Chapter 3 Wages not Drawn From Capital, but Produced By the Labor

The importance of this digression will, I think, become more and more apparent as we proceed in our inquiry, but its pertinency to the branch we are now engaged in may at once be seen.

It is at first glance evident that the economic meaning of the term wages is lost sight of, and attention is concentrated upon the common and narrow meaning of the word, when it is affirmed that wages are drawn from capital. For, in all those cases in which the laborer is his own employer and takes directly the produce of his labor as its reward, it is plain enough that wages are not drawn from capital, but result directly as the product of the labor. If, for instance, I devote my labor to gathering birds' eggs or picking wild berries, the eggs or berries I thus get are my wages. Surely no one will contend that in such a case wages are drawn from capital. There is no capital in the case. An absolutely naked man, thrown on an island where no human being has before trod, may gather birds' eggs or pick berries.

When a self-employed laborer takes as his wages part of what he produces, his wages clearly don't come from capital

Or if I take a piece of leather and work it up into a pair of shoes, the shoes are my wages—the reward of my exertion. Surely they are not drawn from capital either my capital or any one else's capital—but are brought into existence by the labor of which they become the wages; and in obtaining this pair of shoes as the wages of my labor,

because capital is never

capital is not even momentarily lessened one iota. For, if we call in the idea of capital, my capital at the beginning consists of the piece of leather, the thread, etc. As my labor goes on, value is steadily added, until, when my labor results in the finished shoes, I have my capital plus the difference in value between the material and the shoes. In obtaining this additional value—my wages— how is capital at any time drawn upon?

lessened during the process.

Adam Smith, who gave the direction to economic thought that has resulted in the current elaborate theories of the relation between wages and capital, recognized the fact that in such simple cases as I have instanced, wages are the produce of labor, and thus begins his chapter upon the wages of labor (Chap. VIII):

Even Adam Smith recognized this in such a simple case.

> "The produce of labor constitutes the natural recompense or wages of labor. In that original state of things which precedes both the appropriation of land and the accumulation of stock, the whole produce of labor belongs to the laborer. He has neither landlord nor master to share with him."

Had the great Scotchman taken this as the initial point of his reasoning, and continued to regard the produce of labor as the natural wages of labor, and the landlord and master but as sharers, his conclusions would have been very different, and political economy today would not embrace such a mass of contradictions and absurdities; but instead of following the truth obvious in the simple modes of production as a clew through the perplexities of the more complicated forms, he momentarily recognizes it, only immediately to abandon it, and stating that "in every part of Europe twenty workmen serve under a master for one that is independent," he recommences the inquiry from a point of view in which the master is considered as providing from his capital the wages of his workmen.

But Smith failed to apply the same reasoning to more complex situations, as when the worker is an employee.

In fact, many workers are self-employed.

It is evident that in thus placing the proportion of self-employing workmen as but one in twenty, Adam Smith had in mind but the mechanic arts, and that, including all laborers, the proportion who take their earnings directly, without the intervention of an employer, must, even in Europe a hundred years ago, have been much greater than this. For, besides the independent laborers who in every community exist in considerable numbers, the agriculture of large districts of Europe has, since the time of the Roman Empire, been carried on by the metayer system, under which the capitalist receives his return from the laborer instead of the laborer from the capitalist. At any rate, in the United States, where any general law of wages must apply as fully as in Europe, and where in spite of the advance of manufactures a very large part of the people are yet self-employing farmers, the proportion of laborers who get their wages through an employer must be comparatively small.

The fact that *some* workers take their earnings directly from the results of their labor invalidates the structure of political economy which assumes that *all* wages must come from capital.

But it is not necessary to discuss the ratio in which self-employing laborers anywhere stand to hired laborers, nor is it necessary to multiply illustrations of the truism that where the laborer takes directly his wages they are the product of his labor, for as soon as it is realized that the term wages includes all the earnings of labor, as well when taken directly by the laborer in the results of his labor as when received from an employer, it is evident that the assumption that wages are drawn from capital, on which as a universal truth such a vast superstructure is in standard politico-economic treatises so unhesitatingly built, is at least in large part untrue, and the utmost that can with any plausibility be affirmed is that some wages (i.e., wages received by the laborer from an employer) are drawn from capital. This restriction of the major premise at once invalidates all the deductions that are made from it; but without resting here, let us see whether even in this restricted sense it accords with the facts. Let us pick up the clew where Adam Smith dropped it, and advancing step by step, see whether the relation of facts which is obvious in the simplest forms of production does not run through the most complex.

Next in simplicity to "that original state of things," of which many examples may yet be found, where the whole produce of labor belongs to the laborer, is the arrangement in which the laborer, though working for another person, or with the capital of another person, receives his wages in kind —that is to say, in the things his labor produces. In this case it is as clear as in the case of the self-employing laborer that the wages are really drawn from the product of the labor, and not at all from capital. 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 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. 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?

But let us continue our investigation, to see whether wages might *ever* come from capital.

When wages are paid "in kind," giving the laborer some of what he produces, then clearly his wages are produced by his labor and do not come from capital. This is a common arrangement, including for example sharecroppers and commissioned salesmen.

The next step in the advance from simplicity to com-

Next step in complexity:

plexity is where the wages, though estimated in kind, are paid in an equivalent of something else. For instance, on American whaling ships the custom is not to pay fixed wages, but a "lay," or proportion of the catch, which varies from a sixteenth to a twelfth to the captain down to a three-hundredth to the cabin boy. Thus, when a whaleship comes into New Bedford or San Francisco after a successful cruise, she carries in her hold the wages of her crew, as well as the profits of her owners, and an equivalent which will reimburse them for all the stores used up during the voyage. Can anything be clearer than that these wages—this oil and bone which the crew of the whaler have taken—have not been drawn from capital, but are really a part of the produce of their labor? Nor is this fact changed or obscured in the slightest degree where, as a matter of convenience, instead of dividing up between the crew their proportion of the oil and bone, the value of each man's share is estimated at the market price, and he is paid for it in money. The money is but the equivalent of the real wages, the oil and bone. In no way is there any advance of capital in this payment. The obligation to pay wages does not accrue until the value from which they are to be paid is brought into port. At the moment when the owner takes from his capital money to pay the crew he adds to his capital oil and bone.

Wages estimated in kind but paid in something else. For example, crews of whaling ships receive a proportion of the catch, not in kind, but in cash as a share of its value.

The crew are paid only after they have delivered their catch to port, so the owner's capital is never lessened.

So far there can be no dispute. Let us now take another step, which will bring us to the usual method of employing labor and paying wages.

Now an example more in keeping with the usual practice.

The Farallone Islands, off the Bay of San Francisco, are a hatching ground of seafowl, and a company who claim these islands employ men in the proper season to collect the 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

Men harvest eggs on the Farallone Islands, off San Francisco, 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?

and receive a fixed wage (in coin) at the end of the season

which represents the value of the eggs collected.

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.

Another example involves harvest of seals. In this case, the laborers prefer to be paid in kind rather than in coin.

Now, is not what may be seen in all these cases—the identity of wages in money with wages in kind—true of all cases in which wages are paid for productive labor? Is not the fund created by the labor really the fund from which the

These illustrations show that wages in money are equivalent to wages in kind.

wages are paid?

Some may object that, when employees are paid a fixed wage, they are paid regardless of whether any wealth is produced.

It may, perhaps, be said: "There is this difference where a man works for himself, or where, when working for an employer, he takes his wages in kind, his wages depend upon the result of his labor. Should that, from any misadventure, prove futile, he gets nothing. When he works for an employer, however, he gets his wages anyhow—they depend upon the performance of the labor, not upon the result of the labor." But this is evidently not a real distinction. For on the average, the labor that is rendered for fixed wages not only yields the amount of the wages, but more; else employers could make no profit. When wages are fixed, the employer takes the whole risk and is compensated for this assurance, for wages when fixed are always somewhat less than wages contingent. But though when fixed wages are stipulated the laborer who has performed his part of the contract has usually a legal claim upon the employer, it is frequently, if not generally, the case that the disaster which prevents the employer from reaping benefit from the labor prevents him from paying the wages. And in one important department of industry the employer is legally exempt in case of disaster, although the contract be for wages certain and not contingent. For the maxim of admiralty law is, that "freight is the mother of wages," and though the seaman may have performed his part, the disaster which prevents the ship from earning freight deprives him of claim for his wages.

Fixed wages are usually less than contingent wages, because the employer bears more risk.

But in the event of disaster, when no wealth is produced, the employee in practice will likely be unable to get his wages. Admiralty law recognizes that "freight is the mother of wages."

In this legal maxim is embodied the truth for which I am contending. Production is always the mother of wages. Without production, wages would not and could not be. It is from the produce of labor, not from the advances of capital that wages come.

Production is always the mother of wages.

Wherever we analyze the facts this will be found to be true. For labor always precedes wages. This is as universally true of wages received by the laborer from an employer as it is of wages taken directly by the laborer who is his own employer. In the one class of cases as in the other, reward is conditioned upon exertion. Paid sometimes by the day, oftener by the week or month, occasionally by the year, and in many branches of production by the piece, the payment of wages by an employer to an employee always implies the previous rendering of labor by the employee for the benefit of the employer, for the few cases in which advance payments are made for personal services are evidently referable either to charity or to guarantee and purchase. The name "retainer," given to advance payments to lawyers, shows the true character of the transaction, as does the name "blood money" given in 'longshore vernacular to a payment which is nominally wages advanced to sailors, but which in reality is purchase money—both English and American law considering a sailor as much a chattel as a pig.

For labor always precedes wages.

"Retainers" and other prepayments are really just guarantees, not wages.

I dwell on this obvious fact that labor always precedes wages, because it is all-important to an understanding of the more complicated phenomena of wages that it should be kept in mind. And obvious as it is, as I have put it, the plausibility of the proposition that wages are drawn from capital —a proposition that is made the basis for such important and farreaching deductions—comes in the first instance from a statement that ignores and leads the attention away from this truth. That statement is, that labor cannot exert its productive power unless supplied by capital with maintenance.[1] The unwary reader at once recognizes the fact that

Having clarified the source of wages, we can now deal with the claim that labor cannot work unless supplied by capital with maintenance.

[1] "Industry is limited by capital.... There can be no more industry than is supplied with materials to work up and food to eat. Self-evident as the thing is, it is often forgotten that the people of a country are maintained and have their

the laborer must have food, clothing, etc., in order to enable him to perform the work, and having been told that the food, clothing, etc., used by productive laborers are capital, he assents to the conclusion that the consumption of capital is necessary to the application of labor, and from this it is but an obvious deduction that industry is limited by capital—that the demand for labor depends upon the supply of capital, and hence that wages depend upon the ratio between the number of laborers looking for employment and the amount of capital devoted to hiring them.

But the food, clothing, etc. which laborers require is not capital.

But I think the discussion in the previous chapter will enable any one to see wherein lies the fallacy of this reasoning—a fallacy which has entangled some of the most acute minds in a web of their own spinning. It is in the use of the term capital in two senses. In the primary proposition that capital is necessary to the exertion of productive labor, the term "capital" is understood as including all food, clothing, shelter, etc.; whereas, in, the deductions finally drawn from it, the term is used in its common and legitimate meaning of wealth devoted, not to the immediate gratification of desire, but to the procurement of more wealth—of wealth in the hands of employers as distinguished from laborers. The conclusion is no more valid than it would be from the acceptance of the proposition that a laborer cannot go to work without his breakfast and some clothes, to infer that no more laborers can go to work than

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wants supplied not by the produce of present labor, but of past. They consume what has been produced, not what is about to be produced. Now, of what has been produced a part only is allotted to the support of productive labor, and there will not and cannot be more of that labor than the portion so allotted (which is the capital of the country) can feed and provide with the materials and instruments of production."— John Stuart Mill, "Principles of Political Economy," Book 1, Chap. V, Sec. 1.

employers first furnish with breakfasts and clothes. Now, the fact is that laborers generally furnish their own breakfasts and the clothes in which they go to work; and the further fact is, that capital (in the sense in which the word is used in distinction to labor) in exceptional cases sometimes may, but is never compelled to make advances to labor before the work begins. Of all the vast number of unemployed laborers in the civilized world today, there is probably not a single one willing to work who could not be employed without any advance of wages. A great proportion would doubtless gladly go to work on terms which did not require the payment of wages before the end of a month; it is doubtful if there are enough to be called a class who would not go to work and wait for their wages until the end of the week, as most laborers habitually do; while there are certainly none who would not wait for their wages until the end of the day, or if you please, until the next meal hour. The precise time of the payment of wages is immaterial; the essential point —the point I lay stress on—is that it is after the performance of work.

Laborers provide their own subsistence, and employers never need to advance it to them before labor is performed.

The payment of wages, therefore, always implies the previous rendering of labor. Now, what does the rendering of labor in production imply? Evidently the production of wealth, which, if it is to be exchanged or used in production, is capital. Therefore, the payment of capital in wages presupposes a production of capital by the labor for which the wages are paid. And as the employer generally makes a profit, the payment of wages is, so far as he is concerned, but the return to the laborer of a portion of the capital he has received from the labor. So far as the employee is concerned, it is but the receipt of a portion of the capital his labor has previously produced. As the value paid in the wages is thus exchanged for a value brought into

The wealth which they are paid is equivalent to somewhat less than the wealth they have produced.

being by the labor, how can it be said that wages are drawn from capital or advanced by capital? As in the exchange of labor for wages the employer always gets the capital created by the labor before he pays out capital in the wages, at what point is his capital lessened even temporarily?[2]

During a work-week, a manufacturer will gain product worth, on the average, at least as much as what he pays his employees at the end of the week. He does not advance capital,

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. But if he is doing a remunerative business, which must on the average be the case, the item of

[2]I speak of labor producing capital for the sake of greater clearness. What labor always procures is either wealth, which may or may not be capital, or services, the cases in which nothing is obtained being merely exceptional cases of misadventure. Where the object of the labor is simply the gratification of the employer, as where I hire a man to black my boots, I do not pay the wages from capital, but from wealth which I have devoted, not to reproductive uses, but to consumption for my own satisfaction. Even if wages thus paid be considered as drawn from capital, then by that act they pass from the category of capital to that of wealth devoted to the gratification of the possessor, as when a cigar dealer takes a dozen cigars from the stock he has for sale and puts them in his pocket for his own use.

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.

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.

any more than a bank advances capital when a depositor withdraws money.

That this universal truth is so often obscured, is largely due to that fruitful source of economic obscurities, the confounding of wealth with money; and it is remarkable to

The main source of confusion on this matter is the confounding of wealth with money, see so many of those who, since Dr. Adam Smith made the egg stand on its head, have copiously demonstrated the fallacies of the mercantile system, fall into delusions of the very same kind in treating of the relations of capital and labor. Money being the general medium of exchanges, the common flux through which all transmutations of wealth from one form to another take place, whatever difficulties may exist to an exchange will generally show themselves on the side of reduction to money, and thus it is sometimes easier to exchange money for any other form of wealth than it is to exchange wealth in a particular form into money, for the reason that there are more holders of wealth who desire to make some exchange than there are who desire to make any particular exchange. And so a producing employer who has paid out his money in wages may sometimes find it difficult to turn quickly back into money the increased value for which his money has really been exchanged, and is spoken of as having exhausted or advanced his capital in the payment of wages. Yet, unless the new value created by the labor is less than the wages paid, which can be only an exceptional case, the capital which he had before in money he now has in goods—it has been changed in form, but not lessened.

a fallacy of the mercantile system.

There is one branch of production in regard to which the confusions of thought which arise from the habit of estimating capital in money are least likely to occur, inasmuch as its product is the general material and standard of money. And it so happens that this business furnishes us, almost side by side, with illustrations of production passing from the simplest to most complex forms.

To help clarify the matter, let us consider the business of gold mining.

In the early days of California, as afterward in Australia, the placer miner, who found in river bed or surface deposit

Placer miners

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 product 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. 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.

just picked up or washed out their "wages" in gold dust.

Clearly, their wages were not from capital.

Holders of rich claims might hire men to work for them, paying in gold dust.

As coin became more abundant, gold dust became a commodity, as it was more convenient to pay the hired hands in coin.

The employing miner obtained coin in exchange for the gold dust produced.

No one would claim that by paying out coin and taking in gold dust the miner was lessening his capital.

But the deposits that could be worked without preliminary labor were soon exhausted, and gold mining rapidly took a more elaborate character. Before claims could be opened so as to yield any return deep shafts had to be sunk, great dams constructed, long tunnels cut through the hardest rock, water brought for miles over mountain ridges and across deep valleys, and expensive machinery put up. These works could not be constructed without capital. Sometimes

But as the easy deposits were exhausted, further mining could be conducted only after much time had been invested in construction and other preparations.

No gold was initially produced, yet workers were paid regularly. Didn't these wages come from capital?

their construction required years, during which no return could be hoped for, while the men employed had to be paid their wages every week, or every month. Surely, it will be said, in such cases, even if in no others, that wages do actually come from capital; are actually advanced by capital; and must necessarily lessen capital in their payment! Surely here, at least, industry is limited by capital, for without capital such works could not be carried on! Let us see:

Similar situations are the planting of crops months before the harvest, or major construction projects.

It is cases of this class that are always instanced as showing that wages are advanced from capital. For where wages are paid before the object of the labor is obtained, or is finished—as in agriculture, where plowing and sowing must precede by several months the harvesting of the crop; as in the erection of buildings, the construction of ships, railroads, canals, etc.—it is clear that the owners of the capital paid in wages cannot expect an immediate return, but, as the phrase is, must "outlay it," or "lie out of it" for a time, which sometimes amounts to many years. And hence, if first principles are not kept in mind, it is easy to jump to the conclusion that wages are advanced by capital.

It can readily be shown that such cases are not exceptions to the rule that the product is finished before wages are paid.

But such cases will not embarrass the reader to whom in what has preceded I have made myself clearly understood. An easy analysis will show that these instances where wages are paid before the product is finished, or even produced, do not afford any exception to the rule apparent where the product is finished before wages are paid.

A broker who gives me gold in exchange for my silver does not advance capital, because his capital is never lessened during the transaction.

If I go to a broker to exchange silver for gold, I lay down my silver, which he counts and puts away, and then hands me the equivalent in gold, minus his commission. Does the broker advance me any capital? Manifestly not. What he had before in gold he now has in silver, plus his profit. And as he got the silver before he paid out the gold, there is on his part not even momentarily an advance of capital.

Now, this operation of the broker is precisely analogous to what the capitalist does, when, in such cases as we are now considering, he pays out capital in wages. As the rendering of labor precedes the payment of wages, and as the rendering of labor in production implies the creation of value, the employer receives value before he pays out value—he but exchanges capital of one form for capital of another form. For the creation of value does not depend upon the finishing of the product; it takes place at every stage of the process of production, as the immediate result of the application of labor, and hence, no matter how long the process in which it is engaged, labor always adds to capital by its exertion before it takes from capital in its wages.

The capitalist does the same thing. Creation of value takes place at every stage of production.

Here is a blacksmith at his forge making picks. Clearly he is making capital—adding picks to his employer's capital before he draws money from it in wages. Here is a machinist or boilermaker working on the keel plates of a Great Eastern. Is not he also just as clearly creating value—making capital? The giant steamship, as the pick, is an article of wealth, an instrument of production, and though the one may not be completed for years, while the other is completed in a few minutes, each day's work, in the one case as in the other, is as clearly a production of wealth—an addition to capital. In the case of the steamship, as in the case of the pick, it is not the last blow, any more than the first blow, that creates the value of the finished product—the creation of value is continuous, it immediately results from the exertion of labor.

It is not the completion of the finished product that creates value— the creation is continuous, it immediately results from the exertion of labor.

We see this very clearly wherever the division of labor has made it customary for different parts of the full process of production to be carried on by different sets of producers —that is to say, wherever we are in the habit of estimating the

For the vast majority of products, at each step in the production process, we can readily estimate a creation of value.

amount of value which the labor expended in any preparatory stage of production has created. And a moment's reflection will show that this is the case as to the vast majority of products. Take a ship, a building, a jackknife, a book, a lady's thimble or a loaf of bread. They are finished products. But they were not produced at one operation or by one set of producers. And this being the case, we readily distinguish different points or stages in the creation of the value which as completed articles they represent. When we do not distinguish different parts in the final process of production we do distinguish the value of the materials. The value of these materials may often be again decomposed many times, exhibiting as many clearly defined steps in the creation of the final value. At each of these steps we habitually estimate a creation of value, an addition to capital. The batch of bread which the baker is taking from the oven has a certain value. But this is composed in part of the value of the flour from which the dough was made. And this again is composed of the value of the wheat, the value given by milling, etc. Iron in the form of pigs is very far from being a completed product. It must yet pass through several, or, perhaps, through many, stages of production before it results in the finished articles that were the ultimate objects for which the iron ore was extracted from the mine. Yet, is not pig iron capital? And so the process of production is not really completed when a crop of cotton is gathered, nor yet when it is ginned and pressed; nor yet when it arrives at Lowell or Manchester; nor yet when it is converted into yarn; nor yet when it becomes cloth; but only when it is finally placed in the hands of the consumer. Yet at each step in this progress there is clearly enough a creation of value—an addition to capital. Why, therefore, although we do not so habitually distinguish and estimate it, is there not a creation of value—an addition to capital—when the ground is plowed for the crop? Is it because it may possibly be a bad season and the crop may fail? Evidently not; for a like possibility of misadventure attends every one of the many steps in the production of the finished article. On the average a crop is sure to come up, and so much plowing and sowing will on the average result in so much cotton in the boll, as surely as so much spinning of cotton yarn will result in so much cloth.

In short, as the payment of wages is always conditioned upon the rendering of labor, the payment of wages in production, no matter how long the process, never involves any advance of capital, or even temporarily lessens capital. It may take a year, or even years, to build a ship, but the creation of value of which the finished ship will be the sum goes on day by day, and hour by hour, from the time the keel is laid or even the ground is cleared. Nor by the payment of wages before the ship is completed, does the master builder lessen either his capital or the capital of the community, for the value of the partially completed ship stands in place of the value paid out in wages. There is no advance of capital in this payment of wages, for the labor of the workmen during the week or month creates and renders to the builder more capital than is paid back to them at the end of the week or month, as is shown by the fact that if the builder were at any stage of the construction asked to sell a partially completed ship he would expect a profit.

In short, the payment of wages never involves any advance of capital, because the creation of value goes on as labor goes on.

If a builder were at any stage of construction asked to sell a partially completed ship he would expect a profit.

And so, when a Sutro or St. Gothard tunnel or a Suez canal is cut, there is no advance of capital. The tunnel or canal, as it is cut, becomes capital as much as the money spent in cutting it—or if you please, the powder, drills, etc., used in the work, and the food, clothes, etc., used by the workmen—as is shown by the fact that the value of the capital

Even for a big project such as a tunnel or canal, the project becomes capital as money is spent in creating it, as shown by the stock of the company is not lessened as capital in these forms is gradually changed into capital in the form of tunnel or canal. On the contrary, it probably, and on the average, increases as the work progresses, just as the capital invested in a speedier mode of production would on the average increase.

fact that the value of the stock of the company undertaking the project does not decline, but more likely increases as the work progresses.

And this is obvious in agriculture also. That the creation of value does not take place all at once when the crop is gathered, but step by step during the whole process which the gathering of the crop concludes, and that no payment of wages in the interim lessens the farmer's capital, is tangible enough when land is sold or rented during the process of production, as a plowed field will bring more than an unplowed field, or a field that has been sown more than one merely plowed. It is tangible enough when growing crops are sold, as is sometimes done, or where the farmer does not harvest himself, but lets a contract to the owner of harvesting machinery. It is tangible in the case of orchards and vineyards which, though not yet in bearing, bring prices proportionate to their age. It is tangible in the case of horses, cattle and sheep, which increase in value as they grow toward maturity. And if not always tangible between what may be called the usual exchange points in production, this increase of value as surely takes place with every exertion of labor. Hence, where labor is rendered before wages are paid, the advance of capital is really made by labor, and is from the employed to the employer, not from the employer to the employed.

This is true in agriculture also.

"Yet," it may be said, "in such cases as we have been considering capital is required!" Certainly; I do not dispute that. But it is not required in order to make advances to labor. It is required for quite another purpose. What that purpose is we may readily see.

Big projects do require capital, but they do not require it to advance wages to labor.

When wages are paid in kind—that is to say, in wealth of the same species as the labor produces; as, for instance, if I hire men to cut wood, agreeing to give them as wages a portion of the wood they cut, a method sometimes adopted by the owners or lessees of woodland, it is evident that no capital is required for the payment of wages. Nor yet when, for the sake of mutual convenience, arising from the fact that a large quantity of wood can be more readily and more advantageously exchanged than a number of small quantities, I agree to pay wages in money, instead of wood, shall I need any capital, provided I can make the exchange of the wood for money before the wages are due. It is only when I cannot make such an exchange, or such an advantageous exchange as I desire, until I accumulate a large quantity of wood that I shall need capital. Nor even then shall I need capital if I can make a partial or tentative exchange by borrowing on my wood. If I cannot, or do not choose, either to sell the wood or to borrow upon it, and yet wish to go ahead accumulating a large stock of wood, I shall need capital. But manifestly, I need this capital, not for the payment of wages, but for the accumulation of a stock of wood. Likewise in cutting a tunnel. 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.

In constructing a tunnel, it would be possible to pay workmen in shares of company stock, in which case no capital would be needed.

If those constructing the tunnel wish to accumulate capital in the shape of a tunnel, then they will need capital.

So in every branch of production. Capital is required only if the product is to be stored up, rather than being drawn against immediately.

This capital is not required to employ labor, but is required in order that the employer may accumulate the products of labor.

And so we shall find it in every branch of production. Capital has never to be set aside for the payment of wages when the produce of the labor for which the wages are paid is exchanged as soon as produced; it is only required when this produce is stored up, or what is to the individual the same thing, placed in the general current of exchanges without being at once drawn against—that is, sold on credit. But the capital thus required is not required for the payment of wages, nor for advances to labor, as it is always represented in the produce of the labor. It is never as an employer of labor that any producer needs capital; when he does need capital, it is because he is not only an employer of labor, but a merchant or speculator in, or an accumulator of, the products of labor. This is generally the case with employers.

To recapitulate: 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. The man who works for another for stipulated wages in money works under a contract of exchange. He also creates his wages as he renders his labor, but he does not get them except at stated times, in stated amounts, and in a different form. In performing the labor he is advancing in exchange; when he gets his wages the exchange is completed. During the time he is earning the wages he is advancing capital to his employer, but at no time, unless wages are paid before work is done, is the employer advancing capital to him. 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.