# Chapter 2 The Meaning Of the Terms

Before proceeding further in our inquiry, let us make sure of the meaning of our terms, for indistinctness in their use must inevitably produce ambiguity and indeterminateness in reasoning. Not only is it requisite in economic reasoning to give to such words as "wealth," "capital," "rent," "wages," and the like, a much more definite sense than they bear in common discourse, but, unfortunately, even in political economy there is, as to some of these terms, no certain meaning assigned by common consent, different writers giving to the same term different meanings, and the same writers often using a term in different senses. Nothing can add to the force of what has been said by so many eminent authors as to the importance of clear and precise definitions, save the example, not an infrequent one, of the same authors falling into grave errors from the very cause they warned against. And nothing so shows the importance of language in thought as the spectacle of even acute thinkers basing important conclusions upon the use of the same word in varying senses. I shall endeavor to avoid these dangers. It will be my effort throughout, as any term becomes of importance, to state clearly what I mean by it, and to use it in that sense and in no other. Let me ask the reader to note and to bear in mind the definitions thus given, as otherwise I cannot hope to make myself properly understood. I shall not attempt to attach arbitrary meanings to words, or to

Before proceeding further, we must establish clear and precise definitions of the terms to be used, and be consistent in their use so as to be properly understood.

coin terms, even when it would be convenient to do so, but shall conform to usage as closely as is possible, only endeavoring so to fix the meaning of words that they may clearly express thought.

What we have now on hand is to discover whether, as a matter of fact, wages are drawn from capital. As a preliminary, let us settle what we mean by wages and what we mean by capital. To the former word a sufficiently definite meaning has been given by economic writers, but the ambiguities which have attached to the use of the latter in political economy will require a detailed examination.

As used in common discourse "wages" means a compensation paid to a hired person for his services; and we speak of one man "working for wages," in contradistinction to another who is "working for himself." The use of the term is still further narrowed by the habit of applying it solely to compensation paid for manual labor. We do not speak of the wages of professional men, managers or clerks, but of their fees, commissions, or salaries. Thus the common meaning of the word wages is the compensation paid to a hired person for manual labor. But in political economy the word wages has a much wider meaning, and includes all returns for exertion. For, as political economists explain, the three agents or factors in production are land, labor, and capital, and that part of the produce which goes to the second of these factors is by them styled wages.

"Wages" means the return received for the exertion of labor.

Thus the term labor includes all human exertion in the production of wealth, and wages, being that part of the produce which goes to labor, includes all reward for such exertion. There is, therefore, in the politicoeconomic sense of the term wages no distinction as to the kind of labor, or as to whether its reward is received through an employer or not, but wages means the return received for the exertion of labor, as distinguished from the return received for the use of capital, and the return received by the landholder for the use of land. The man who cultivates the soil for himself receives his wages in its produce, just as, if he uses his own capital and owns his own land, he may also receive interest and rent; the hunter's wages are the game he kills; the fisherman's wages are the fish he takes. The gold washed out by the self-employing gold digger is as much his wages as the money paid to the hired coal miner by the purchaser of his labor,[1] and, as Adam Smith shows, the high profits of retail storekeepers are in large part wages, being the recompense of their labor and not of their capital. In short, whatever is received as the result or reward of exertion is "wages."

The term applies whether the laborer is self-employed or hired.

This is all it is now necessary to note as to "wages," but it is important to keep this in mind. For in the standard economic works this sense of the term wages is recognized with greater or less clearness only to be subsequently ignored.

But it is more difficult to clear away from the idea of capital the ambiguities that beset it, and to fix the scientific use of the term. In general discourse, all sorts of things that have a value or will yield a return are vaguely spoken of as capital, while economic writers vary so widely that the term can hardly be said to have a fixed meaning. Let us compare with each other the definitions of a few representative writers:

Economic writers have used various defnitions for "capital."

"That part of a man's stock," says Adam Smith (Book II, Chap. 1), "which he expects to afford him a revenue, is called his capital," and the capital of a country or society, he goes on to say, consists of (1) machines and instruments of trade which facilitate and abridge labor; (2) buildings, not

Adam Smith's definition

[1]This was recognized in common speech in California, where the placer miners styled their earnings their "wages," and spoke of making high wages or low wages according to the amount of gold taken out.

mere dwellings, but which may be considered instruments of trade—such as shops, farmhouses, etc.; (3) improvements of land which better fit it for tillage or culture; (4) the acquired and useful abilities of all the inhabitants; (5) money; (6) provisions in the hands of producers and dealers, from the sale of which they expect to derive a profit; (7) the material of, or partially completed, manufactured articles still in the hands of producers or dealers; (8) completed articles still in the hands of producers or dealers. The first four of these he styles fixed capital, and the last four circulating capital, a distinction of which it is not necessary to our purpose to take any note.

Ricardo's definition is:

> "Capital is that part of the wealth of a country which is employed in production, and consists of food, clothing, tools, raw materials, machinery, etc., necessary to give effect to labor." — *Principles of Political Economy, Chap. V.*

is quite different from Ricardo's.

This definition, it will be seen, is very different from that of Adam Smith, as it excludes many of the things which he includes—as acquired talents, articles of mere taste or luxury in the possession of producers or dealers; and includes some things be excludes—such as food, clothing, etc., in the possession of the consumer.

McCulloch's definition is:

McCulloch has yet another definition.

> "The capital of a nation really comprises all those portions of the produce of industry existing in it that may be directly employed either to support human existence or to facilitate production."— *Notes on Wealth of Nations, Book II, Chap. I.*

This definition follows the line of Ricardo's, but is wider. While it excludes everything that is not capable of aiding production, it includes everything that is so capable, without reference to actual use or necessity for use—the horse drawing a pleasure carriage being, according to McCulloch's view, as he expressly states, as much capital as the horse drawing a plow, because he may, if need arises, be used to draw a plow.

John Stuart Mill, following the same general line as Ricardo and McCulloch, makes neither the use nor the capability of use, but the determination to use, the test of capital. He says:

J. S. Mill takes yet another approach.

> "Whatever things are destined to supply productive labor with the shelter, protection, tools and materials which the work requires, and to feed and otherwise maintain the laborer during the process, are capital." — *Principles of Political Economy, Book I, Chap. IV.*

These quotations sufficiently illustrate the divergence of the masters. Among minor authors the variance is still greater, as a few examples will suffice to show.

In summary, the major authors vary in their definitions of capital.

Professor Wayland, whose "Elements of Political Economy" has long been a favorite textbook in American educational institutions, where there has been any pretense of teaching political economy, gives this lucid definition:

Among minor authors the variance is still greater.

> "The word capital is used in two senses. In relation to product it means any substance on which industry is to be exerted. In relation to industry, the material on which industry is about to confer value, that on which it has conferred value; the instruments which are used for the conferring of value, as well as the means of sustenance by which the being is supported while he is engaged in performing the operation." — *Elements of Political Economy, Book I, Chap. I.*

Henry C. Carey, the American apostle of protectionism, defines capital as "the instrument by which man obtains mastery over nature, including in it the physical and mental powers of man himself." Professor Perry, a Massachusetts free trader, very properly objects to this that it hopelessly confuses the boundaries between capital and labor, and then himself hopelessly confuses the boundaries between capital and land by defining capital as "any valuable thing outside of man himself from whose use springs pecuniary increase or profit." An English economic writer of high standing, Mr. Wm. Thornton, begins an elaborate examination of the relations of labor and capital ("On Labor") by stating that he will include land with capital, which is very much as if one who proposed to teach algebra should begin with the declaration that he would consider the signs plus and minus as meaning the same thing and having the same value. An American writer, also of high standing, Professor Francis A. Walker, makes the same declaration in his elaborate book on "The Wages Question." Another English writer, N. A. Nicholson ("The Science of Exchanges," London, 1873), seems to cap the climax of absurdity by declaring in one paragraph (p. 76) that "capital must of course be accumulated by saving," and in the very next paragraph stating that "the land which produces a crop, the plow which turns the soil, the labor which secures the produce, and the produce itself, if a material profit is to be derived from its employment, are all alike capital." But how land and labor are to be accumulated by saving them he nowhere condescends to explain. In the same way a standard American writer, Professor Amasa Walker (p. 66, "Science of Wealth"), first declares that capital arises from the net savings of labor and then immediately afterward declares that land is capital.

Some of them, after having defined capital to exclude land, even say that land is capital.

I might go on for pages, citing contradictory and self-contradictory definitions. But it would only weary the reader. It is unnecessary to multiply quotations. Those already given are sufficient to show how wide a difference exists as to the comprehension of the term capital. Any one who wants further illustration of the "confusion worse confounded" which exists on this subject among the

In summary, a wide difference exists as to the meaning of "capital."

professors of political economy may find it in any library where the works of these professors are ranged side by side.

Now, it makes little difference what name we give to things, if when we use the name we always keep in view the same things and no others. But the difficulty arising in economic reasoning from these vague and varying definitions of capital is that it is only in the premises of reasoning that the term is used in the peculiar sense assigned by the definition, while in the practical conclusions that are reached it is always used, or at least it is always understood, in one general and definite sense. When, for instance, it is said that wages are drawn from capital, the word capital is understood in the same sense as when we speak of the scarcity or abundance, the increase or decrease, the destruction or increment, of capital—a commonly understood and definite sense which separates capital from the other factors of production, land and labor, and also separates it from like things used merely for gratification. In fact, most people understand well enough what capital is until they begin to define it, and I think their works will show that the economic writers who differ so widely in their definitions use the term in this commonly understood sense in all cases except in their definitions and the reasoning based on them.

Yet despite the great range of definitions, in the practical sense capital is always understood to mean

This common sense of the term is that of wealth devoted to procuring more wealth. Dr. Adam Smith correctly ex presses this common idea when be says: “That part of a man's stock which he expects to afford him revenue is called his capital.” And the capital of a community is evidently the sum of such individual stocks, or that part of the aggregate stock which is expected to procure more wealth. This also is the derivative sense of the term. The word capital, as philologists trace it, comes down to us from a time when wealth was estimated in cattle, and a man's income

wealth devoted to procuring more wealth.

depended upon the number of head he could keep for their increase.

Confusion as to the meaning of "capital" come from two sources.

The difficulties which beset the use of the word capital, as an exact term, and which are even more strikingly exemplified in current political and social discussions than in the definitions of economic writers, arise from two facts—first, that certain classes of things, the possession of which to the individual is precisely equivalent to the possession of capital, are not part of the capital of the community; and, second, that things of the same kind may or may not be capital, according to the purpose to which they are devoted.

First, certain types of things are like capital to an individual but are not part of the capital of the community.

Second, things of the same kind may or may not be capital, according to their use.

With a little care as to these points, there should be no difficulty in obtaining a sufficiently clear and fixed idea of what the term capital as generally used properly includes; such an idea as will enable us to say what things are capital and what are not, and to use the word without ambiguity or slip.

Land, labor, and capital are the three factors of production. Nothing can be capital which is land or is labor.

Land, labor, and capital are the three factors of production. If we remember that capital is thus a term used in contradistinction to land and labor, we at once see that nothing properly included under either one of these terms can be properly classed as capital. The term land necessarily includes, not merely the surface of the earth as distinguished from the water and the air, but the whole material universe outside of man himself, for it is only by having access to land, from which his very body is drawn, that man can come in contact with or use nature. The term land embraces, in short, all natural materials, forces, and opportunities, and, therefore, nothing that is freely supplied by nature can be properly classed as capital. A fertile field, a rich vein of ore, a falling stream which supplies power, may give to the possessor advantages equivalent to the possession of capital, but to class such things as capital would be to put an end to the distinction between land and capital, and, so far as they relate to each

Land is all natural materials, forces, and opportunities, and therefore none of these can be capital.

other, to make the two terms meaningless. The term labor, in like manner, includes all human exertion, and hence human powers whether natural or acquired can never properly be classed as capital. In common parlance we often speak of a man's knowledge, skill, or industry as constituting his capital; but this is evidently a metaphorical use of language that must be eschewed in reasoning that aims at exactness. Superiority in such qualities may augment the income of an individual just as capital would, and an increase in the knowledge, skill, or industry of a community may have the same effect in increasing its production as would an increase of capital; but this effect is due to the increased power of labor and not to capital. Increased velocity may give to the impact of a cannon ball the same effect as increased weight, yet, nevertheless, weight is one thing and velocity another.

Labor is all human exertion, and therefore human powers whether natural or acquired cannot be capital.

Thus we must exclude from the category of capital everything that may be included either as land or labor. Doing so, there remain only things which are neither land nor labor, but which have resulted from the union of these two original factors of production. Nothing can be properly capital that does not consist of these that is to say, nothing can be capital that is not wealth.

Since capital is neither land nor labor, it must be wealth.

But it is from ambiguities in the use of this inclusive term wealth that many of the ambiguities which beset the term capital are derived.

As commonly used the word "wealth" is applied to anything having an exchange value. But when used as a term of political economy it must be limited to a much more definite meaning, because many things are commonly spoken of as wealth which in taking account of collective or general wealth cannot be considered as wealth at all. Such things have an exchange value, and are commonly spoken of as wealth, insomuch as they represent as between individuals,

In common speech, the term "wealth" is applied to many things which have exchange value but are not "wealth" in political economy.

The increase or decrease of these things does not affect the total wealth of the community.

or between sets of individuals, the power of obtaining wealth; but they are not truly wealth, inasmuch as their increase or decrease does not affect the sum of wealth. Such are bonds, mortgages, promissory notes, bank bills, or other stipulations for the transfer of wealth. Such are slaves, whose value represents merely the power of one class to appropriate the earnings of another class. Such are lands, or other natural opportunities, the value of which is but the result of the acknowledgment in favor of certain persons of an exclusive right to their use, and which represents merely the power thus given to the owners to demand a share of the wealth produced by those who use them. Increase in the amount of bonds, mortgages, notes, or bank bills cannot increase the wealth of the community that includes as well those who promise to pay as those who are entitled to receive. The enslavement of a part of their number could not increase the wealth of a people, for what the enslavers gained the enslaved would lose. Increase in land values does not represent increase in the common wealth, for what land-owners gain by higher prices, the tenants or purchasers who must pay them will lose. And all this relative wealth, which, in common thought and speech, in legislation and law, is undistinguished from actual wealth, could, without the destruction or consumption of anything more than a few drops of ink and a piece of paper, be utterly annihilated. By enactment of the sovereign political power debts might be canceled, slaves emancipated, and land resumed as the common property of the whole people, without the aggregate wealth being diminished by the value of a pinch of snuff, for what some would lose others would gain. There would be no more destruction of wealth than there was creation of wealth when Elizabeth Tudor enriched her favorite courtiers by the grant of monopolies, or when Boris

Only such things can be wealth the production of which increases and the destruction of which decreases the aggregate of wealth.

Increase in land values does not represent increase in the common wealth, for what land owners gain, tenants or purchasers lose.

Godoonof made Russian peasants merchantable property.

All things which have an exchange value are, therefore, not wealth, in the only sense in which the term can be used in political economy. Only such things can be wealth the production of which increases and the destruction of which decreases the aggregate of wealth. If we consider what these things are, and what their nature is, we shall have no difficulty in defining wealth.

When we speak of a community increasing in wealth

When we speak of a community increasing in wealth—as when we say that England has increased in wealth since the accession of Victoria, or that California is a wealthier country than when it was a Mexican territory—we do not mean to say that there is more land, or that the natural powers of the land are greater, or that there are more people, for when we wish to express that idea we speak of increase of population; or that the debts or dues owing by some of these people to others of their number have increased; but we mean that there is an increase of certain tangible things, having an actual and not merely a relative value—such as buildings, cattle, tools, machinery, agricultural and mineral products, manufactured goods, ships, wagons, furniture, and the like. The increase of such things constitutes an increase of wealth; their decrease is a lessening of wealth; and the community that, in proportion to its numbers, has most of such things is the wealthiest community. The common character of these things is that they consist of natural substances or products which have been adapted by human labor to human use or gratification, their value depending on the amount of labor which upon the average would be required to produce things of like kind.

We mean an increase of tangible things having an actual and not merely a relative value.

Wealth consists of natural products that have been

Thus wealth, as alone the term can be used in political economy, consists of natural products that have been secured, moved, combined, separated, or in other ways modified by human exertion, to fit them for gratification of human desires.

modified by human exertion, so as to fit them for the gratification of human desires. It is, in other words, labor impressed upon matter in such a way as to store up, as the heat of the sun is stored up in coal, the power of human labor to minister to human desires. Wealth is not the sole object of labor, for labor is also expended in ministering directly to desire; but it is the object and result of what we call productive labor—that is, labor which gives value to material things. Nothing which nature supplies to man without his labor is wealth, nor yet does the expenditure of labor result in wealth unless there is a tangible product which has and retains the power of ministering to desire.

Labor may also minister directly to desire. This isn't "productive" labor.

Nothing can be capital which does not fall within this definition of wealth.

Now, as capital is wealth devoted to a certain purpose, nothing can be capital which does not fall within this definition of wealth. By recognizing and keeping this in mind, we get rid of misconceptions which vitiate all reasoning in which they are permitted, which befog popular thought, and have led into mazes of contradiction even acute thinkers.

But not all wealth is capital, and this is the source of the second class of misconceptions.

But though all capital is wealth, all wealth is not capital. Capital is only a part of wealth—that part, namely, which is devoted to the aid of production. It is in drawing this line between the wealth that is and the wealth that is not capital that a second class of misconceptions are likely to occur.

Errors of the first type, treating as capital things which are not really wealth, are widespread

The errors which I have been pointing out, and which consist in confounding with wealth and capital things essentially distinct, or which have but a relative existence, are now merely vulgar errors. They are widespread, it is true, and have a deep root, being held, not merely by the less educated classes, but seemingly by a large majority of those who in such advanced countries as England and the United States mold and guide public opinion, make the laws in parliaments, congresses and legislatures, and administer them in the courts. They crop out, moreover, in the disquisitions of many of those flabby writers who have burdened the press and darkened counsel by numerous volumes which are dubbed political economy, and which pass as textbooks with the ignorant and as authority with those who do not think for themselves. Nevertheless, they are only vulgar errors, inasmuch as they receive no countenance from the best writers on political economy. By one of those lapses which flaw his great work and strikingly evince the imperfections of the highest talent, Adam Smith counts as capital certain personal qualities, an inclusion which is not consistent with his original definition of capital as stock from which revenue is expected. But this error has been avoided by his most eminent successors, and in the definitions, previously given, of Ricardo, McCulloch, and Mill, it is not involved. Neither in their definitions nor in that of Smith is involved the vulgar error which confounds as real capital things which are only relatively capital, such as evidences of debt, land values, etc. But as to things which are really wealth, their definitions differ from each other, and widely from that of Smith, as to what is and what is not to be considered as capital. The stock of a jeweler would, for instance, be included as capital by the definition of Smith, and the food or clothing in possession of a laborer would be excluded. But the definitions of Ricardo and McCulloch would exclude the stock of the jeweler, as would also that of Mill, if understood as most persons would understand the words I have quoted. But as explained by him, it is neither the nature nor the destination of the things themselves which determines whether they are or are not capital, but the intention of the owner to devote either the things or the value received from their sale to the supply of

but are not committed by the best writers on political economy.

But as to which items of wealth are capital, the writers are inconsistent.

productive labor with tools, materials, and maintenance. All these definitions, however, agree in including as capital the provisions and clothing of the laborer, which Smith excludes.

Let us compare the definitions of three respected writers.

Let us consider these three definitions, which represent the best teachings of current political economy:

To McCulloch's definition of capital as "all those portions of the produce of industry that may be directly employed either to support human existence or to facilitate production," there are obvious objections. One may pass along any principal street in a thriving town or city and see stores filled with all sorts of valuable things, which, though they cannot be employed either to support human existence or to facilitate production, undoubtedly constitute part of the capital of the storekeepers and part of the capital of the community. And he can also see products of industry capable of supporting human existence or facilitating production being consumed in ostentation or useless luxury. Surely these, though they might, do not constitute part of capital.

McCullogh excludes much of storekeepers' inventory, but includes things which *could* be used in production even if they are not so used.

Ricardo's definition avoids including as capital things which might be but are not employed in production, by covering only such as are employed. But it is open to the first objection made to McCulloch's. If only wealth that may be, or that is, or that is destined to be, used in supporting producers, or assisting production, is capital, then the stocks of jewelers, toy dealers, tobacconists, confectioners, picture dealers, etc.—in fact, all stocks that consist of, and all stocks in so far as they consist of articles of luxury, are not capital.

Ricardo likewise excludes retailers' inventories of nonessential consumer goods.

If Mill, by remitting the distinction to the mind of the capitalist, avoids this difficulty (which does not seem to me clear), it is by making the distinction so vague that no power short of omniscience could tell in any given country at any given time what was and what was not capital.

And Mill's definition is not capable of practical application.

But the great defect which these definitions have in common is that they include what clearly cannot be accounted capital, if any distinction is to be made between laborer and capitalist. For they bring into the category of capital the food, clothing, etc., in the possession of the day laborer, which he will consume whether he works or not, as well as the stock in the hands of the capitalist, with which he proposes to pay the laborer for his work.

Yet, manifestly, this is not the sense in which the term capital is used by these writers when they speak of labor and capital as taking separate parts in the work of production and separate shares in the distribution of its proceeds; when they speak of wages as drawn from capital, or as depending upon the ratio between labor and capital, or in any of the ways in which the term is generally used by them. In all these cases the term capital is used in its commonly understood sense, as that portion of wealth which its owners do not propose to use directly for their own gratification, but for the purpose of obtaining more wealth. In short, by political economists, in everything except their definitions and first principles, as well as by the world at large, "that part of a man's stock," to use the words of Adam Smith, "which he expects to afford him revenue is called his capital." This is the only sense in which the term capital expresses any fixed idea—the only sense in which we can with any clearness separate it from wealth and contrast it with labor. For, if we must consider as capital everything which supplies the laborer with food, clothing, shelter, etc., then to find a laborer who is not a capitalist we shall be forced to hunt up an absolutely naked man, destitute even of a sharpened stick, or of a burrow in the ground—a situation in which, save as the result of exceptional circumstances, human beings have never yet been found.

Yet what these writers actually mean by capital is that portion of wealth which its owners propose to use for purposes of obtaining more wealth.

It seems to me that the variance and inexactitude in these definitions arise from the fact that the idea of what capital is has been deduced from a preconceived idea of how capital assists production. Instead of determining what capital is, and then observing what capital does, the functions of capital have first been assumed, and then a definition of capital made which includes all things which do or may perform those functions. Let us reverse this process, and, adopting the natural order, ascertain what the thing is before settling what it does. All we are trying to do, all that it is necessary to do, is to fix, as it were, the metes and bounds of a term that in the main is well apprehended—to make definite, that is, sharp and clear on its verges, a common idea.

A dozen intelligent men could readily agree on what is and is not capital in a particular time and place.

If the articles of actual wealth existing at a given time in a given community were presented in situ to a dozen intelligent men who had never read a line of political economy, it is doubtful if they would differ in respect to a single item, as to whether it should be accounted capital or not. Money which its owner holds for use in his business or in speculation would be accounted capital; money set aside for household or personal expenses would not. That part of a farmer's crop held for sale or for seed, or to feed his help in part payment of wages, would be accounted capital; that held for the use of his own family would not be. The horses and carriage of a hackman would be classed as capital, but an equipage kept for the pleasure of its owner would not. So no one would think of counting as capital the false hair on the head of a woman, the cigar in the mouth of a smoker, or the toy with which a child is playing; but the stock of a hair dealer, of a tobacconist, or of the keeper of a toy store, would be unhesitatingly set down as capital. A coat which a tailor had made for sale would be accounted capital, but not the coat he had made for himself. Food in the possession of a hotelkeeper or a restaurateur would be accounted capital, but not the food in the pantry of a housewife, or in the lunch basket of a workman. Pig iron in the hands of the smelter, or founder, or dealer, would be accounted capital, but not the pig iron used as ballast in the hold of a yacht. The bellows of a blacksmith, the looms of a factory, would be capital, but not the sewing machine of a woman who does only her own work; a building let for hire, or used for business or productive purposes, but not a homestead. In short, I think we should find that now, as when Dr. Adam Smith wrote, “that part of a man's stock which he expects to yield him a revenue is called his capital.” And, omitting his unfortunate slip as to personal qualities, and qualifying somewhat his enumeration of money, it is doubtful if we could better list the different articles of capital than did Adam Smith in the passage which in the previous part of this chapter I have condensed.

Adam Smith’s description, “that part of a man’s stock which he expects to yield him a revenue is called his capital” is a workable definition.

Now, if, after having thus separated the wealth that is capital from the wealth that is not capital, we look for the distinction between the two classes, we shall not find it to be as to the character, capabilities, or final destination of the things themselves, as has been vainly attempted to draw it; but it seems to me that we shall find it to be as to whether they are or are not in the possession of the consumer.[2] Such articles of wealth as in themselves, in their uses, or in their products, are yet to be exchanged are capital; such articles

[2]Money may be said to be in the hands of the consumer when devoted to the procurement of gratification, as, though not in itself devoted to consumption, it represents wealth which is; and thus what in the previous paragraph I have given as the common classification would be covered by this distinction, and would be substantially correct. In speaking of money in this connection, I am of course speaking of coin,for although paper money may perform all the functions of coin, it is not wealth, and cannot therefore be capital.

of wealth as are in the hands of the consumer are not capital. Hence, if we define capital as wealth in course of exchange, understanding exchange to include not merely the passing from hand to hand, but also such transmutations as occur when the reproductive or transforming forces of nature are utilized for the increase of wealth, we shall, I think, comprehend all the things that the general idea of capital properly includes, and shut out all it does not. Under this definition, it seems to me, for instance, will fall all such tools as are really capital. For it is as to whether its services or uses are to be exchanged or not which makes a tool an article of capital or merely an article of wealth. Thus, the lathe of a manufacturer used in making things which are to be exchanged is capital, while the lathe kept by a gentleman for his own amusement is not. Thus, wealth used in the construction of a railroad, a public telegraph line, a stage coach, a theater, a hotel, etc., may be said to be placed in the course of exchange. The exchange is not effected all at once, but little by little, with an indefinite number of people. Yet there is an exchange, and the "consumers" of the railroad, the telegraph line, the stage coach, theater or hotel, are not the owners, but the persons who from time to time use them.

We can define capital as "wealth in the course of exchange."

In some cases the exchange is not all at once, but gradual as the capital is used.

Nor is this definition inconsistent with the idea that capital is that part of wealth devoted to production. It is too narrow an understanding of production which confines it merely to the making of things. Production includes not merely the making of things, but the bringing of them to the consumer. The merchant or storekeeper is thus as truly a producer as is the manufacturer, or farmer, and his stock or capital is as much devoted to production as is theirs. But it is not worth while now to dwell upon the functions of capital, which we shall be better able to determine hereafter. Nor is

Production includes not only making things, but also bringing them to the final consumer.

the definition of capital I have suggested of any importance. I am not writing a textbook, but only attempting to discover the laws which control a great social problem, and if the reader has been led to form a clear idea of what things are meant when we speak of capital my purpose is served.

But before closing this digression let me call attention to what is often forgotten—namely, that the terms "wealth," "capital," "wages," and the like, as used in political economy are abstract terms, and that nothing can be generally affirmed or denied of them that cannot be affirmed or denied of the whole class of things they represent. The failure to bear this in mind has led to much confusion of thought, and permits fallacies, otherwise transparent, to pass for obvious truths. Wealth being an abstract term, the idea of wealth, it must be remembered, involves the idea of exchangeability. The possession of wealth to a certain amount is potentially the possession of any or all species of wealth to that equivalent in exchange. And, consequently, so of capital.

It is important to understand the definitions of terms, and use these terms consistently.

Wealth, including capital, is exchangeable, so possession of one kind of wealth is potentially posession of all kinds of wealth.