Progress and Poverty

Class #2 – Wages, Capital, Maintenance of Labor

Marty Rowland, Ph.D., P.E.,
Henry George School of Social Science

September 26, 2018

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Book I – Chapters 3, 4, 5, Wages Produced by the Labor, Maintenance of Laborers not Drawn from Capital, Real Functions of Capital

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Progress and Poverty

An ***inquiry into the cause of industrial depressions*** and of increase of want with increase of wealth … The Remedy

Progress and Poverty

It is important to note that this book was available 5 years after the start of the 1874 depression in the U.S., that generally ended in 1879

Cause was the first international financial crisis in 1873, based in Central Europe, and exasperated by collapse of the Northern Pacific Railway construction (Duluth to California)

Speculation without sufficient returns to keep bubble going

Progress and Poverty

"I am not writing a textbook, but only attempting to discover the laws which control a great social problem" (p. 49)

Progress and Poverty

George speaks from a ***community perspective*** (pp. 40, 44) regarding capital and wealth; increases in land values are not increases in community wealth.

Stopping inequality does not make wealth equally distributed; there is just a better chance that it COULD be.

Concern for ***"aggregate" wealth***, not individual wealth (p. 41)

There may be ***relative wealth*** in a community, yet with a few drops of ink it could be utterly annihilated (p. 40)

Progress and Poverty

Henry George makes socialism superfluous

Progress and Poverty

Henry George was not talking about **avoiding reading your assignments** when he described …

<u>desires being satisfied with the least exertion</u>

The Single Tax Movement in the United States (Arthur Nichols Young)

This book, published in 1916 provides excellent insights on the origin, challenges, and fate of the Single Tax Movement of George. It is referenced in these slides, and available here:

https://ia902708.us.archive.org/31/items/singletaxmovemen00younrich/singletaxmovemen00younrich.pdf

CONTENT

Book I, Chapters 3, 4, 5

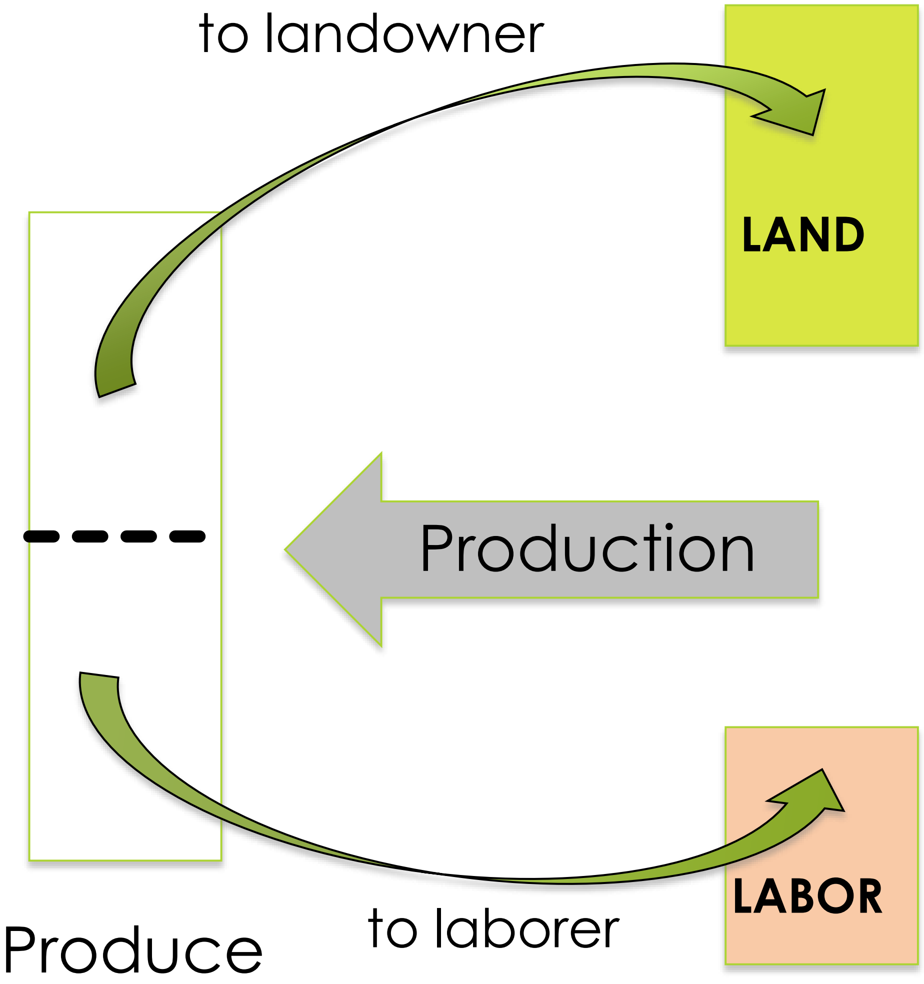
Segue to Book II, Chapters 1, 2, 3, 4 for Class #3 – Population and Subsistence

Remember to skip one week! ***Class #3 on October 10th***

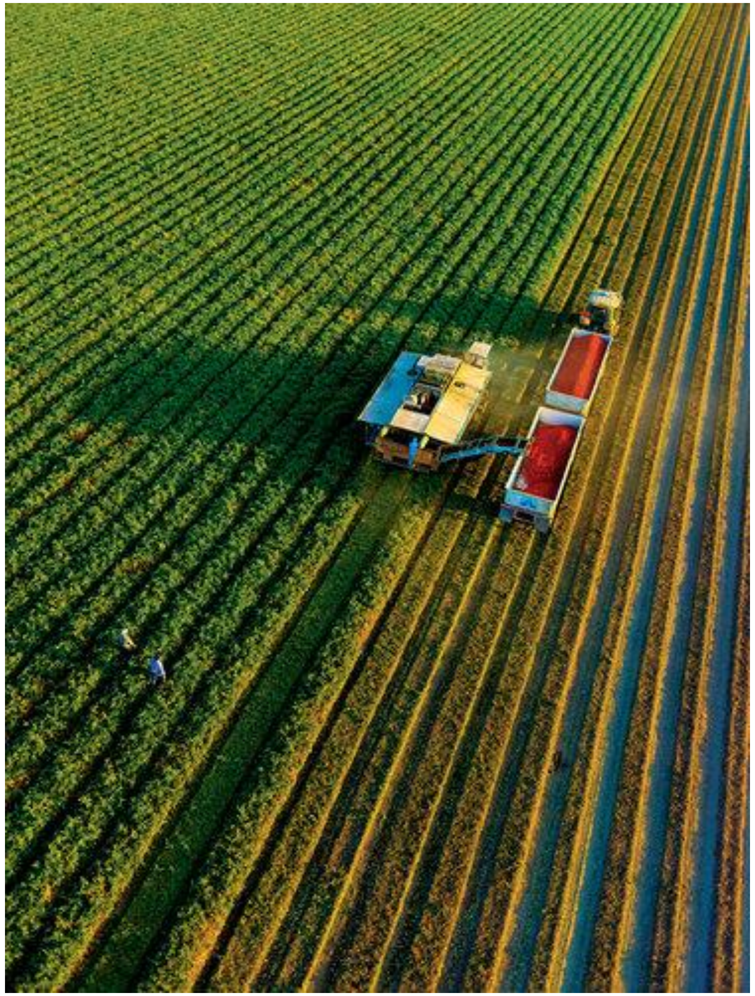
How to Distribute Produced Wealth

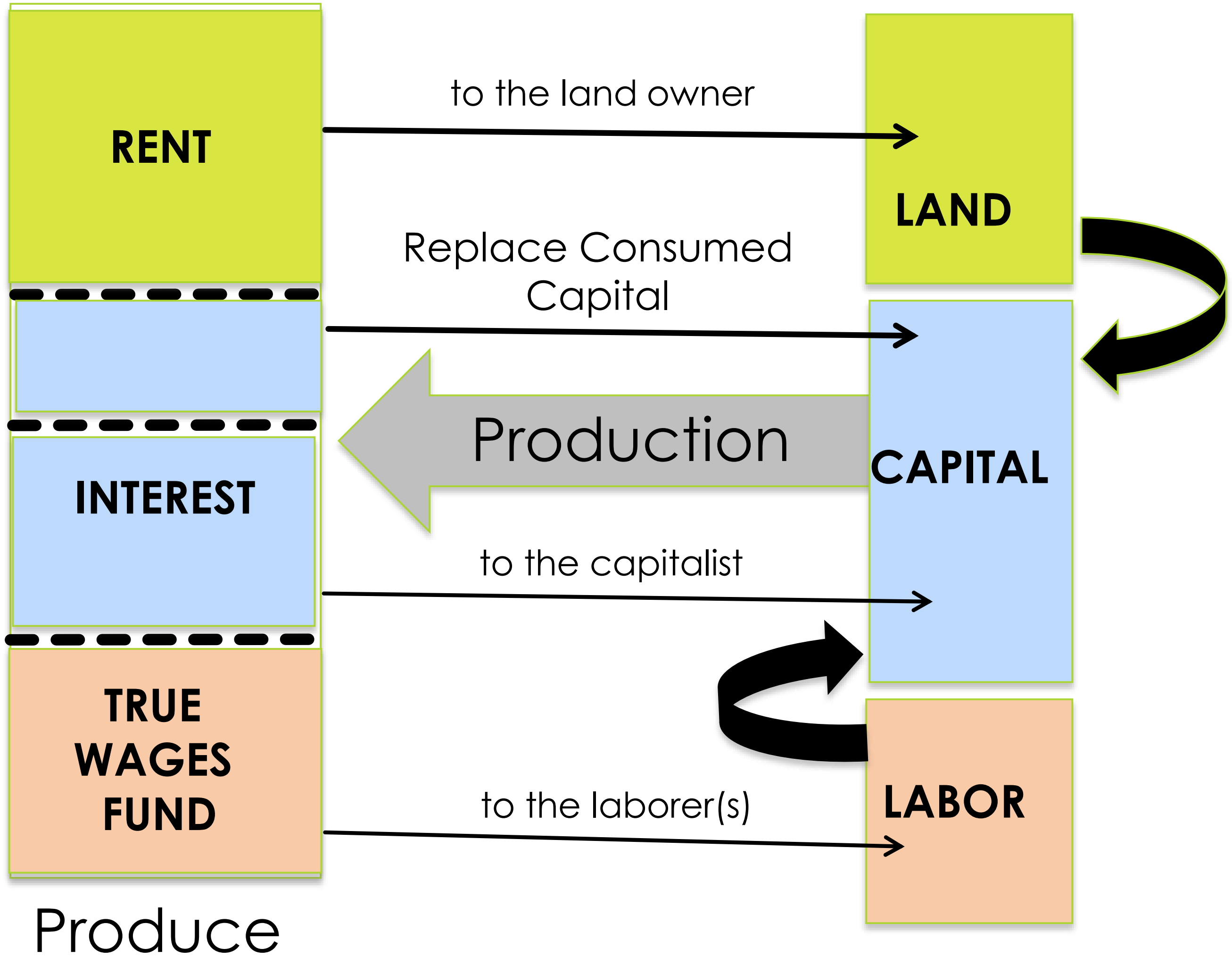
- Wages from Labor
- Interest to Capitalist
- Rent for Social Adjustments

AGRICULTURAL PRODUCTION w/o (or limited) CAPITAL



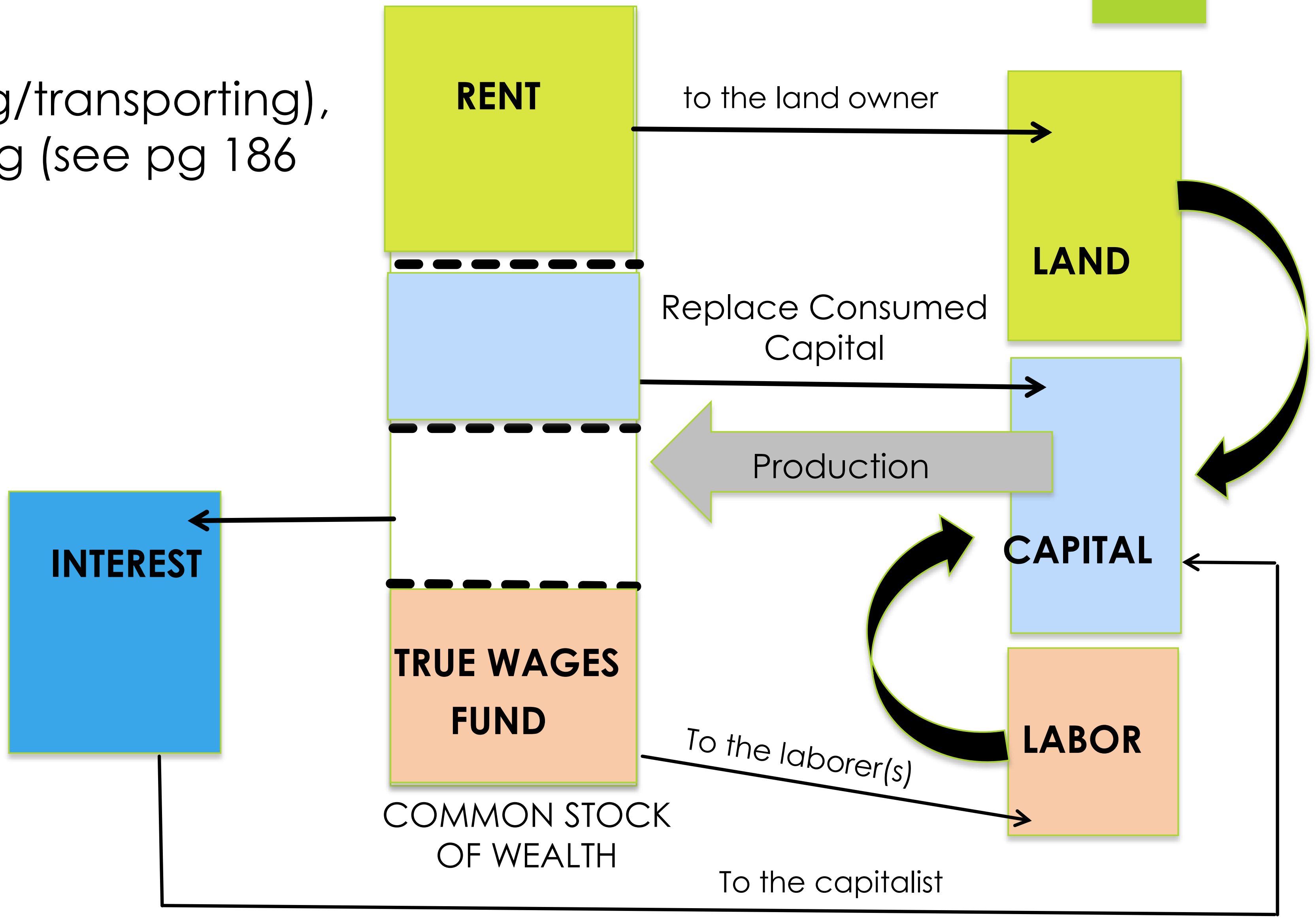
AGRICULTURAL PRODUCTION with CAPITAL





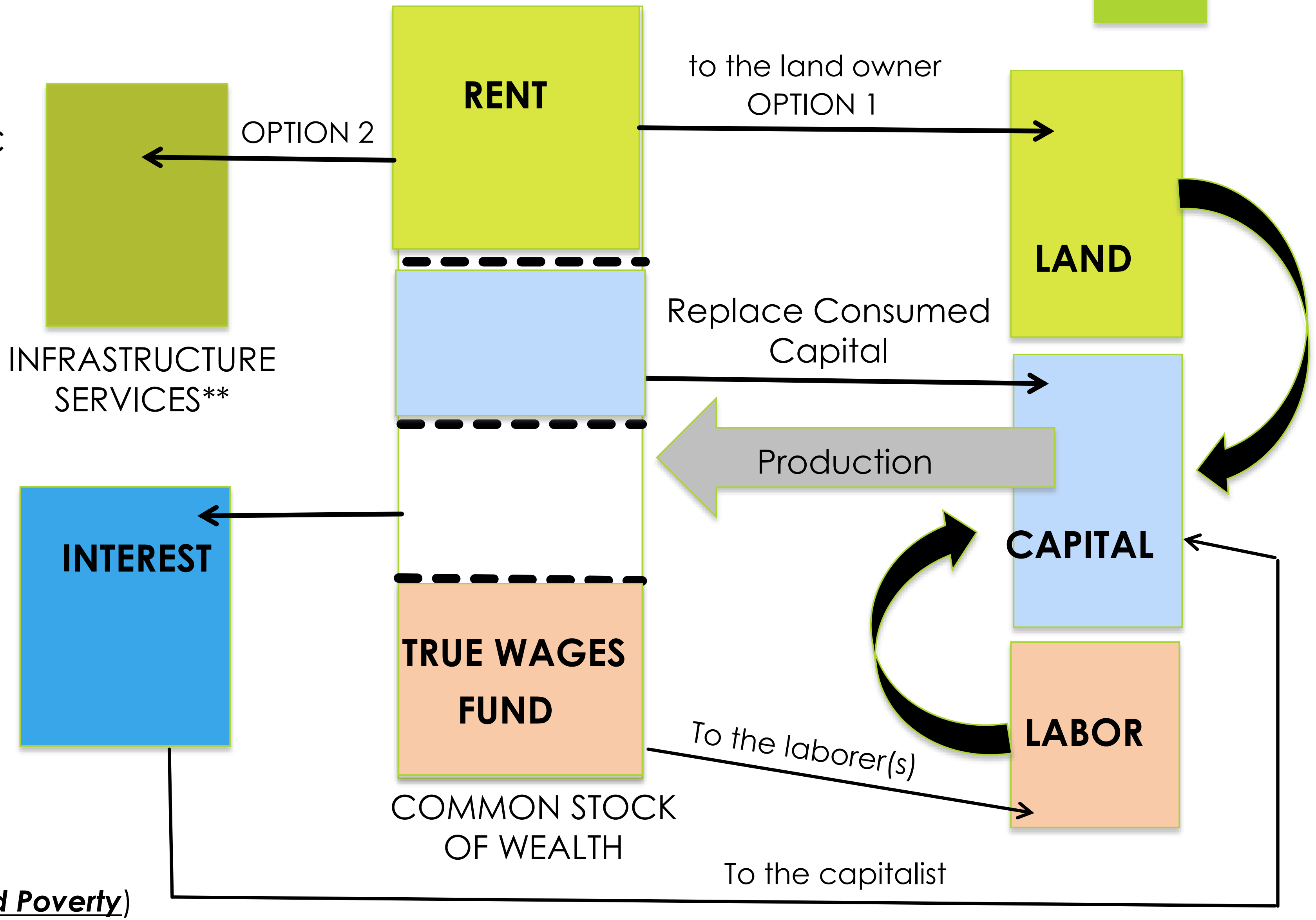
PRODUCTION* / FLOW OF WEALTH

* Adapting (manufacturing/transporting), growing, and exchanging (see pg 186 of ***Progress and Poverty***)



PRODUCTION* / FLOW OF WEALTH

** Includes: Gas, water, heat, electricity, public library, public school, public health, recreation, roads, bridges, telephone, highway, post office, telegraph, railroads, deepening river bed, lighthouse, public market, issue money, and reduce appropriative power of aggregate capital. From: ***Social Problems***



* Adapting (manufacturing/transporting), growing, and exchanging (***Progress and Poverty***)

PRODUCTION* / FLOW OF WEALTH

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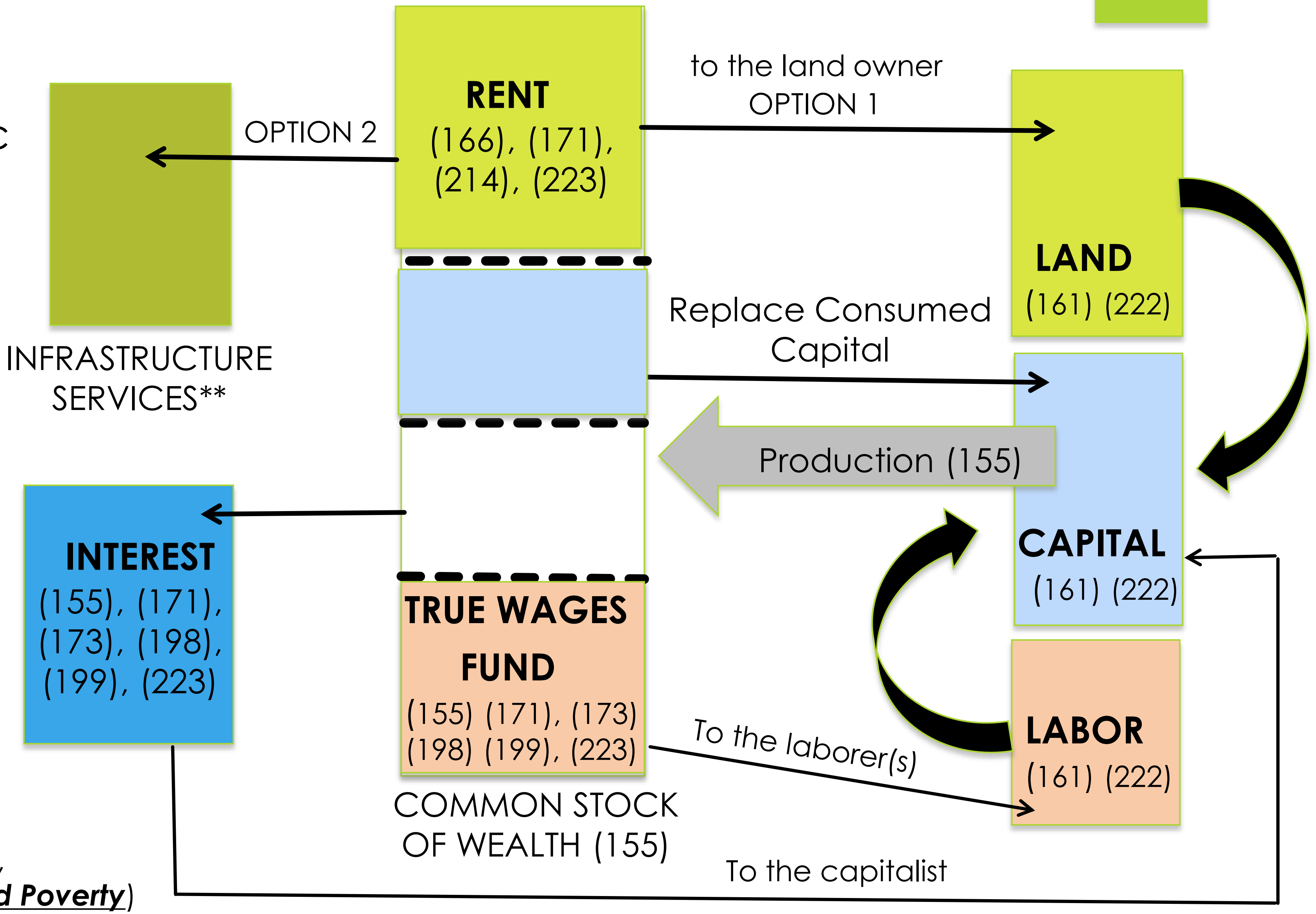

* Adapting (manufacturing/transporting), growing, and exchanging (***Progress and Poverty***)

RENT: Excess economic returns – *to us*

RENT

INTEREST

WAGES

Community – in way of services (**common pool** collective)

Book I, Chapter 3

Wages Produced by the Labor

Book I, Chapter 3, **Wages Labor Produced**

- Entire chapter about prominent intellectual gutter talk about the origin of wages, then correcting it by example (p. 50)
- Shoemaker … shoes are his wages … capital not lessened (p. 51)
- With new shoes, he has capital, plus the difference in value between materials and the shoes …this additional value is his wages (p. 51)

Book I, Chapter 3, **Wages Labor Produced**

- Had Adam Smith kept with his original statements about "produce of labor being the natural recompense, or wages of labor," political economy (of 1879) would not embrace such a mass of contradictions and absurdities such as "in every part of Europe 20 workmen serve under a master for one that is independent," (p. 51) … providing his capital, the wages of his workmen.
- The error that wages are drawn from capital is (1879) a universal truth upon a vast superstructure in standard politico-economic treatises – all deductions made from that error are invalidated (p. 51)

Book I, Chapter 3, **Wages Labor Produced**

- Beyond the original state of things (case #1), let's now look at case #2, where the laborer works for another person, or with the capital of another – laborer receives wages in kind … in things his labor produces … wages are drawn from the product of labor (p. 53)
- Next, let's read from Progress and Poverty, p. 53, **concerning gathering eggs and berries, and farming of land on shares.**

Book I, Chapter 3, **Wages Labor Produced**

Class Reading – (p.53) **Gathering Eggs and Berries**

If I hire a man to ***gather eggs, to pick berries***, or to make shoes, paying him from the eggs, the berries, or the shoes that his labor secures, there can be no question that the source of the wages is the labor for which they are paid. Of this form of hiring is the saer-and-daer* (free and unfree tenure) stock tenancy, treated of with such perspicuity by Sir Henry Maine in his "Early History of Institutions," and which so clearly involved the relation of employer and employed as to render the acceptor of cattle the man or vassal of the capitalist who thus employed him. *see https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php

Book I, Chapter 3, **Wages Labor Produced**

Class Reading – (p.53) **Farming of Land on Shares**

It was on such terms as these that Jacob worked for Laban, and to this day, even in civilized countries, it is not an infrequent mode of employing labor. The ***farming of land on shares***, which prevails to a considerable extent in the Southern States of the Union and in California, the metayer system of Europe, as well as the many cases in which superintendents, salesmen, etc., are paid by a percentage of profits, what are they but the employment of labor for wages which consist of part of its produce?

Book I, Chapter 3, **Wages Labor Produced**

- Next step (case #3) in complexity is where laborer is paid in an equivalent of something else … cut of the whale … 3/100 for the cabin boy. Oil and bone … part of the produce of labor … when brought into port (p.54)
- If the agreed upon division of the whale is converted to a market price, laborer is paid in money … the equivalent of real wages (oil and bone) … no advance of capital (p.54)
- Next step (case #4) is the usual method of employing labor and paying wages … company hires man at proper season to gather eggs (p. 54) **Student reading** …

Book I, Chapter 3, **Wages Labor Produced**

Class Reading – (pp. 54-55)) **Harvesting Eggs**

They might employ these men for a proportion of the ***eggs*** they gather, as is done in the whale fishery and probably would do so if there were much uncertainty attending the business; but as the ***fowl are plentiful and tame***, and about so many eggs can be gathered by so much labor, they find it more convenient to pay their men ***fixed wages.*** The men go out and remain on the islands, gathering the eggs and bringing them to a landing, whence, at intervals of a few days, they are taken in a small vessel to San Francisco and sold. When the season is over the men return and are paid their stipulated wages in coin. Does not this transaction amount to the same thing as if, instead of being paid in coin, the stipulated wages were paid in an equivalent of the eggs gathered? ***Does not the coin represent the eggs***, by the sale of which it was obtained, and are not these wages as much the product of the labor for which they are paid as the eggs would be in the possession of a man who gathered them for himself without the intervention of any employer?

Book I, Chapter 3, **Wages Labor Produced**

Class Reading – (p. 55) **Harvesting Seals**

To take another example, which shows by reversion the identity of wages in money with wages in kind. In San Buenaventura lives a man who makes an excellent living by shooting for their oil and skins the ***common hair seals*** which frequent the islands forming the Santa Barbara Channel. When on these sealing expeditions he ***takes two or three Chinamen*** along to help him, whom at first he paid wholly in coin. But it seems that the ***Chinese highly value some of the organs of the seal***, which they dry and pulverize for medicine, as well as the long hairs in the whiskers of the male seal, which, when over a certain length, they greatly esteem for some purpose that to outside barbarians is not very clear. And this man soon found that the ***Chinamen were very willing to take instead of money these parts of the seals killed***, so that now, in large part, he thus pays them their wages.

Book I, Chapter 3, **Wages Labor Produced**

- Is not a fund created by the labor really the fund from which wages are paid? (p. 56)
- With fixed wages, employer takes risks … but contingent wages are typically higher. But the maxim in admiralty law is "freight is the mother of wages." (p. 56)
- But, production is always the mother of wages (p. 56)
- (George) dwells on this … labor always precedes wages … it is all important to an understanding of the more complicated phenomenon of wages … take J.S. Mill's "industry is limited by capital." (p.57)

Book I, Chapter 3, **Wages Labor Produced**

- Payment of wages … always implies the previous rendering of labor (p. 57)
- Let’s have students read two readings, back to back … one on **cotton, iron, and leather; clams; and banking**.

Book I, Chapter 3, **Wages Labor Produced**

Class Reading – (pp. 60-61) **Cotton, Iron, Leather**

Bring the question to the test of facts. Take, for instance, an employing manufacturer who is engaged in turning raw material into finished products—***cotton*** into cloth, ***iron*** into hardware, ***leather*** into boots, or so on, as may be, and who pays his hands, as is generally the case, once a week. Make an exact inventory of his capital on Monday morning before the beginning of work, and it will consist of his buildings, machinery, raw materials, money on hand, and finished products in stock. Suppose, for the sake of simplicity, that he neither buys nor sells during the week, and after work has stopped and he has paid his hands on Saturday night, take a new inventory of his capital. The item of money will be less, for it has been paid out in wages; there will be less raw material, less coal, etc., and a proper deduction must be made from the value of the buildings and machinery for the week's wear and tear.

Book I, Chapter 3, **Wages Labor Produced**

Class Reading – (p. 61) **Clams**

But if he is doing a remunerative business, which must on the average be the case, the item of finished products will be so much greater as to compensate for all these deficiencies and show in the summing up an increase of capital. Manifestly, then, the value he paid his hands in wages was not drawn from his capital, or from any one else's capital. It came, not from capital, but from the value created by the labor itself. There was no more advance of capital than if he had hired his hands to dig ***clams***, and paid them with a part of the clams they dug. Their wages were as truly the produce of their labor as were the wages of the primitive man, when, long "before the appropriation of land and the accumulation of stock," he obtained an oyster by knocking it with a stone from the rocks.

Book I, Chapter 3, Wages Labor Produced

Class Reading – (p. 61) Banking

As the laborer who works for an employer does not get his wages until he has performed the work, his case is similar to that of the ***depositor in a bank*** who cannot draw money out until he has put money in. And as by drawing out what he has previously put in, the ***bank*** depositor does not lessen the capital of the bank, neither can laborers by receiving wages lessen even temporarily either the capital of the employer or the aggregate capital of the community. Their wages no more come from capital than the checks of depositors are drawn against ***bank capital***. It is true that laborers in receiving wages do not generally receive back wealth in the same form in which they have rendered it, any more than ***bank depositors*** receive back the identical coins or ***bank notes*** they have deposited, but they receive it in equivalent form, and as we are justified in saying that the depositor receives from the ***bank the money*** he paid in, so are we justified in saying that the laborer receives in wages the wealth he has rendered in labor.

Book I, Chapter 3, **Wages Labor Produced**

- This universal truth is obscured by the confounding of wealth with money (p. 61)
- Let's now turn now to more complex examples (p. 62)
- Let's have students read a case about **surface mining and exchanging** (p. 63)

Book I, Chapter 3, **Wages Labor Produced**

Class Reading – (pp. 62-63) **Surface Mining and Exchanges**

In the early days of California, as afterward in Australia, the placer ***miner***, who found in river bed or ***surface deposit*** the glittering particles which the slow processes of nature had for ages been accumulating, picked up or washed out his "wages" (so, too, he called them) in actual money, for coin being scarce, ***gold dust*** passed as currency by weight, and at the end of the day had his wages in money in a buckskin bag in his pocket. There can be no dispute as to whether these wages came from capital or not. They were manifestly the produce of his labor. Nor could there be any dispute when the holder of a specially ***rich claim*** hired men to work for him and paid them off in the ***identical money*** which their labor had taken from gulch or bar.

Book I, Chapter 3, **Wages Labor Produced**

Class Reading – (p. 63) **Surface Mining and Exchanges**

As **coin** became more abundant, its ***greater convenience*** in saving the trouble and loss of weighing assigned ***gold dust*** to the place of a commodity, and with coin obtained by the sale of the dust their labor had procured, the employing miner paid off his hands. Where he had coin enough to do so, instead of selling his gold dust at the nearest store and paying a dealer's profit, he retained it until he got enough to take a trip, or send by express to San Francisco, where at the ***mint*** he could have it ***turned into coin*** without charge. While thus accumulating gold dust he was lessening his stock of coin; just as the manufacturer, while accumulating a stock of goods, lessens his stock of money. Yet no one would be obtuse enough to imagine that in thus taking in gold dust and paying out coin the miner was lessening his capital.

Book I, Chapter 3, **Wages Labor Produced**

- After the easy deposits are exhausted, great expense was required to sink shafts, construct dams and tunnels, all requiring capital, over periods of years. Surely this is where capital funds wages! … but no … the employer receives value before he pays out value, exchanging capital of one form for another form, throughout every stage of the process of production. Creation of value is continuous (pp. 63-64)
- Creation of value does not take place all at once (p. 68)
- Let's now have students read about **tunnel cutting** (p. 69)

Book I, Chapter 3, **Wages Labor Produced**

Class Reading – (p. 69) **Cutting Tunnels**

If the workmen were paid in ***tunnel*** (which, if convenient, might easily be done by paying them in stock of the company), no capital for the payment of wages would be required. It is only when the undertakers wish to accumulate capital in the shape of a ***tunnel*** that they will need capital. To recur to our first illustration: The broker to whom I sell my silver cannot carry on his business without capital. But he does not need this capital because he makes any advance of capital to me when he receives my silver and hands me gold. He needs it because the nature of the business requires the keeping of a certain amount of capital on hand, in order that when a customer comes he may be prepared to make the exchange the customer desires.

Book I, Chapter 3, **Wages Labor Produced**

- Let’s recapitulate this Chapter (p. 70):
  - The man who works for himself gets his wages in the things he produces, as he produces them, and exchanges this value into another form whenever he sells the produce
  - If he works for another for stipulated wages in money, he works under a contract of exchange
  - As he renders his labor, he gets wages at stated times, in stated amounts
  - As he labors, he is advancing capital to his employer; the employer never advances capital to him

Book I, Chapter 3, **Wages Labor Produced**

- Let's recapitulate this Chapter (p. 70) (continued):
  - Whether the employer who receives this produce in exchange for the wages immediately re-exchanges it, or keeps it for awhile, no more alters the character of the transaction than does the final disposition of the product made by the ultimate receiver, who may, perhaps, be in another quarter of the globe and at the end of a series of exchanges numbering hundreds.

Book I, Chapter 4
Maintenance of Laborers

Book I, Chapter 4, **Maintenance of Laborers**

- Listen to the intellectual gutter talk of John Stuart Mill, David Ricardo, and Millicent Fawcett:
  - (Have we) forgotten that people … are maintained … not by the produce of present labor, but of past? (p. 71) J.S. Mill
  - Population regulates itself by the funds which are to employ it … always increases or diminishes with the increase or diminution of capital (p.72) Ricardo – *thereby conflating the wages fund idea with population theory (Class #3)*
  - Laborers cannot live upon that which their labor is assisting to produce, but are maintained by that wealth which their labor has previously produced, which wealth is capital. (p.71) Fawcett

Book I, Chapter 4, **Maintenance of Laborers**

- These ideas are absurd … a confusion of thought (p. 72)
- … that labor cannot be exerted until the products of labor are saved … putting the product before the producer (p.72)

Book I, Chapter 4, Maintenance of Laborers

Read how the New York Times used comedy to dismiss George (1885) in "the nationalization of trousers:"

The great project of the ***nationalization of trousers***, so ably urged by the eminent reformer, Mr. Jacob Isaacs, cannot be lightly dismissed … It is Mr. Isaacs' opinion that ***trousers are the source of all wealth***. This is demonstrated in three ways: **(1)** No man can gain employment in civilized countries unless he wears trousers, and **(2)** no man can, in the changing conditions of the climate of countries inhabited by civilized races, work without trousers, and at the same preserve his health. Hence, while wealth is the result of labor, it is also the result of trousers. Again, **(3)** wealth, or money, which is its representative and concrete expression, is universally carried in the trousers pocket." *NYTimes editorial 2/25/1885, copied by Young (1916)*

Book I, Chapter 4, **Maintenance of Laborers**

Unconfirmed sources ask:

Is the New York Times really funded by subscriptions?

Or maybe it has always been part of a Deep State apparatus?

Book I, Chapter 4, **Maintenance of Laborers**

- Wages … do not come from wealth set apart for assistance of production, but wealth set apart for subsistence (p.72)
- Wealth is no longer capital (i.e., wealth used to procure more wealth) when articles of wealth pass into the hands of the consumer (for gratification of desires)– regardless of whether that consumption aids in production (p.72)
- It is not safe to leave this argument here …even though it is sufficient (p.73)
- Must Robinson Crusoe create a stock of food before setting out to build his canoe? (p. 74)

Book I, Chapter 4, **Maintenance of Laborers**

- **Community** – In larger units of people, there develops a "sense of mutual interest" where people in the present divide (exchange) food with those whose efforts are directed to future recompense. (p. 74)
- **Dynamics** – There should be (within the circle of exchange) a contemporaneous production of sufficient subsistence for laborers (p.74) and a willingness to exchange this subsistence for the thing on which the labor is being bestowed (p. 74)
- **Idle Rich** – The heir whose government bonds (power of commanding wealth) afford him a leisured lifestyle, has subsistence provided by contemporaneous production (p.75)

Book I, Chapter 4, **Maintenance of Laborers**

- **Infrastructure** – When modern government undertakes great work of years, it does not appropriate to it wealth already produced, but wealth yet to be produced – taken from producers in taxes as work progresses (p.76)
- **Community** - The machinist's labor, actually exerted in the production of the engine, virtually produces the things in which he expends his wages (p.76) – and what happens to the community when the machinist's job moves to Mexico? (instructor's comment)

Book I, Chapter 4, **Maintenance of Laborers**

Class Reading – (p.75) **Suspension of Labor**

The fifty square miles of London undoubtedly contain more wealth than within the same space anywhere else exists. Yet were productive ***labor*** in London absolutely to ***cease***, within a few hours people would begin to die like rotten sheep, and within a few weeks, or at most a few months, hardly one would be left alive. For an entire ***suspension*** of productive ***labor*** would be a disaster more dreadful than ever yet befell a beleaguered city. It would not be a mere external wall of circumvallation, such as Titus drew around Jerusalem, which would prevent the constant incoming of the supplies on which a great city lives, but it would be the drawing of a similar wall around each household. Imagine such a ***suspension of labor*** in any community, and you will see how true it is that mankind really live from hand to mouth; that it is the <u>daily labor of the community that supplies the community with its daily bread.</u>

Book I, Chapter 4, **Maintenance of Laborers**

- **Class Reading** – (p.77) Principle: **Demand for Consumption**

  The demand for consumption determines the direction in which labor will be expended in production

  This principle is so simple and obvious that it needs no further illustration, yet in its light all the complexities of our subject disappear, and we thus reach the same view of the real objects and rewards of labor in the intricacies of modern production that we gained by observing in the first beginnings of society the simpler forms of production and exchange. We see that now, as then, each laborer is endeavoring to obtain by his exertions the satisfaction of his own desires;

Book I, Chapter 4, **Maintenance of Laborers**

- **Class Reading** – (p.77)   (continued)

we see that although the minute division of labor assigns to each producer the production of but a small part, or perhaps nothing at all, of the particular things he labors to get, yet, in aiding in the production of what other producers want, he is directing other labor to the production of the things he wants—in effect, producing them himself. And thus, if he make jack-knives and eat wheat, the wheat is really as much the produce of his labor as if he had grown it for himself and left wheat-growers to make their own jack-knives.

Book I, Chapter 4, **Maintenance of Laborers**

- **Mutual Interest** – Laborers in aiding in the production of what other producers want, are directing other laborers to the production of the things they want – in effect, producing those things themselves. (p.77)
- **Trade** – Do you see how misapprehension of George's view on trade devastates his main thesis on the circulation of wealth, subsistence, and wages? (described on p. 78)

Book I, Chapter 4, **Maintenance of Laborers**

- **Class Reading** – (p. 78) **Immediate Earning of Wages/Subsistence**

  And so the man who is following the plow—though the crop for which he is opening the ground is not yet sown, and after being sown will take months to arrive at maturity—he is yet, by the ***exertion of his labor*** in plowing, ***virtually producing the food he eats and the wages he receives.*** For, though plowing is but a part of the operation of producing a crop, it is a part, and as necessary a part as harvesting. The doing of it is a step toward procuring a crop, which, by the assurance which it gives of the future crop, <u>sets free from the stock constantly held the subsistence and wages of the plowman</u>. This is not merely theoretically true, it is practically and literally true. At the proper time for plowing, let plowing cease.

Book I, Chapter 4, **Maintenance of Laborers**

- **Class Reading** – (p. 78)   **Immediate Earning of Wages/Subsistence**

Would not the symptoms of scarcity at once manifest themselves without waiting for the time of the harvest? Let plowing cease, and would not the effect at once be felt in counting-room, and machine shop, and factory? Would not loom and spindle soon stand as idle as the plow? That this would be so, we see in the effect which immediately follows a bad season. And if this would be so, is not the ***man who plows really producing his subsistence and wages*** as much as though during the day or week his labor actually resulted in the things for which his labor is exchanged?

Book I, Chapter 4, **Maintenance of Laborers**

- **Credit** – Where labor is looking for employment, the want of capital does not prevent the owner of the land which promises a crop for which there is a demand from hiring it … the laborer or farmer (himself) may obtain credit, and thus the work done in cultivation is immediately utilized or exchanged as it is done (p.79)
- **Exchanges that unite production** – Likened to a curved pipe filled with water … if poured in one end, a like quantity is released at the other … not the same water but equivalent … those who produce put in as they take out – receiving in subsistence and wages but the produce of their labor (p.79)

Book I, Chapter 5

Real Functions of Capital

Book I, Chapter 5, **Real Functions of Capital**

- If not for wages or support of labor during production, what are capital's functions? (p.80):
  - Capital increases when wealth is used to produce more wealth
  - Capital increases as wealth increases in course of exchange
  - Capital increases power of labor to produce wealth (p.80)
  - Labor applies itself more effectively (tools)
  - Labor avails itself to reproductive forces of nature (living things)
  - Permits division of labor, efficiencies, improved skills, less waste, taking advantage of diversities of soil, climate, situations

Book I, Chapter 5, **Real Functions of Capital**

- **Capital** does not supply materials which labor works up into wealth (p. 81) – ***no such thing as "natural capital"*** as that is intellectual gutter talk.
- **Capital** does consist of materials partially worked up in the course of exchange (p. 81)
- **Capital** does not supply or advance wages – wages are part of the produce of labor, obtained by the laborer (p.81)
- **Capital** does not maintain laborers during progress of work (p. 81)
- **Capital** does not limit industry; only limit being access to natural materials

Book I, Chapter 5, **Real Functions of Capital**

- **Capital** may limit the form and productiveness of industry by limiting use of tools and division of labor (p.81)
- On next page students will read a passage on provision of **infrastructure (water supply)** (pp. 81-82)

Book I, Chapter 5, Real Functions of Capital

Class Reading – (pp. 81-82) Infrastructure

That capital may limit the form of industry is clear. Without the ***factory***, there could be no factory operatives; without the ***sewing machine***, no machine sewing; without the ***plow***, no plowman; and without a great ***capital engaged in exchange***, industry could not take the many special forms which are concerned with exchanges. It is also as clear that the want of tools must greatly limit the productiveness of industry. If the farmer must use the ***spade*** because he has not capital enough for a plow, the ***sickle*** instead of the reaping machine, the ***flail*** instead of the thresher; if the machinist must rely upon the ***chisel*** for cutting iron; the weaver on the hand loom, and so on, the productiveness of industry cannot be a tithe of what it is when aided by capital in the shape of the best tools now in use.

Book I, Chapter 5, Real Functions of Capital

Class Reading – (p.p. 81-82) Infrastructure

Nor could the division of labor go further than the very rudest and almost imperceptible beginnings, nor the exchanges which make it possible extend beyond the nearest neighbors, unless a ***portion of the things produced were constantly kept in stock*** or in ***transit***. Even the pursuits of hunting, fishing, gathering nuts, and making weapons could not be specialized so that an individual could devote himself to any one, unless some part of what was procured by each was reserved from immediate consumption, so that he who devoted himself to the procurement of things of one kind could obtain the others as he wanted them, and could make the good luck of one day supply the shortcomings of the next.

Book I, Chapter 5, Real Functions of Capital

Class Reading – (pp. 81-82) Infrastructure

While to permit the minute subdivision of labor that is characteristic of, and necessary to, high civilization, a great amount of wealth of all descriptions must be constantly kept in stock or in transit. To enable the resident of a civilized community to exchange his labor at option with the labor of those around him and with the labor of men in the most remote parts of the globe, there must be ***stocks of goods in warehouses***, in stores, in the holds of ***ships***, and in ***railway cars***, just as to enable the denizen of a great city to draw at will a cupful of ***water***, there must be ***thousands of millions of gallons stored in reservoirs*** and moving through miles of ***pipe***.

Book I, Chapter 5, **Real Functions of Capital**

- On next page students will read another passage, this one on **Labor Needed Before Capital** (pp. 82-83)

Book I, Chapter 5, Real Functions of Capital

Class Reading – (pp. 82-83) Labor Before Capital

But to say that capital may limit the form of industry or the productiveness of industry is a very different thing from saying that capital limits industry. For the dictum of the ***current political economy that "capital limits industry,"*** means not that capital limits the form of labor or the productiveness of labor, but that it limits the exertion of labor. This proposition ***derives its plausibility from the assumption that capital supplies labor with materials and maintenance***—an assumption that we have seen to be unfounded, and which is indeed transparently preposterous the moment it is remembered that capital is produced by labor, and hence that there must be labor before there can be capital..

Book I, Chapter 5, **Real Functions of Capital**

Class Reading – (pp. 82-83) **Labor Before Capital**

Capital may limit the form of industry and the productiveness of industry; but this is not to say that there could be no industry without capital, any more than it is to say that without the power loom there could be no weaving; without the sewing machine no sewing; no cultivation without the plow; or that in a community of one, like that of Robinson Crusoe, there could be no labor because there could be no exchange.

Book I, Chapter 5, **Real Functions of Capital**

- On next page students will read another passage, this one on **Abuse of Government and Quickly Reproduced Capital** (pp. 82-83)

Book I, Chapter 5, **Real Functions of Capital**

Class Reading – (p. 83) **Abuse of Government**

And to say that capital ***may*** limit the form and productiveness of industry is a different thing from saying that capital ***does***. For the cases in which it can be truly said that the form of productiveness of the industry of a community is limited by its capital, will, I think, appear upon examination to be more theoretical than real. It is evident that in such a country as Mexico or Tunis the larger and more general use of capital would greatly change the forms of industry and enormously increase its productiveness; and it is often said of such countries that they need capital for the development of their resources. But is there not something back of this—a want which includes the want of capital? Is it not the rapacity and ***abuses of government***, the insecurity of property, the ignorance and prejudice of the people, that prevent the accumulation and use of capital? Is not the real limitation in these things, and not in the want of capital, which would not be used even if placed there?

Book I, Chapter 5, Real Functions of Capital

Class Reading – (pp. 83-84) Quickly Reproduced Capital

We can, of course, imagine a community in which the want of capital would be the only obstacle to an increased productiveness of labor, but it is only by imagining a conjunction of conditions that seldom, if ever, occurs, except by accident or as a passing phase. A community in which capital has been swept away by war, conflagration, or convulsion of nature, and, possibly, a community composed of civilized people just settled in a new land, seem to me to furnish the only examples. Yet how quickly the ***capital*** habitually used is ***reproduced*** in a community that has been swept by war, has long been noticed, while the rapid production of the capital it can, or is disposed to use, is equally noticeable in the case of a new community.

Book I, Chapter 5, **Real Functions of Capital**

- Real limitation of capital may be its proper distribution (p.84)
- Sparse populations (often) don’t suffer from want of capital but (rather from the) inability to profitably employ it (p.86)
- Bucket can only hold a bucketful – no greater amount of wealth will be used as capital than is required by the machinery of production and exchange … that best suit the people (p. 86)

Book I, Chapter 5, Real Functions of Capital

- Social organism secretes … the ***necessary amount of capital*** just as the human organism in a healthy condition secretes the ***requisite fat*** (p. 86)

Book I, Chapter 5, **Real Functions of Capital**

- Wages are relatively the lowest where capital is most abundant (p.87)
- Recapitulation – Wages do not depend on the ratio between the number of laborers and amount of capital devoted to the employment of labor … wages and interest do not rise and fall inversely, but conjointly (p. 87)

Class #3 – Population and Subsistence

Book II

Chapter 1 – Malthusian Theory, its genesis and support

- Population naturally tends to increase faster than subsistence

Chapter 2 – Inferences from Facts

- 50 pound dog with a tail a mile long

Chapter 3 – Inferences from Analogy

- Man is the only one of all living things who can give play to the reproductive forces

Class #3 – Population and Subsistence

Chapter 4 – Disproof of the Malthusian Theory

- The power of producing wealth in any form is the power of producing subsistence

END