the acre, may have little value. The same land with a hundred men to the acre has a much greater value, and if there is much capital in use by these men the value of the land will be greater than it would be if but little capital were in use. Were there a thousand instead of a hundred men, and millions instead of thousands of dollars' worth of capital, the value would be still greater. This we may see illustrated in the history of Chicago.

Take another case. It is quite possible that while an enterprise in which 50 men and $50,000 are employed will give an annual product of 100, if 60 men and $60,000 are employed the product may be 130,—in which case it is evident that the productive power of each unit of the factors of production is increased by its participation in a larger combination. It is to be noted, however, that this case does not necessarily mean that the *value* of the product coming from the coöperation of the 60 men and $60,000 is 30 per cent. greater than that of the product of the coöperation of the 50 men and $50,000, simply because the product is *quantitatively* 130 per cent. as great. We have learned, empirically, that large enterprises are generally more profitable than small ones, and so we may reasonably expect that the value of the product of the 60 men and $60,000 will be more than 20 per cent. greater than that of the 50 men and $50,000; but it does not follow that it will be 30 per cent. greater. The increase of 30 per cent. in the supply may lower the demand; it is even possible that it may lower it to such an extent that the second quantity (130) may have no greater value than the first (100), so that the enlargement of the enterprise brings about a relative loss. This, however, is not probable, and it *may* happen that the demand will continue so stiff that the 130 can be disposed of at the same price per unit as the 100. If this be the case, the entrepreneur can afford to pay higher wages in order to get the ten extra men, and a higher rate of interest in order to increase his capital by $10,000; the law of competition ensuring that the first fifty men share in the increase of wages, and that the owner of the first $50,000 gets the same rate for the use of his capital that the owner of the last $10,000 gets for his. The meaning of this, of course, is that here, *other things being equal*, a unit of labor and a unit of capital have a greater value in a large enterprise than in a small one. But, of course, other things may not be equal; a considerable increase in the population or a disaster in other lines of business may so stock the labor market that sixty men can be as easily obtained as fifty, with no increase of wage. So with the capital: its great abundance at the time it is possible for the entrepreneur to enlarge his business may enable him to get his last $10,000 — though it be worth more *to him* than $10,000 of his first $50,000 — at the same rate that, or even at a lower rate than, he paid for his first $50,000.[1]

We are not concerned to prove that the value, or even the productive power (quantitatively considered), of a unit of any of the factors of production increases with the size of the combination into which it enters. On the contrary, we know that, once past the point of diminishing returns, the (quantitative) productive power — not necessarily the value — of a unit of any one of the factors of production diminishes with the increase in the extent of the combination. All that we would insist upon is that (while the productive power of the factors of production, and of any unit thereof, increases with the extent of the combination into which they enter (or into which it enters) up to the point of diminishing returns, and decreases when that point has been passed) *the value of a unit of any of the factors of production varies with the extent and character of the combination into which it enters.* Generally speaking, the conditions are too complex to permit us to foretell when the value of a unit will be increased and when it will be decreased by entering into a new combination; for concomitant with the change in the *size* of the combination into which it enters, are numerous other changes in industrial conditions, some of which may have a tendency to increase and others to diminish the value of the coöperative factors

[1] In this case, availing ourselves of the terminology used by Marshall and Böhm-Bawerk, we may say that while the utility of the man and of the dollar is greater in the enlarged industry, the market value is no greater because the disutility, the difficulty of attainment, is less.

in question. It should be sufficiently clear, however,—and this is our whole contention,—that as the value of anything (being the relation of that thing to other things) changes as its relations change, so, more specifically, the value of a unit of land, labor, or capital may be expected to change with every change of productive enterprise into which it may enter.

B. VALUE IN RELATION TO TRUE INTEREST.[1]

It is in the variability of value, consequent upon its relativity, of which we have been speaking, that I think we shall find the explanation of true, or net, interest.

Suppose that by a day's labor upon rent-free land *A*, working alone, can produce 4; and that, under similar circumstances, *B* can also produce 4; and so with *C*. Suppose, further, that by coöperating any two of them can produce, not 8, but 10; and that, if all three combine their labor, they will produce 18.[2] We may suppose that *A* and *B*, who have formerly been working alone, awake to the realization of the truth, that in union there is strength, and resolve to unite their forces, and that, at the end of the day, when the 10 that has been produced is to be distributed, *A*, who has proposed to *B* that they should work together, proposes to take 5, half the product of their united labors, and leave the other 5 to *B*. What should

[1] The *interest* here spoken of is what Böhm-Bawerk calls *natural interest*, and the purpose of this section of my work is merely to explain the general principle upon which the *fact* of interest depends. With that in view, I have, as far as possible, ignored the principle of competition upon which the *rate* of interest so largely depends. It must not be forgotten that this is neither a discussion of the *rate of interest* nor a discussion of *loan interest*.

[2] If it be said that in fact A, B, and C could not produce 18 — and indeed could produce nothing — without the use of capital, my answer is that if this be so it only adds to the strength of my contention,— which is that whenever *capital enters into production*, and the value of the product is greater than the sum of what I designate as the "values in isolation" of the several units of the coöperating factors, *part of the increment in value* of the total over the sum of the isolated values of the units which are combined to produce that total, is due to capital, *is interest*. In my illustration I have assumed that labor is applied directly to rent-free land without the assistance of capital, partly for the sake of simplicity and clearness in exposition, and partly that I might show those opponents of my theory, who claim everything for labor, that, even if labor and land were the only original productive powers, the very *claims* made *for labor* would *ultimately necessitate similar claims for capital*.

we think if *B* should protest, and say to *A*: "The value of the product of your labor is 4, as is evident from the fact that you have never produced more than 4 unless you have had someone to help you. It is clear then, that, of the 10 produced, all in excess of the 4 your labor can produce is due to my coöperation with you; the 4 therefore is your share, and the remaining 6 is mine." *A* would of course reply: "True, I can only produce 4 when working alone; *you can produce no more*; but by working together we can work to greater advantage, and we then produce 10 — that is to say, the share produced by each of us is 5; 4 is the full wage earned by the isolated labor of each of us, but the wage earned by each of us in united labor is 5." Suppose further that, when they have agreed to this view, *C* proposes to work with them, and together the three produce 18; whereupon *C* says to *A* and *B*: "You two can only produce 10, so you ought each to take 5; the 8 additional is my contribution." *A*, who was first in the field, might reply with just as much (and just as little) justice: "Neither of you, *B* and *C*, can earn more than 4; you never did earn any more up to the time that you began to work with me; hence it is evident that of the 18 produced by us, 8 should be divided equally between you, the remaining 10 must be the reward of my exertion." Of course we see the fallacy in this, and recognize that while the productive power of the labor of *A* or *B* or *C* *in isolation*[1] is 4, its power *in combination*[2] is different; that its power in a combination of two is 5, and that in a combination of three it is 6.

Now let us put it differently. Suppose that our three laborers, instead of all working simultaneously, have found it advisable that one should

[1] It makes no difference to the argument whether this "isolation" be relative or absolute, whether it be the isolation of a group or of an individual.

[2] It may be well to call attention to the fact that, although the combination here used as an illustration is a contemporaneous one, the principle to be elucidated does not require that the combination be contemporaneous, and, indeed, the principle cannot be fully comprehended unless it be understood that *the combinations need not be* contemporaneous. Upon consideration it will be recognized that whenever capital is employed we have, in effect, a combination of present with past labor. Hence, while it may often *appear* that a combination is very small — that of half a dozen men, let us say — yet, in fact, by their use of capital, the labor of the men who are *obviously* engaged in the enterprise is brought into combination with all the labor (and capital and land) which had any part in the production of the capital they are now using — and this may, and, in fact, generally does go back hundreds of years, and so may make the virtual combination a very great one.

begin an hour earlier than the others, making things ready so that the other two could work to the greatest advantage upon the later stages of the work; and that, accordingly, *A* should start in an hour earlier, and after keeping an hour ahead all day should knock off an hour earlier than *B* and *C*. We may suppose that there is no difference in the value of the early and the late work, and that so far as skill and hardship are concerned, it makes no difference whether *A* or *B* or *C* takes the early hour of work. It will be perceived that *B* and *C*, if *A* is the early worker, really apply their labor to the product of *A*'s labor — that is, to wealth that has been produced by *A*'s labor; and as wealth with which labor coöperates for the production of more wealth is capital, *if we consider so much of this productive process as takes place in an* HOUR, *we find it to be the coöperation of* TWO UNITS OF LABOR WITH ONE OF CAPITAL, *although when we consider the productive process of the* WHOLE DAY *we are at liberty to regard it as the coöperation of* THREE UNITS OF LABOR. We may suppose that *B* and *C* prefer to regard the process as a combination of their labor with *A*'s capital; and to reason that the value of this capital produced by *A* is 4, while the value of the total product is 18, and that, therefore, since 18 minus 4 equals 14, and 14 divided by 2 equals 7, it will be proper for them to turn over 4 to *A* and for each of them to keep half of the remainder — that is, 7 — in payment for his labor. *A* might reply that all that *B* and *C* could produce together, without him or the product of his labor, was 10, and that if from the total product of 18 this 10 be subtracted, 8 would remain; that, therefore, 8 was due to his contribution, and *B* and *C* should each be satisfied with 5. The one contention seems to me as reasonable as the other; the fact being that *A*'s contribution, whether in the form of labor or of capital — that is, whether in the form of *present* labor ("free labor") or of *past* labor (labor stored up in capital) is equally important to the total result. *A*'s present labor has one value in isolation (4), and another in combination with two equal labors (6). So the past labor in *A*'s capital has one value considered by itself (4), and another value when combined with the present labor of *B* and *C* (6). *The cases do not seem to me to be essentially different, whether what is combined with B's and C's present labor is A's* PRESENT LABOR *or A's* LABOR OF LAST HOUR; nor whether it is *A's labor of last hour*, or of last year, *or of ten years ago*. In any case the value in combination of this factor in the production belong to its owner at the time of the combination — that is, to him who is its owner during the productive process. If A still owns the labor embodied in the capital he has produced, its value in its present combination (the value 6) belongs to him, even though the labor may have been put into the capital a score of years back. If, on the other hand, A has chosen to *sell* the labor embodied in his capital at the value it had when not coöperating with other labor or capital (the value 4), then it is perfectly proper that B and C, who have bought it, should get the increase of value (2) which the past labor of A has when combined with their present labor.

Comparing the case first put with the two cases last proposed we see that : In the first case, where A, B, and C combine their labor and produce 18, which they divide equally, we say that each gets a wage of 6. In the second case, where B and C combine their labor with the capital produced by A's labor, and which still belongs to A, they also produce 18, and also divide the product equally, and we say that B and C each gets a wage of 6, and A a "gross interest" of 6 — that is, he gets back his principal, or the value of his wealth when not used as capital, that is, when not combined with other factors for the production of wealth (4),[1] together with (a true, or net,) interest thereupon (2) — which interest represents the difference between the value of this wealth when in combination with two units of labor in a productive process and its value in isolation.[2] In the third case, where B and C have bought A's past labor (*i. e.*, capital) at its value in isolation (4), and the product of their present labor combined with this capital (or past labor) is again 18, — 12 of this 18 represents the wages of the labor of B and C, 4 of it represents the isolated value of the capital invested, and the remaining 2 represents the (net) interest on the "capital" invested ; but in this case the interest (following the present ownership of the capital) happens to go to the men who also contribute the present labor. Nevertheless it should be clear that of the 9 which each of the partners gets, but 6 is wage, 2 being the repayment of his share of the

[1] For simplicity we have supposed that the wealth was produced by the application of labor to rent-free land, so that the value of the wealth might be equal to the value of the labor embodied in it.

[2] Let me repeat, it makes no difference to the argument whether this "isolation" be relative or absolute, the point to be emphasized being the *different values of the same unit* (whether of land, labor, or capital) *according as it appears in a smaller or in a larger combination.*

capital employed, and the remainder (1) being the interest thereupon.[1]

This illustration seems to me to afford a satisfactory explanation of the nature of interest. And I would parenthetically remark that it seems to me also to justify it, putting it upon the same basis as wages. For unless it be contended that, although *A*'s (present) labor is more productive and has a higher value when combined with *B*'s and *C*'s than when exercised alone, yet he ought not to receive any higher wage when working with *B* and *C* than when working alone, because, although he produces more, he works no harder — unless, I say, this be contended,[2] I cannot see why it should be contended that *A* is not entitled to the full present value of his past labor, merely because that present value (its value in combination with *B*'s and *C*'s labor) is greater than its past value (its value when exerted alone). The past value (or value in isolation) is represented by the face of the principal — that is, the nominal value or mere *wealth* value of the capital; the present value (or value in combination) by the "gross interest"— that is, by the principal plus the true interest. That is to say, (net) interest is the difference between the isolated value of capital — that is, its value *as so much mere wealth* — and its value when combined with other productive factors to bring into being a new form of wealth — that is, its value *as capital*. This may be a negative quantity, a discount, a loss. If the productive undertaking results in failure, the difference between the value of the capital in its original form, as so much wealth, and its value when involved in combination with the other factors in the aforesaid enterprise, is a difference in favor of the original value; that is to say, the interest here is a negative quantity. As value varies

[1] It will be understood, of course, that I do not mean to imply, by the definite quantities used in my illustration, that we can always, or *often*, accurately determine how much of a product is due to the labor employed and how much to the capital. My point is merely that the value of *capital in combination* (actual capital) is, or is likely to be, different from the value of *capital in isolation* (potential capital, or mere wealth), *just as the value of labor in combination is different from its value in isolation;* and that the difference between the wealth-value, or value in isolation, of the capital, and its value in combination, is theoretical interest. As to how much of the product goes to interest, how much to wages of common labor, and how much to the payment of entrepreneur activity, I have nothing to say in this paper.

[2] And how it should be, I fail to see. The fact that the difference between the larger and the smaller wage is a "producer's rent" does not seem to me to furnish any reason why the producer should not keep it. To whom should it go, in a non-socialistic organization of industry, if not to him?

with every change in relation of the thing valued, so interest varies with the different forms of capital and the character and extent of the enterprise in which it is employed. Interest, then, is simply the difference between the values of the same wealth in different combinations.[1]

A great deal has been made of *time* in the explanation of interest. It is true that interest cannot be produced without the lapse of time,—simply because no change can take place except in time, and interest is the measure of the change in the value of capital which results from putting it into new relations. But there is no special connection between time and (positive) interest, other than this. In so far as the extent of the change in the capital will naturally bear a certain relation

[1] It is misleading to speak of a common rate of interest. We know that certain kinds of fixed capital sometimes earn an interest considerably above or below the so-called current rate. And not only so; but the same kind of capital earns one rate of interest here and another there. Yet we are far from denying that, when rightly understood, the doctrine that in any given market, at any given time, there is a uniform rate of interest, is true. We mean when we say that the current rate of interest is, say, 5 per cent., that, although a certain kind of capital ("capital goods") may at present be earning 7 per cent., and another kind 3 per cent., while a third kind may be earning 6 per cent. employed in one way and 4 per cent. when employed in a different undertaking, yet the average earning of capital is 5 per cent., and, this being so, competition will bring it about that the kind of capital now earning 3 per cent. be speedily reduced in quantity till it shall command 5 per cent., while the quantity of that which earns 7 be increased (if some form of monopoly do not prevent) till it shall earn no more than the current rate. I should have said that this is what we would mean if we referred to "natural interest" (to use Böhm-Bawerk's term) when we said 5 per cent., was the current rate of interest. What, as a rule, we do mean when we speak of the current rate of interest, is the rate of "loan interest,"— which differs from the average rate of natural interest much as the rate of wages actually paid to common labor by the entrepreneur differs from the average of what such labor actually produces. Some enterprises turn out well and others result in disaster. If each individual laborer were to get exactly what his labor should actually produce, he might get much or he might get little; his reward would be dependent not alone upon the faithfulness and ability of everyone taking part in the industry with him, upon the quantity and quality of the capital used, etc., but also upon variations in supply and demand and changes in methods of production (which might result from the progress of invention, and be quite beyond the foresight of the most able entrepreneur). As the common laborer cannot afford to take such a risk, he commutes for the product of his labor, and accepts a definite wage, which the entrepreneur undertakes to pay him daily or weekly, as the case may be, regardless of whether the enterprise results well or ill. It is to be expected that this commuted wage should be less than the average product of this class of labor; because the particular enterprise in which the labor is engaged may

to the length of time during which it is subjected to changing conditions, and in so far as the extent of the change in value bears a relation to the extent of the change in material conditions, it is natural that we should find, in general, that the greater the length of time the capital is productively used the greater the interest; but time will do nothing for capital unless the capital be combined with the other productive factors (that is, time will do nothing for *wealth* until it becomes *capital*); and even then, if the enterprise be an unfortunate one, time may only bring about negative interest,—that is, the value of the capital may diminish.[1]

Böhm-Bawerk, following Galiani, puts the stress on time in his explanation; and although his explanation may be good so far as it goes, its limitation is that it carriers the implication that present goods are *always* more valuable than future goods, and always must be, and that this is the explanation of interest. This, I think, is a misplacement of emphasis. As a matter of fact, that which was capital[2] last

result in a loss, in which case the entrepreneur will suffer, while the laborer, whose wage is guaranteed, will nevertheless get the agreed sum for the labor he has expended. It is natural, therefore, that the entrepreneur should charge for the *insurance*, and that this element of insurance should take the form of a discount upon the average productivity of the class of labor in question, so that the wage actually paid would be less than such average productivity. Now the rate of *loan interest* is, I believe, similarly, a commutation of the rate of interest earned (produced) by capital; but in this case the commutation is a more complex operation. The element of insurance may here be said to appear on both sides. In so far as the borrower must be compensated for guaranteeing a fixed return to the lender, whether the enterprise in which the capital is used shall prove profitable or unprofitable to him, this tends to *lower* the rate of loan interest; and, on the other hand, in so far as the lender must insure himself against the possibility that the principal will not be returned and that the security will afford insufficient indemnity, this tends to *raise* the rate of loan interest. It will be seen then that the rate of the loan interest does not necessarily coincide with the productivity of capital, but that it is a commutation and a somewhat complex one.

[1] It should be noted in passing that the effect of time upon "the vital forces of nature"—of which Turgot, in the earliest "fructification" theory, and Henry George, in the later one, have made much (see BÖHM-BAWERK, *Capital and Interest*, book i, c. iii, and book vii, c. ii, for criticism of these theories)—doubtless plays its part in production of interest. Time is here the condition of new and larger combinations of organic elements, thus causing a change in value. And this change in the value of the direct products of nature will naturally affect the value of all other things with which they are in relation.

[2] While I do not accept Böhm-Bawerk's definition of capital, I do not think that

year, and will be capital year after next, may command no interest this year and next year. If in time of civil commotion I take all my wealth (including capital) to a safe man and beg him to keep it for me, making what use of it he likes provided only he will return to me the bulk of it less a percentage as a wage for his care of it,—he may use a portion of my wealth as capital and yet pay me no interest therefor, but on the contrary retain part of the wealth committed to him as payment for his care and protection of it as a whole,—that is, of so much of it as he returns to me. I may take to him 105 units of wealth, much of which had in my hands been capital; he may use part of these units as capital, so that on the whole the transaction would be an advantageous one to him even if I did not pay him for keeping the wealth; but instead of paying me interest on the capital, he returns to me but 100 of the 105 units, retaining the 5 units as payment for the service he has rendered me in preserving for me the 100 units intact. I pay gladly, because I know that if he had refused I should have lost, not $\frac{5}{105}$, but perhaps $\frac{100}{105}$, and possibly the whole 105. The payment he demands is just, because there was such a demand for his services that he could have gotten as much as from me from any one of a hundred other proprietors; and as he could not take the care of wealth for them all, it is just that I should pay for the preference he showed me in accepting the care of *my* wealth. If, again, in ordinary times, this same man, having the ability to use advantageously and productively more capital than he owns, feeling that with my capital his labor would be more productive than it could be without, should take my capital and pay me interest upon it,— the transaction would seem to be no less equitable than the one previously described. Here we have two cases of the use of capital,— in one of which interest is paid, and in the other of which it is not paid; and in both cases we declare the transaction just. What is the explanation? Is it not that in each case a service is done? In the first case the service done me in ensuring the preservation of the bulk of my wealth is greater than the service done him in giving him the use of my capital. In the second case the service done him in enabling him to get larger wages for his labor and larger interest upon his own capital by the use of my capital is greater than the service done me by the preservation of my capital. In other words, we refrain from paying

the difference between his definition and mine is so great that we need expatiate upon the difference at this point.

interest in the first case supposed, because the service to the owner of the capital in preserving it is greater than the service to the entrepreneur which the productive power of capital gives. In the second case it is the other way, and usually the balance of service is the other way, and therefore interest is usually paid — and justly so.

C. SUMMARY AS TO VALUE.

As (capitalistic) production is a recombination of land, labor and capital undertaken because it is believed that in the new combination the several factors can be used to greater advantage than out of it, — that is, will *be* of greater advantage, will *have more value*, — we naturally assume that production is a creation of value. And naturally also it generally *does* effect an increase in value; but not necessarily so; whether it does so or not depends upon a number of circumstances, — in the main on the foresight of those who plan it, and somewhat upon chance. An unforeseen change in fashion or a sudden great discovery in the mechanical arts may make the production of certain things a positive injury to all concerned in the undertaking, reducing the value of the capital employed to almost nothing. Or in case college boys on a lark enter upon the production of firewood from the president's carriage, they may succeed in producing just what they wish to produce,— and perhaps we must assume that for these young scoundrels the firewood has greater utility than the carriage,— but to the owner of the carriage (as to the world at large) this conversion of his wealth, the carriage, into a factor in the *production of firewood* is a great *destruction of value*.

In change of value, whether it be increase or decrease, whether we have positive or negative interest, there is nothing strange or unusual. We have already seen that land and labor, as well as capital, change in value with the extent and character of the various combinations of which they form a part. But this does not seem paradoxical in the case of labor, for instance, because the wage — the estimated *value of the labor in the productive enterprise* — is the only expression of value that we are accustomed to give to labor; "gross interest," however — the estimated *value of the capital in the productive enterprise* — is not the only expression of value we are accustomed to give to capital. On the contrary, we regularly speak of what I have previously designated as its *value in isolation* — that is, its mere wealth value; and it is this wealth value, the value it has prior to, or outside of, the productive enterprise, by which we generally designate it. Hence we are likely to fall into the error that a specific value is something inherent in a particular thing as such, instead of being dependent upon its relations, and we are prone to assume that this "wealth value" of capital is its "true" value, and that any value over and above this cannot rightfully belong to it. It is for this reason that interest seem to so many to be unjust.

PART II

APPLICATION

APPLICATION.

I. WHAT IS MEANT BY AN EQUITABLE DISTRIBUTION.

Before discussing the means whereby an equitable distribution of wealth can be effected, we must consider what is meant by an equitable distribution.

That is ordinarily considered "just" which gives to men according to their deserts — and this is commonly held to mean, in proportion to their contributions. But, considered carefully, this leads us into an endless round; for men *can* give only in proportion as they *have* received; hence if they give much, it means that they have previously received much. The man of fine physique, strong mind and great heart is debtor to the universe, to the race and to society for the advantages of nurture and education which his ancestors and himself have received to make him what he is. The able man of today did not make himself; nor could he be what he is but for the advanced state of human culture at the time of his birth — an advantage of which he who is born in a good (not necessarily a *rich*) home, reaps the benefit; while it must be largely foregone by his fellow born in the slums. Further than this, however richly he might be endowed by *inheritance*, the able man could not do what he does but for the *contemporaneous* social conditions — peace, civil freedom, intellectual culture, material civilization, etc. — which he shares with all his fellows, but which his personal advantages render more valuable to him than they are to his less fortunate brothers.

"Justice," then, as ordinarily understood, seems, when analyzed, to be merely the survival of the fittest — without regard to what it is that makes one fit. "To him that hath shall be given, and from him that hath not shall be taken away even the little that he seemeth to have." That is not exactly what *we* seek to secure by "a more equitable distribution." The aim society proposes to itself is not the survival of the fittest — *it takes that for granted* — but its desire and its endeavor are to improve that environment to which man is to fit himself and to increase the number of the fit. By a more equitable distribution we mean one which will more nearly give to the masses, the poorer and less highly endowed classes, the same opportunity to make the best of themselves that is enjoyed by their richer and more talented brethren. We speak of a *more* equitable distribution, one which will *more nearly* give to the masses the same opportunity to make the best of themselves that the fortunate few possess, because we recognize that we can only approximate to equality of opportunity.

Now what, from this point of view, is equitable as regards the distribution of the product of the combination of land, labor and capital?

Even that extreme school of socialists whose doctrine is, "From every one according to his abilities, to every one according to his needs," might be brought to admit that one's needs are likely to approximate pretty closely to his abilities; so that the generally accepted doctrine of a "just" wage, to wit, that it is so much of the product as is due to the participation of labor in the productive process, may be in substantial, although not in formal, agreement with that of this school. And as the school referred to is the only one, so far as I know, that questions, even in form, the current doctrine of a "just" wage[1], I think we may accept that doctrine, without further discussion, as our point of departure.

Assuming then that a "just" wage is an approximately equitable wage, — that is, that the laborer should be paid a wage corresponding to the contribution of labor to the product, — what are we to say as to the payment for land and capital? We have seen that labor is impossible without land, and that highly productive labor is impossible without capital. Land and capital, then, are the opportunities of labor; and as we have determined that the equalization of opportunity is

[1] It should, however, be noted, that general acceptance of the doctrine that a just wage is so much of a product as is due to the participation of the labor in the productive process, leaves the door open for a great diversity of opinion as to how much of the total product should actually go as wages under this rule — that is, how much of the product *is* due to the participation of labor. On the one hand, we have such views as those of the Marxian socialists, that *all* of the product except so much as is necessary to replace the capital actually used up in the process belongs to the laborer as wages; and on the other hand we have Professor's Marshall's notion that the price paid for the "marginal laborer" determines the just rate for wages. I think we must frankly admit that we cannot in all cases accurately determine just what part of the product the formula adopted calls for; but we shall see that this is of less importance than it may at first seem to be.

the end to be obtained by an equitable distribution, it follows that (whether or not landlord or capitalist deserves any payment) rent and interest, proportioned to the value of the land and the capital, should be paid, if for no other purpose than to equalize opportunity.[1] Since it is impossible that all laborers shall have just the same opportunities, it is fair that the advantage some men must have over others (who may be no less able and industrious than those thus preferred), by reason of access to rich land and abundant capital, should be counterbalanced, or compensated for, by a payment from these favored laborers of such rent and interest as shall measure the value of the land and capital which constitute their opportunity. These fortunate laborers would then get no more than the quantity and quality of their labor entitled them to.

But granting that rent and interest should be paid, *to whom* should they be paid? This is quite a different question, and to answer it properly we must consider rent and interest separately.

Let us first consider rent, the payment made for the use of land. The value of land, as distinguished from the value of its improvements (which latter value is the value of the labor and capital employed upon the land, and is so considered in economic reckoning),[2] is mainly due

[1] This is the essence of Professor Hadley's justification of interest (see his monograph on "Interest and Profits"). It is not necessary for our present purpose to develop his justification of interest beyond this point, and show that production is directly served by letting out capital to the highest bidder (and the same principle holds with reference to land) because this has a tendency to ensure its getting into the hands of the men who are capable of using it most productively, and to keep it out of the hands of the men who, like the servant entrusted with the one talent, would bury it in unproductive or less productive uses.

[2] Of course there may sometimes be difficulty in determining how much of the gross value of realty is true land value, and how much of it is the result of the private expenditure of labor and capital by the landholder, a difficulty which may result from the fact that the expenditure of labor and capital in question has been made very little at a time and continued through a long period of years, or from the fact that it was made very many years ago. As regards such cases, it should in the first place be remembered that we do not expect, and that no sane man should expect, to reach an absolutely perfect measurement of values; and in the second place it is to be said that these cases are not so likely to arise as is commonly imagined, and can generally be settled with approximate justice when they do arise. The difficulty can generally be determined by comparing the land in question with some other land in the neighborhood, the circumstances of which give it a value approximating that of the land in question, but concerning which there is not the same question as to the private expend-

either to the bounty of nature or to social action (as where the concentration of a great population has given a very high value to the barren rocks of Manhattan Island), not to the labor of the individual landholder. We have already seen what the peculiar characteristics of land are: that it is a *free gift of nature* (not in part the result of human labor, as is wealth); that its *quantity is fixed* (not capable of indefinite increase, as is wealth generally); and that it is *that without which the least exercise of labor is absolutely impossible*, the source from which the material of all wealth is drawn. These considerations, together with the others adduced in the first division of this dissertation,[1] lead us to the conclusion that land should not be owned by pri-

iture of labor and capital. If the land first mentioned is found to be of greater value than that with which it is thus compared, although it does not appear to have any *natural* advantage over it, or to have profited more largely than it by the *social* activity of the community (as distinguished from that of the individual landholder), then we may infer that the difference in value is due to the private expenditure of the landholder, and it should therefore be regarded as an improvement and reckoned as part of the landholder's capital. If, on the contrary, there is found to be no difference in value between the tracts thus compared, we may assume that the present value of the land first considered is a true land value, and that the capital and labor in question have not made any enduring addition to the value of the land. This, it is probable, will generally be the case; for, as General Walker has pointed out in his criticism of Bastiat (in *Land and Its Rent*, folio 81, *et passim*), labor and capital are generally invested with the reasonable expectation of obtaining the fruits of such investment at once, or within a short term of years. Further than this, it is never to be assumed, merely because labor and capital have been expended, that there *must*, in consequence, be an increase in value. While such a conclusion is a legitimate inference from the labor-source-of-value theory, it falls with the downfall of that theory. Do we not all know, from our own experience, that labor is frequently expended without producing anything of value (in the economic sense); and are not unsuccessful, disastrous investments of capital matters of daily occurrence? In such cases there is no *natural* wage, and only negative interest, even the principal of the capital sometimes being entirely destroyed. A man may think he is an artist and labor away ten or twelve hours a day, almost starving himself meanwhile, only to produce a painting which may be a positive eyesore; or, to take an illustration nearer home, the fact that the writer of the present essay has incorporated into it certain results of some fifteen years' study of economic and social questions, and that most of his labor for the last six months has been expended upon it, does not insure that any publisher will give five cents for it. In short, the labor expended upon it does not insure it any value; for labor is not the source of value, which depends upon the condition of the market, into the determination of which labor may play a large or a small part, according to circumstances.

[1] Still others might be considered did space permit; such as the effect of land

vate individuals, but that in equity those who occupy the land should pay rent to the state as trustee for human society.

Now as to interest, the payment for the use of capital: If land were nationalized and all rent went to the state, then it seems clear to the writer that interest might properly enough be paid to the capitalist. For in that case the capitalist must have already paid to the state the just rent for that which nature or society (*i. e.*, the land) contributed to his capital; and, assuming that the other labor (if any) which coöperated with his in the production of the wealth received its just wage, the wealth now in his possession is the wage of the labor he has previously expended in production.[1] If our conclusion in the section on "Value and Its Relation to Interest" is correct, our reasoning as to wages is also applicable to gross interest; and if it is right that a man employing his (present) labor alone should receive a small wage simply because the product is small, and equally right that when employing his (present) labor together with that of many other laborers and a correspondingly large capital (although working no harder than before) he should receive a larger wage, because the product is larger, then it seems no less fair that so much of his labor as is stored up in wealth, if it also is used productively, should bring a return (gross interest) proportioned to the productiveness of the use to which

speculation in forcing the margin of use lower than the needs of society require, and the reaction of such land speculation upon general industrial conditions.

[1] I have, of course, assumed that the capitalist came honestly by his capital; that he earned it. The undoubted fact that many capitalists have not honestly earned their wealth, but have come into possession of it by very crooked paths — whether by illegal action or by unjust laws, by trickery and dishonesty toward their competitors and customers, or by spoliation and oppression of their employees — cuts no figure in the case now before us. Underlying all discussions of the rightfulness of interest, and often sadly confusing them, it is true that we generally find lurking the question as to the rightfulness of the ownership of the capital. We must recognize this as an important question in any given case; but it is entirely distinct from the question now before us. Let us not forget that capital is simply wealth put to certain uses — to productive uses. Hence, if we accept the right of private property at all, if a man may rightfully own wealth at all, and may apply it productively, then capital may be rightfully owned. Of course a man who does not rightfully own the capital should not get interest upon it. But that is a truism which does not concern us here. The question as to interest is: "Should the capitalist receive it in any case, in case the rightfulness of his ownership of the capital is unquestioned?" In seeking an answer to this question, therefore, we should, of course, assume a case in which the capital has been rightfully acquired.

it is put. Suppose, as above, that working alone and with little capital, a man produces but a small daily wage, which we will call 20, but that when many other men and a large amount of capital are coöperating with him, the *per capita* wage earned is considerably larger, say 24? Suppose, further, that he should be able to live without immediately consuming the small wage (20), and should see that the labor which produced it had little productiveness because not combined with a sufficient number of other productive factors to get the benefit of the law of increasing returns; and that, now that this labor was stored up in the wealth that constituted his wages, he should keep it until he got a chance to combine it with other productive factors in order that he might get the larger reward which, in accordance with a principle analogous to the law of increasing returns, may be expected by each of the units of the factors of production when they form part of a large combination? And suppose that he finds a chance to combine this past labor with a small quantity of other past and present labor and land, and that his share of the product is 22,—where is the wrong? Even after he has converted his isolated labor (whose *immediate* wage was 20) into capital, he gets but 22 from it; while from labor no harder, but combined with that of many others and with abundant capital and land, he might get 24.

Is it not true, indeed, that the possibility, which interest affords, of saving up labor (that is, its product) which cannot immediately be applied to the greatest advantage, and of putting it at a later day into a more productive combination, contributes to equity by doing something to put the frugal laborer, who must for a time remain at a distance from the more productive center, upon an equality with his more fortunate fellow who is on the ground where he can coöperate with others in highly productive industry? Before leaving the subject, one other consideration should be mentioned. If the capitalist's wealth is unwisely or unfortunately invested, he generally gets negative interest; that is, he loses part or the whole of the principal of his capital and gets no interest. (He may have lent it to an entrepreneur, instead of directly employing it himself, on such terms that the latter is legally liable to pay him for principal and (positive) interest; but the entrepreneur's legal liability will avail the capitalist nothing if the entrepreneur is not pecuniarily responsible. And, in any event, wherever there is an unfortunate employment of wealth as capital, some wealth-owner—whether it be he whose capital is invested, or the entrepreneur who invested it, in his capacity as wealth-owner, or the surety of the entrepreneur—must suffer the loss.) And if the capitalist suffers loss when the enterprise is unproductive, he should gain a benefit when it is highly productive. Our conclusion, then, is that it is right to pay interest to the capitalist, provided we recognize that this implies his liability to get negative interest as well as positive interest.

This argument for the equity of interest, it will be perceived, rests upon the same basis as that by which we determined what was an approximately equitable wage, to wit, that "justice" (in the sense of payment to anyone in proportion to the value of the contribution which circumstances enable him to make) is equity. That this is absolutely true, I do not contend; but that it approximates the truth and is sufficiently near it to afford us a simple practical rule of expediency, which under a system of equal access to natural opportunity will work no serious evil to anyone, I do contend. In a note [note 1, page 50] I have already called attention to the fact, that, while the principle adopted gives us a formula, it does not determine the exact amount of the total product which shall actually be distributed as wages or as interest.

I have but hinted, however, at the great practical difficulty in determining just how much each unit has contributed to the total result. It is not very difficult to determine how much of the product should go for rent for the land used, but a serious question arises when we undertake to distribute the remainder between capital and labor, and by far the most difficult point of all is to fix the proportion which should be observed in paying the several grades of labor—to determine how much is due to the highly skilled labor of the entrepreneur and his principal lieutenants, how much to the ordinary skilled labor of the artisans, and how much to the comparatively unskilled labor of the lowest grade of workmen.[1] I have no disposi-

[1] We may note in passing the common mistake of attributing everything to the entrepreneur, who, in reality, by doing his part well simply enables the other laborers to reap the natural and fitting reward of their combined effort—a result which is prevented by incompetence in an entrepreneur, so that those who work under such an incompetent manager, although they do *their* share of the work just as well as it can be done, are prevented from reaping a suitable reward because they have not the coöperation of competent entrepreneur activity. We may see this more clearly, perhaps, by taking the opposite case, in which a capable entrepreneur is unable to reap

tion to blink this difficulty. On the contrary, I freely admit that it seems to me quite impossible to determine with perfect accuracy how the distribution should be made in order to do what is exactly right. But perhaps we may do something to bring about a condition of affairs in which the tithing of mint, anise, and cummin will not be so vital a matter as it is today. I mean that it is possible that we may so raise the minimum wage that it shall no longer be (as it so often is at present) a matter of life or death whether a man gets the full wage current for his class of labor.

I hope to show that whereas there is nothing to determine the rate of interest except the relation of capital to labor and to land, and whereas there *is* a distinct and positive element in the determination of wages — to wit, the standard of living — we can by raising the standard of living ensure that the portion of the product distributed to the lower grades of labor shall be great — that is, we shall ensure high wages. And that is what we want, and all that we can reasonably expect. Whether such wage shall measure with perfect justice and accuracy the contribution of labor to the product, as over against the contribution of land and capital, is a question incapable of solution. All the capital employed could not give us the product in question without labor; and, on the other hand, all the labor employed would not avail to give us the product without the capital. The increase in the value of the product over the value in isolation of the several factors of production is dependent upon the labor exerted; but it is just as dependent upon the capital invested. There is a current fallacy to the effect that there is a certain just distribution of the product's value, regardless of the conditions under which the factors actually entered into combination in any given case. Our business is not to determine any such imaginary norm, but to try to bring about such a condition of affairs as shall allow of the largest possible distribution to active, present, living labor; as a natural result of which we may reasonably expect the laborers themselves, as a class, to become capitalists,— a condition which of itself would go far to destroy the hostility and jealousy between laborers and capitalists.

the natural reward of his skill and industry because his fellow laborers are too ignorant, feeble and untrained to do *their* share of the work well. A great general could hardly win a battle at the head of an army of untrained women and children; and as little could brave and tried soldiers and experienced officers if the supreme command were in the hands of an ignorant child.

II. THE STANDARD OF LIVING THE KEY TO THE PROBLEM OF DISTRIBUTION.

Having thus considered in a general way what we would regard as equitable, let us turn to the laws of rent, wages and interest for such light as they may be able to throw on the problem before us.

At first glance it may seem that in presenting these laws we have been reasoning in a circle; that we have been making interest depend upon wages and rent, and wages depend on rent and interest, and rent depend on wages and interest. This is in part true, but the fact is not prejudicial to, but confirmatory of, the truth of the propositions advanced. Inasmuch as land, labor and capital are coöperative factors in production, the share that goes to the provider or controller of each is necessarily conditioned by the shares of the others, that is, these shares mutually condition one another; but they are not *wholly* determined the one by the others. What may be called the negative element in the determination of each is its dependence upon the other two; but in the cases of rent and wages, at least, there appears also a positive element.

Before passing on, however, it will be well for us to dwell for a moment upon this reciprocity of the laws of rent, wages and interest; for by so doing we may be enabled to do something to dispel the vulgar notion—drawn from a hasty glance at the so-called iron law of wages, the principle of competition, etc.—that political economy is the science of human helplessness, that to study political economy is to learn the impossibility of accomplishing anything by voluntary human action to improve social conditions, the assumption being that economic laws are entirely independent of human volition. Now, in the sense in which this is commonly understood it is quite false. Economic laws are largely formulations of the effect of human volition, and of course depend for their content upon human action. For instance, the standard of living is the positive element in the law of wages; and, as a consequence of the reciprocity of the laws of distribution, the standard of living not only affects wages but also enters into the determination of rent and interest. Hence, it is evident that direct, conscious, voluntary action with reference to the standard of living may do much to affect economic distribution. The real difficulty in the way of a more equitable distribution is rather in social facts than in economic laws. Much of this difficulty lies in the fact that those who suffer under the distribution which takes place at the present time under economic law, neither know what the conditions are that make these laws work evil upon them, nor have the ability to act in concert to remove the evil conditions. Take, for example, the victims of the "sweating system" in our cities. Were they as a class more intelligent and better educated, they could not be kept in subjection to the conditions which now enslave them. Of course, it is as true that their industrial condition, their place in the economic system of today, prevents them — and has a strong tendency to prevent their children — from acquiring the ability and gaining the education which would enable them to get out of their miserable condition, as it is that lack of ability and education keep them in this cellar of the industrial system. What we call "cause" and "effect" so act and react upon one another that it is impossible to say which is cause and which effect, the truth, of course, being that they are reciprocally cause and effect to one another. What I would emphasize, by calling attention to what has just preceded, is, that while in view of economic laws there is much in *present social conditions* to make difficult the amelioration of the condition of our lower classes, there is nothing in *economic law* as such which prevents such amelioration.

Passing in mental review the three laws of distribution, as I have presented them in Part I, we see that there is nothing characteristic and distinctive in the law of interest. Interest varies directly with the productive power in combination of the particular capital in question, and inversely with wages and rent, just as wages vary directly with such power in combination of labor and inversely with rent and interest, and as rent varies directly with such power in combination of land and inversely with rent and interest. But in the cases of rent and wages there is something more than this. That which is distinctive in the case of rent — that it varies directly with the proportion between the amount of land at or above the margin of use that is appropriated by less than the whole number of those who must use it and that is actually in use, and the whole amount of such appropriated land — grows out of the fixed and limited quantity of land and *depends upon its being held as private property.* It is conceivable that land should be nationalized (and we have seen reason to believe that it would be well for society if it were so). This element in the law of rent, then, need not be regarded as necessarily a permanent one; were land the property of the state, the formula for rent might be reduced to the same general form as that for interest.[1] But when we come to the law of wages, we find a distinctive element, which cannot be eliminated. Whether labor be more or less productive, you cannot obtain a stroke of the most ordinary, unskilled labor unless you give for it a wage which accords with the laborer's actual standard of living. The wage may be much too low for the laborer's ideal standard of living, but it must correspond with his actual standard. This standard of living may be high at one time and low at another, and there may be a thousand different standards for as many different grades of labor; but whether at any given time it be high or low for a given class of laborers, the wages given at that time to a laborer of that class must correspond to it.

In the section on wages, in the first part of this essay, we considered what would happen in the extreme cases in which it might be physically impossible to maintain all of the class at the existing standard of living; when, however, we consider actual conditions, we shall find the case much more favorable for the maintenance of a standard of living once reached. First and foremost is the indubitable fact of the increased efficiency (productiveness) of labor which accompanies a high, as compared with a low, standard of living.[2] Entrepreneur and capitalist cannot afford to diminish the productiveness of labor by lowering the standard of living. On the contrary, it is to their interest to increase

[1] The Ricardian principle of rent is embraced in the formula "the productive power in combination of the particular land in question."

[2] The cry of the alarmists that population is continually pressing upon subsistence, and that to considerably raise wages would be the ruin of industry and the destruction of our civilization, because if wages of common labor were much higher there would not be enough wealth in the world to go around and at the same time maintain industry at its present state of efficiency, is extremely short-sighted. In the first place, no sufficient evidence has ever been adduced of the fact alleged, although much has been made of the difference between wealth that contributes to subsistence and other kinds of wealth. Now, it is doubtless true that while other kinds of wealth have increased indefinitely, "subsistence-wealth" (meaning necessary food, clothing, etc.) has not increased in the same proportion, but lags behind, and even at the end of the nineteenth century is hardly more than sufficient to maintain the present population. Certainly! Why should we have any more subsistence-wealth than is necessary to support our population? Would it not speak very ill for the intelligence, nay, the sanity, of our captains of industry, if capital and labor were directed to the production of food for

the efficiency of labor by raising the standard of living. Of course I am not blind to the fact that, while some of the employing class recognize this in the abstract, few act upon it in the concrete. But where the attempt is made to reduce wages so greatly as seriously to affect the standard of living,[1] it is often found that after a short time the

which the present population could find no use, so that there would be nothing for it but to rot! "But," it is said, "not only does subsistence-wealth not increase in quantity proportionally with other forms of wealth; but the price of such subsistence-wealth does increase very greatly relatively to the price of other kinds of wealth, showing that it is increasingly difficult to obtain." Showing nothing of the kind. Granting the fact, it seems to me that a very different and a very simple interpretation should be put upon it. To say that the value of subsistence-wealth increases relatively to that of other kinds of wealth, is but another way of saying that the value of other kinds of wealth diminishes relatively to that of subsistence-wealth. The use of the term "subsistence-wealth" with which we are now dealing implies that the wealth embraced under that head consists of *necessaries*, and it also implies that all other kinds of wealth, not included under the term "subsistence-wealth," are non-necessaries. Now there are two elements which enter into the determination of the value of a thing, its utility and its difficulty of attainment; and I believe that the weight of economic opinion holds that the former is on the whole the more important element. Applying this to the matter in hand, we readily see why the value of subsistence-wealth increases as compared with all other kinds of wealth. Not because it is more difficult of attainment, but because it has more utility. Other things (such as difficulty of attainment) being equal, *necessaries must always be more valuable than non-necessaries.* But in a primitive condition of society, when there is little else than subsistence-wealth, a scarcity of other kinds of wealth gives them a relatively high value. As the productive power of society increases with advancing civilization, however, an ever increasing amount of this productive power is released from the production of necessaries (subsistence-wealth) and is free to produce non-necessaries. As the quantity of these non-necessaries constantly increases relatively to the population, their value steadily falls, as compared with that of the necessaries included under the head of subsistence-wealth; but if I may be allowed to perpetrate a seeming bull, this is not because subsistence-wealth is more difficult to obtain (than *it was* or than *other kinds of wealth are*), but because other kinds of wealth are easier to obtain (than *they were*).

Now, not only have the alarmists failed to show that population *is* pressing upon subsistence, in the sense in which they must be understood to use the expression, but in addition to this unsubstantiated premise their argument proceeds upon the farther assumption that if the lowest class of laborers were given higher wages and their standard of living were raised, they would produce no more — perhaps, on account of shorter hours of labor, less — than at present, which assumption is contrary to the experience of the race, and to the opinions of almost all economists. Raise the standard of living of the laborer, by raising his wages, and you increase his productive power.

[1] We must remember that where the standard of living is reasonably high, not

members of the inferior class who take the places of the class having the higher standard of living, and the weaker members of the latter class who accept the reduction, are discharged to make room for the old men who have stood out for the higher standard; or else these cheaper men who have replaced them, themselves, successfully strike for the higher wage, and thus adopt the same standard of living that was maintained by those whom they had displaced. But not only has the increased efficiency of the class of labor which has a high standard of living, a tendency to maintain the standard because the labor is *more productive* than it would be at a lower standard of living; it is also true that the high standard of living has a tendency to perpetuate itself because the laborers who enjoy it are *better able to protect their interests in all respects.* Being abler, richer and more intelligent than they would be under a low standard of living, they are more formidable antagonists in a labor contest, and by means of coöperation through trades unions, strikes, etc., they can frequently bring their employers to terms, particularly as the high degree of the efficiency of their labor, already referred to, makes it difficult to supply their places.

In what has just preceded we have seen how the standard of living exerts a controlling influence upon labor, and it is not difficult to show how it also affects rent and wages.

Supposing the case in which, by reason of its private appropriation, even the poorest land in use commands a rent, it is obvious that the maximum to which competition on the part of the land users and combination on the part of the landlords can raise this rent is limited by the standard of living. Of course, if the landlord's actual physical power corresponded to their "legal right," they might combine and by standing out for a high rent reduce the laborers to a standard of living which should be at the minimum point of subsistence, or else, by refusing them access to land, starve them to death. But this is a purely hypothetical case. In fact the landlords' physical power never is equal to their nominal rights; and as the size of their income depends upon the use made of their land, and as there is not an effec-

every slight diminution of wages should be regarded as considerably affecting it. And, furthermore, it must be remembered that, notably in some lines of work, and more or less in all fields of labor, the rate of wages is subject to frequent change from season to season, being now a little higher and now a little lower than its mean average; in such cases, it is not the wages received at any given time, but the mean average, which must correspond to the standard of living.

tive demand for all the land, and as there is competition among the landlords, the laborers are generally able to maintain their standard of living, against the landlords, above the point of mere subsistence. But whether the standard be high or low, it is evident that the laborer will not pay any rent until he has first secured himself a wage corresponding to that standard. Of course, were private property in land done away with we should then have nothing but marginal rent to deal with; and the current definitions of the margin of cultivation make sufficiently evident that the margin from which rent is reckoned is determined by the standard of living.

Now as to interest. In the absence of any distinctive element to determine interest,—as the quantity of capital is not fixed, as is that of land, and as there is no standard of living for capital, as there is for labor,—it becomes evident that the amount of (true) interest which capital is to receive is determined by the amount of the total product that *must* go as rent and wages; and as we have shown that wages and rent can be controlled by the standard of living, it follows that the standard of living can also control interest.

Our conclusion is, therefore, that the *Standard of Living is the central and controlling factor in economic distribution.*

From this it follows that if we can do anything to raise the standard of living and maintain it at a high level,[1] we shall attain our object of effecting a more equitable distribution of wealth—and not only so, but we shall also increase the wealth-producing power of society, because of the superior productiveness of the labor of those whose standard of living is high.

[1] Aside from what can be done by voluntary action, a word or two as to the effect upon the standard of living of economic changes brought about in the natural order of industry without any thought as to the effect upon the standard of living, will not be out of place. The social and economic conditions of the moment determine the effect of improvements in the arts (or of increase in population) upon the standard of living. If an invention calls for a *new* form of industry, high wages will probably be offered to *attract* men to it, and wages in other kinds of industry may be raised to *keep* the laborers at their former work. This increased wage will probably raise the standard of living. But if the improvement is of such a character as to enable much less labor to do work formerly done, the increase will probably go, not to labor, but to capital and land, the standard of living not being improved. The effect on labor in this case will probably be that some of the laborers formerly doing the kind of work now done by the machine will be thrown out of work, there will be much immediate suffering, and the number of young men who would have gone into that kind of work

III. LAND NATIONALIZATION ECONOMICALLY JUSTIFIED AS A MEANS OF RAISING THE STANDARD OF LIVING AND EFFECTING A MORE EQUITABLE DISTRIBUTION.

We may state as the result of what has preceded that, if the economic premises set forth in the first part of this essay be sound, social action directed to the elevation of the standard of living is in harmony with economic principles, and that from the standpoint of economic theory such procedure would be a very effective way to bring about a more equitable distribution of wealth. But we have also seen that the nationalization of land by its direct effect in equalizing opportunity would tend to bring about a more equitable distribution of wealth. If, therefore, it can be shown that land nationalization would have a tendency to raise the standard of living, this warmly advocated and hotly denounced reform would stand upon strong economic ground.

In support of this last hypothesis it may be argued that land nationalization would have a tendency to raise both wages and interest, not alone by eliminating that portion of rent which under a régime of private ownership may be paid for the poorest land in use (but which General Walker and "orthodox" economists generally regard as inconsiderable), but also by wiping out that very considerable increase in rent which is due to the speculation in land.[1] Thus

will be diminished. But the goods produced by the new machinery will be sold at a lower price than when they were more largely handmade, by reason of the endeavor of those who first adopt the machinery to increase their market at the expense of those who still retain the older method; and this lowering of the price will tend to increase the demand so that the number of men employed in the industry may soon be as great as ever, and their standard of living as high as ever. We should also remember in this connection that the effect of lowering the price of any commodity, *other things being equal*, will naturally be to raise the standard of living of *consumers*, as such. All this is upon the assumption that to increase wages is to raise the standard of living. But of course a sudden, considerable increase of wages from a low standard may, and probably will, have more influence to increase the population than to raise the standard of living. On the other hand, a slow, gradual increase in wages, or an increase from a fairly high standard, will have more influence to raise the standard of living and may not at all increase the rate of propagation.

[1] If, for instance, all the land on Manhattan Island could be profitably used today at an average rental per lot of $1000 per annum for a fairly long term, or could be

the share of labor (and of capital) in distribution would be increased, and this would have a tendency to raise the standard of living. But, further than this, if all rent went to the state, its revenue from this source would be so great that it could remit a great part, if not the whole, of the heavy taxation levied upon its citizens in the various forms of direct and indirect taxation which now prevail. This again would increase the available income of all citizens (except landlords), and would certainly tend to raise the standard of living. That the reform under discussion would effect this much I suppose no one would question. In fact, it is generally claimed by advocates of the "Single Tax," that the public revenue from land would be sufficient to meet all the present needs of government and leave a surplus; so that all taxation could be abolished save "the single tax," and there would then be sufficient revenue to justify large public expenditures for education and for parks and pleasure grounds, art galleries, libraries, municipal water-works, municipal light and heat plants, etc. If but half of this be true, here would be another, a direct means of raising the standard of living. And as to all of this it should be remembered that by raising the standard of living the efficiency of labor would be increased, and the increased productivity of industry would be an additional source of larger wages and thus of a still higher standard of living. Another way in which land nationalization, effected by the Single Tax and the abolition of all other taxes, would tend to increase wages and raise the standard of living, is that it would substitute a premium upon industry and productivity for the heavy tax levied upon it at present. Now the improved farm or lot is taxed heavily, while the unimproved escapes with a light tax. The shiftless farmer, whose land is in poor condition and whose buildings are few and mean, is taxed very lightly; but if he should erect a fine barn, repair his fences and make his farm really valuable, he would be taxed heavily for it. Under the Single

sold at a corresponding price; but a third of it is held back for a rise in value, because its owners are confident that in a rapidly growing metropolis like New York a much larger rental and larger selling price than are now current can soon be obtained, and they will therefore not sell or let their land except upon very short leases, the result will be that the land which *can* be bought or obtained upon leases of reasonable length will command an average rental considerably greater than $1000, perhaps $1400, and a correspondingly large selling price. This increased tax which speculative dealing in land now levies upon labor and capital would be done away with by the nationalization of the land.

Tax, on the contrary, the shiftless farmer or the owner of a vacant lot would have to pay as much rent as the thrifty farmer or the lot owner whose land is built upon; it would, therefore, be to the interest of all to make the fullest use of whatever land they held, and this would increase productive industry and, by greatly increasing the demand for labor (as well as for capital), would have a further tendency to raise wages, and thus, of course, to raise the standard of living.

Here, then, we have, so far as fundamental economic principles are concerned, firm ground for supporting land nationalization as a social reajudstment admirably adapted to effect a more equitable distribution of wealth. And with this result we should be satisfied, as it accomplishes the purpose with which we set out—an exposition in outline of the relation of certain economic principles to social readjustment—a purpose which was more specifically expressed as "an inquiry into the general principles of production and distribution and the nature of value, with a view to ascertain the possibility of effecting by social action a more equitable distribution of wealth than now prevails." *We have shown that conscious social readjustment does no violence to, but is in accord with and is supported by fundamental economic principles, and we have illustrated this general truth by reference to a specific plan of social readjustment—land nationalization.*

Before concluding the essay, however, it may be well to caution the reader that in directing attention to land nationalization the writer has had no intention of suggesting that in it we have a complete programme of social readjustment. It is used in this essay merely as a case of radical social readjustment which has the full support of economic theory (as the writer conceives such theory). Personally, the writer regards it as the most important reform now before the public, and he believes that it is not only supported by abstract economic principles, but also by such social considerations as have reference to the present practicability of inaugurating it. The discussion of these latter considerations, however, does not fall within the scope of this treatise, and the writer therefore contents himself with suggesting in a note[1] the line of argument that he would follow in such a discussion.

[1] First. As to the difficulties in the way of carrying the reform into effect, I believe that the desired end can be obtained by such a gradual approach as shall not even temporarily do any considerable injury to any class of the community, land-owning or landless, while effecting an immense improvement in the condition of the peo-

ple as a whole, and particularly in that of the lowest class of laborers. But I feel bound to state my conviction that, even if it *were* necessary for the public good to take from a few men, who with the earnings of their labor had purchased it, that which the state by its acquiescence had encouraged them to regard as a legitimate subject of private property, yet to refrain from restoring to millions the equal right of access which all men should have to land — the source of all wealth, and the condition and opportunity of all labor — because a few thousands would thereby be so far injured as to be reduced to something like as bad a position as these millions would be in *after* the restoration of their rights, would in my opinion be a travesty of justice. It is not to be expected that finite man shall achieve perfect justice, or ideal perfection in anything. The most that we can do, as a rule, is to adopt the least of alternative evils. And I hold that the evil of expropriating the few thousand proprietors who have purchased their land with the fruits of their own individual labor (the only class whose rights are real enough to deserve much consideration in a case like this),[1] is much less than the evil of keeping out of their rights the millions of landless men who suffer under the present system. It is true, I should be very sorry to be forced to such an alternative; but in case I were, my decision would be that just indicated. As I have said, however, I see no necessity for extreme measures. So far as I am informed, the capitalized value, or selling price, of land in the United States ranges generally from ten to twenty times the annual rental. It does not matter what the actual figure is; but for the purpose of illustration I will assume that twenty times its annual rental is the selling price, or "value" of land. Upon this basis, a tax upon land values beginning with a fraction of 1 per cent. of the capitalized value, or, better, *with a small percentage of the annual rental*, and gradually increased during a sufficient period of years, say thirty, until it should cover the whole annual rental, would enable proprietors to get back the money they had invested, and to accommodate themselves gradually to the new order of things — and at the end of the period disinherited mankind, in the person of its trustee, the state, would be restored to its rights. This is one of a number of ways of approaching the subject, which might be suggested. Another is that all land in the hands of private proprietors on a given date should, at their death, pass to the state, adequate provision being made for the maintenance of widows and minor orphans of such proprieters in case they should be otherwise unprovided for. As to the practical difficulties of assessment of land values and of collection and administration of the rent, they are not very serious. The method of assessing land and improvements separately is not a new thing, but has been practiced in the recent past. There would be need of fewer government officers under the single tax than at present; and as a method of taxation it is widely admitted to be more nearly in accord with the approved canons than any other that has been suggested. It should

[1] Says the writer on "Land" in the *Encyclopædia Britannica:* "Nor is there any theory of the basis of property which does not tacitly admit that it is subject to the authority of the community. If derived from occupation it owes its title to the agreement of the community to support that title. *If derived from labor, it is valid only for the life of the laborer, and whoever succeeds to him must take it, not as a gift from a dead man, whose rights end with the grave, but as a gift from the state*, which deems that there is advantage in encouraging labor by the certainty of transmitting its produce. In every view it must be admitted that the state, by whose regulations and force property is maintained, must have an unqualified right to prescribe the conditions under which it will confer its gifts on private individuals."—(Vol. XIV., p. 266.)

be remembered that while the revenue to be handled by government officers under this system might be somewhat greater than at present, the difference would not be extraordinary, and the publicity of the whole business, including the amount of revenue, would be a safeguard against fraud and corruption.

Second. As to the objection that, although the nationalization of land would greatly increase the amount to be divided between labor and capital, yet capital might chiefly benefit by the change and get what rent loses; my answer is that there is nothing to show that capital would thus profit at the expense of labor, and there are several reasons why it should not. We have already seen that the standard of living necessitates the payment of a wage corresponding to such standard, *which takes precedence of interest.* In the next place, most of the unfair advantages at present currently attributed to the capitalist do not belong to him as capitalist, but as employer, in which office he often combines the functions of entrepreneur (highly skilled labor), capitalist, *and landlord* — a triple capacity which naturally gives him great advantages, in which he wields an enormous influence, and from which he derives a large income. Where the capitalist has a great and seemingly unfair advantage, it will on examination, I think, be generally found that it is because the landlord is behind him. Make land common property (*i. e.*, the property of the state, to be rented to anyone who will pay to society the fair value of its use), and even the largest capitalist could do little against the public interest. In such case we would not have to fear large fortunes; for, as long as the inexhaustible source of all goods, the perennial fountain whence all wealth comes, is equally free to all, no harm is done by the fact that the strong man carries off a hogshead while his weak brethren get but a pailful apiece — there is plenty of water; the only reason the weaker men have but a pailful is that they cannot carry any more; when they need more they can come back and get it; the fountain continues to flow. *Now* men are not free to labor, except by the permission of the landlords, *and they must generally go to the capitalist to get this from them.* But if men were free to work for themselves by going directly to the land (not buying the land, but merely paying an annual rental) if the capitalist's terms should not suit them, the latter would be more amenable to reason, and this fact would tend to raise wages. The capitalist would not hold the land against the would-be laborer, as no one could afford to hold land without making the fullest use of it; and this would mean a large employment of labor, for the landholder would have to pay full rental value of the land whether he used it or not, and this would soon bankrupt even a rich capitalist who should attempt to hold land out of use.

For a further discussion of this subject, see the syllabus of my sixth lecture (Land Nationalization) in the series entitled "Projects of Political and Economic Reform" (Syllabus No. 101, University of Chicago Press, 1896).

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