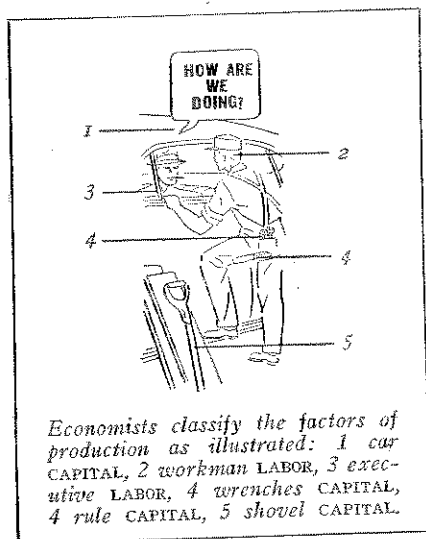


Labor and Capital



LESSON II—HARMONY BASIS OF PROGRESS



ALTHOUGH 10,000,000 men were under arms, the rate of industrial production at the end of 1943 was nearly two and a half times higher than it was for the average year between 1935 and 1939.¹ This productive power, generated by the war, is a gauge of America's postwar productive capacity.

Yet, can we maintain this rate of production for peace-time use, uninterrupted by recurring depressions, unmarred by the blight of involuntary poverty? What will prevent the eco-

nomic crises that followed the last war from plaguing us after this one?

Vital to postwar production will be harmony of action between labor and capital in utilizing to the fullest our land sites and natural resources. Otherwise the whistles sounding the end of World War II will be but the signal which begins another round of the fight between these two factors of production. In the fifteen years from 1927 through 1941, industrial disputes cost, on the average, 15,000,000 man-days a year in enforced idleness through strikes and lock-outs.²

LABOR VS. CAPITAL

If wages are paid out of capital, or detract from the returns to capital, then assuredly a natural conflict does exist between those who own the tools and equipment of production and those who, as managers and workmen, use this equipment. But if, on the contrary, wages come from the product of labor itself, and not from capital, we may properly question the necessity of conflict between the two. The reasons for low wages and for the struggle of industry to keep its head above water must, in that case, be sought in channels other than any interfering relationship between labor and capital.

Evidently this question was a burning one in Lincoln's mind at the beginning of the Civil War. In his message to Congress in 1861 he said:

"It is assumed that labor is available only in connection with capital; that nobody labors unless somebody else, owning capital, somehow by the use of it, induces him to labor . . . Now, there is no such relation between capital and labor as here assumed . . . Labor is prior to and independent of capital. Capital is only the fruit of labor, could never have existed if labor had not first existed."

What Lincoln meant is clear when one considers that, in the language of freedom, labor is not only the man in overalls but rather any human being who applies mental or physical energies to the production of wealth. Capital is not a fantastic ogre with a stick pin in his tie and a top hat, who, at the nod of his head, can put people to work or condemn them to unemployment and poverty. *Capital* is an inanimate punch press or plow, crops in the field, an office building, a box of cigars in the cigar store, a fur coat in the show window, a factory building, the groceries on the storekeeper's shelves—all material products of human exertion which are used in production or which are in the course of exchange. Money and papers of credit, though they may represent capital, are not capital. They are mediums of exchange.

The executives of a manufacturing firm, the department heads, the supervisors, all are as much labor in the

economic sense as employees with less responsibility. All are directing their energies toward getting goods into the hands of consumers. The owners of capital provide the machinery, buildings, or rolling stock used in production by the executives—management—and other laborers. When the owner of capital uses his capital in production, as when the owner of a taxi also is its operator, he is a laborer as well as a capitalist. When the owner of a fleet of cabs directs the cab service, employing scores of drivers, he remains a laborer as well as a capitalist.

A natural harmony between labor and the owners of capital is suggested by the tendency of wages and interest to rise and fall together. Productive activity in peace-time prosperity makes brisk the demand for men to work and for the tools which they must use. Wages and interest are correspondingly high. At the bottom of a depression, when hardship is felt most acutely by laborers, the owners of businesses find themselves hardest pressed. Average weekly earnings of laborers in manufacturing industries, adjusted to the cost of living, went down from \$22 in 1929 to \$18.69 in 1932.³ In the same years, business failures increased from 22,209 to 31,822, and capital went begging for sound borrowers.⁴

THE MOTHER OF WAGES

What is the source of wages? Adam Smith, father of economic science, pronounces "the produce of labor" as "the natural recompense or wages of

labor."⁵ All who worked on the 20,000,000 Victory Gardens throughout the nation last year know that their peas and beans came from the callouses and back-aches that made the garden grow. Sharecroppers get as their recompense a share of the crops they grow. The salesman receives a percentage of his sales. The contractor who pays his carpenters and brick-masons, before the building is completed and sold, finds his bank account lowered but his assets increased. For, in place of his funds paid out in wages, he has the value of the partially completed building his men have constructed. A subway may take years to finish. Yet the men who build it are not paid from advances of capital. Every dollar they receive in wages represents at least a dollar's worth of value added to the capital of the subway company. Actually the laborer is the one who advances capital to his employer, since he is always paid at some point after his work is done—a day, a week, two weeks, or even a month later.

Capital, therefore, as we may see, is not needed by the employer to pay wages but to accumulate goods or tools. If the employer wishes to become the owner of products to be set aside for further processing or future sale, he must be in a position to buy the products from the laborer when wages come due. The employee receives only what his labor has produced.

In every case, labor precedes the payment of wages. Wages, therefore,

do not come from capital, do not detract from the returns to capital, but are the product of labor.

DEMAND DIRECTS PRODUCTION

A hundred shipwrecked Seabees on an uninhabited island will not have to print paper money before gathering a store of food. Nor will they have to wait for the food before starting to work on a shelter and rafts. All will be busy from the moment they clamber onto shore. Some will set to work at once to build the shelter and rafts. Others will fish, catch game, and pick berries, and then divide with those who are employed in producing durable goods. The complexities of modern civilization, in which money and credit play a part, tend to obscure but not to alter the facts we observe in this saga of the Seabees: *Consumption is supported by contemporaneous production.*

Important as is the function of capital in aiding labor in the production of wealth, capital does not pay wages, and no stock of capital need be accumulated before labor can be employed and sustained. The subsistence of the laborers who built the Pyramids was not drawn from previously hoarded stock but from the constantly recurring crops of the Nile Valley. Modern government, when it undertakes the building of a George Washington Bridge or a Grand Coulee Dam, does not appropriate wealth already produced from which to pay the laborers, but wealth yet to be produced, which is taken from

producers in taxes as the work progresses.

Similarly, in private enterprise the subsistence of the laborers engaged in long range projects comes from their own production, in exchange for products which others are simultaneously producing. A wartime airplane factory is too busy now to work on helicopters. But orders for helicopters are already coming in. These orders and the prospect of more to come will be all that is needed to get working credit if desired, when the war is over, from banks and individuals. Men will be hired to make such alterations in the plant as may be called for and to get the equipment into operation. As the employees do their work week by week, they will be paid from the value that their labor has created. The cash they get will bring them into the market for food and clothes, for a new home or the remodeling of an old one, for new tires for the prewar car or a down payment on a television set.

The value these employees have created in the airplane plant, even before a single helicopter has been sold, will thus become effective demand, directing farmers, lumberjacks, toolmakers, textile workers, into their respective postwar jobs. Instead of growing hemp for the Navy, farmers will look to the profits in other crops to feed and clothe such as these helicopter workers throughout the world, and to meet the demands of the broadening field of plastics. Thus we see that *the demand for consump-*

tion determines the direction in which labor will be expended in production.

Herein lies the answer to many of our worries about postwar employment and reconversion. There is no economic reason why the workmen of America should mark time waiting for reconversion, subsisting on public relief, charity, or make-work government projects. No bureaucratic reshuffling of jobs will be needed. If the avenues of production are open, labor will tend to go where the demand for goods makes the greatest opportunities for employment and where wages are, therefore, relatively highest.

The three primary needs of man—food, clothing, and shelter—will express themselves in demand for workers in industries which, for the most part, will need no reconversion. Work on the farm, in the textile mills, in the lumber camps, mines, and building industry requires no change of equipment to meet the changing needs of their customers. Yet all these industries, and the servicing and merchandising dependent on them, will be the ones most called on for immediate production of goods now rationed or priority-restricted. Production in these industries will create demand for commodities in other industries, such as the automobile industry, requiring a longer period for reconversion. Reconversion activities, as they proceed, will in turn create demand for the staple industries and direct labor to production in them.

In the depth of the last depression,

continued on page 224

attle. Through educational radio the various state colleges would have an enviable opportunity to reconcile these divergent views.

The radio of the future, with greater emphasis on cultural and educational programs, will be a mighty force in the creation of permanent world peace. Miller McClintock, president of the Mutual Broadcasting System, touched on this mission when he said: "I urge the use of American commercial broadcasting on a global scale to establish international peace and prosperity in the postwar years."¹¹ Radio's voice can sweep away international boundaries, bringing all peoples of the world into active unity.

Radio now has the greatest opportunity in its history to project its educational potentialities into a living, vibrant force, not only for the rehabilitation of the armed forces but for the promotion of learning to the masses everywhere.

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Cork Substitutes

Instead of depending upon the twenty-year growth of oak bark for our production of cork, the U. S. Department of Agriculture suggests methods for utilizing the pith and fibers from farm wastes as cork material. By cutting the pith of cornstalks, corncobs, sunflower stalks and similar wastes into fine particles and cementing them together again with hard-drying liquid adhesives, a good cork-like product can be made.

This new product will have a wide range of practical uses in homes, schools and in various industries.

MONEY

in Bees for honey and wax; Goats for milk and cheese; Poultry for eggs and friers; Rabbits for fur, skins and meat; Squabs for table; Herbs, Bulbs, etc., in Florida's year-round spring and summertime, midst matchless scenic surroundings. Want thousands of men and women to qualify for post-war full or part-time gainful occupations on small Florida farms. Home Study Survey Preparatory Courses. Information free.

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LABOR *continued from page 188*

20,000 anthracite coal miners of Pennsylvania who could find no work in the collieries, "bootlegged" coal from company land by primitive surface diggings.⁶ Officers of the law were powerless to stop the bootlegging because the whole people of scores of towns knew that their economic lives depended on the bootlegged coal. Digging coal out of the ground started a series of exchanges that took the coal to homes as far distant as Philadelphia and New York, and brought sustenance and entertainment to the miners' families and to all who did business with them—from soda-jerkers and movie cashiers to clothing dealers and lumberyards.

Capital did not give the miners their jobs. But the miners going to work on the natural resources did put capital to work. Trucks and flivvers that would have been idle were brought into service. New trucks were bought and paid for. The illegal miners and the truck-drivers did not get their wages from capital but from the produce of their labor. They demonstrated that employment is not restricted by lack of capital, needs no government sanctioning, and is limited *only by access to natural resources*. Their production of coal created a demand for other products which directed thousands of people into other fields of employment.

FUNCTION OF CAPITAL

Capital does not supply the materials which labor works up into wealth, nor

the land sites on which industry and commerce function, for these are supplied by nature.

Capital does not supply nor advance wages, nor maintain laborers during the progress of their work, for laborers earn their own wages and sustenance.

Lack of capital cannot keep men from working if access to natural materials is permitted. Let all the tools and buildings and stock of goods in America be destroyed, and there would still be no lack of work!

What then is the function of capital?

Capital enables labor to apply itself in more effective ways. Use of a linotype is more efficient than setting type by hand. The linotype is capital.

Capital enables labor to avail itself of the reproductive forces of nature. More food can be obtained for the same effort by sowing corn and breeding animals than by relying on wild life. The crops and cattle are capital.

Capital permits the division of labor and the utilization of special individual capabilities. The acquisition of skill is encouraged. Through trade, made possible by large amounts of wealth being kept in stock or in transit, advantage can be taken of diversities of soil, climate and situation, as well as of human talents. Wealth in the course of exchange is capital.

The use of capital distinguishes man from all other living beings. Without it no high civilization could develop. Prejudice, custom, or law

which interferes with the fullest use of capital, therefore, lessens the efficiency of labor and strikes at the roots of civilization.

But it is not from the scarcity of capital that the poverty of the great masses of people in civilized countries proceeds. In the long depression years, when wages were lowest, the tools and machinery of production were in excess of the use made of them. Any prospect of remunerative employment brought out more than the capital needed. If abundance of capital provided jobs and wages, we should have had no unemployment and no low wages during the past fifteen years.

OUR SEARCH CONTINUES

To search for the answer to the paradox of poverty in the midst of material progress is our object in this study of economics. We do not find the answer in the relationship of labor and capital, and, therefore, we must carry our search into another field. For across the promising picture of industrial progress in postwar America lies a menacing shadow. Two hundred years of invention and discovery have added to our power to harness the resources of nature and make a paradise of this continent.

Yet, following each period of prosperity, in which the goal of universal security and well-being seemed within grasp, our hopes have been dashed against the stark reality of industrial depression. And at the end of two centuries of scientific achievement and industrial development, we found, in

1936, nearly half of our families living in such destitution as made a mockery of the American standard of living. Every field of endeavor seemed overcrowded. Although millions of people in our country were without the material goods and civilized services that might raise their lives above the minimum for subsistence, yet there appeared to be too many doctors, too many restaurant helpers, too many automobile workers—*too many people!*

Thomas Malthus, an English clergyman (1766-1834), believed that the cause of poverty is the tendency of man to reproduce faster than his means of subsistence. Malthus looked upon war and famine and disease as divinely-ordained checks upon the growth of population. Thoughtless acceptance of this *Malthusian theory* is accountable for half of our world problems. We shall analyze this theory in the next issue of *PROGRESS GUIDE*.

RESEARCH AND CORRELATION BY PROGRESS GUIDE EDITORS

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PROGRESS GUIDE'S COURSE IN
FUNDAMENTAL ECONOMICS AND SOCIAL PHILOSOPHY

LESSON III

Population and Subsistence

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Reading Assignment

Progress and Poverty by Henry George, Book II
Pages 89-150

Questions for Discussion

1. What is the population theory advanced to explain the persistence of poverty? (91)
2. How does this doctrine support the wages fund theory? (97)
3. According to this doctrine what provision has nature made to reduce the press of population against subsistence? (99)
4. To whom does this doctrine give solace and comfort? (98)
5. To what can we attribute the poverty of supposedly over-populated countries, other than density of population? (106)
6. In point of fact have the populations of these countries outrun the means of subsistence? (113)
7. In these supposedly over-populated countries does all the wealth produced go to the support of the producers? (113-128)
8. What is the limit of subsistence for animal and vegetable life? (130)
9. Is man's means of subsistence limited in the same way? (130)
10. Does the tendency of vegetable and animal life to press against the limits of space prove the same tendency in human life? (134-137)
11. What is the tendency in the size of families when the struggle for existence is less intense? (138-139)
12. Where do we find the greatest evidences of wealth, in densely populated or sparsely populated communities? (143)
13. Does increasing population decrease or increase the power to produce wealth? (150)
14. Does the increase of population therefore explain why poverty persists amidst advancing wealth? (150)

Numbers refer to pages in *Progress and Poverty*

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Specially printed copies of this and previous lesson assignments, with space for inserting answers, may be had free on request to the Economics Editor, PROGRESS GUIDE, 545 Federal St., Chicago 5, Illinois. Kits of lesson material for PROGRESS GUIDE STUDY GROUPS also supplied free on request stating approximate number in each group. Answers to questions from reader-students on the subject of this lesson will be published in the next issue.