# Chapter 5 The Real Functions of Capital

It may now be asked: If capital is not required for the payment of wages or the support of labor during production, what, then, are its functions?

The previous examination has made the answer clear. Capital, as we have seen, consists of wealth used for the procurement of more wealth, as distinguished from wealth used for the direct satisfaction of desire; or, as I think it may be defined, of wealth in the course of exchange.

There are three ways in which capital increases labor's power to produce wealth.

Capital, therefore, increases the power of labor to produce wealth: (1) By enabling labor to apply itself in more effective ways, as by digging up clams with a spade instead of the hand, or moving a vessel by shoveling coal into a furnace, instead of tugging at an oar. (2) By enabling labor to avail itself of the reproductive forces of nature, as to obtain corn by sowing it, or animals by breeding them. (3) By permitting the division of labor, and thus, on the one hand, increasing the efficiency of the human factor of wealth, by the utilization of special capabilities, the acquisition of skill, and the reduction of waste; and, on the other, calling in the powers of the natural factor at their highest, by taking advantage of the diversities of soil, climate and situation, so as to obtain each particular species of wealth where nature is most favorable to its production.

(1) By enabling labor to apply itself more effectively;

(2) by enabling labor to take advantage of the reproductive forces of nature; and

(3) by permitting division of labor.

Capital does not supply raw materials, which come from nature.

Capital does not supply the materials which labor works up into wealth, as is erroneously taught; the materials of wealth are supplied by nature. But such materials partially worked up and in the course of exchange are capital.

Capital does not supply or advance wages, as is erroneously taught. Wages are that part of the produce of his labor obtained by the laborer.

Capital does not supply wages, and

Capital does not maintain laborers during the progress of their work, as is erroneously taught. Laborers are maintained by their labor, the man who produces, in whole or in part, anything that will exchange for articles of maintenance, virtually producing that maintenance.

does not maintain laborers, since the laborers produce their own subsistence.

Capital, therefore, does not limit industry, as is erroneously taught, the only limit to industry being the access to natural material. But capital may limit the form of industry and the productiveness of industry, by limiting the use of tools and the division of labor.

Capital therefore does not limit industry,

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. 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

although it certainly may limit the form of industry.

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. 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.

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. 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

Capital may limit the form of industry or the productiveness of industry, but there can be industry without capital.

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.

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 or 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? 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

And in practice, where capital can be remuneratively employed in industry, it becomes available,

unless special problems, such as war or natural disaster, prevent its accumulation and use.

it can, or is disposed to use, is equally noticeable in the case of a new community.

If capital exists but is not available to those who can effectively use it, the problem is not lack of capital but bad government, or ignorance of how to use capital.

I am unable to think of any other than such rare and passing conditions in which the productiveness of labor is really limited by the want of capital. For, although there may be in a community individuals who from want of capital cannot apply their labor as efficiently as they would, yet so long as there is a sufficiency of capital in the community at large, the real limitation is not the want of capital, but the want of its proper distribution. If bad government rob the laborer of his capital, if unjust laws take from the producer the wealth with which he would assist production, and hand it over to those who are mere pensioners upon industry, the real limitation to the effectiveness of labor is in misgovernment, and not in want of capital. And so of ignorance, or custom, or other conditions which prevent the use of capital. It is they, not the want of capital, that really constitute the limitation. To give a circular saw to a Terra del Fuegan, a locomotive to a Bedouin Arab, or a sewing machine to a Flathead squaw, would not be to add to the efficiency of their labor. Neither does it seem possible by giving anything else to add to their capital, for any wealth beyond what they had been accustomed to use as capital would be consumed or suffered to waste. It is not the want of seeds and tools that keeps the Apache and the Sioux from cultivating the soil. If provided with seeds and tools they would not use them productively unless at the same time restrained from wandering and taught to cultivate the soil. If all the capital of a London were given them in their present condition, it would simply cease to be capital, for they would only use productively such infinitesimal part as might assist in the chase, and would not even use that until all the edible part of the stock thus showered upon them had been consumed.

Yet such capital as they do want they manage to acquire, and in some forms in spite of the greatest difficulties. These wild tribes hunt and fight with the best weapons that American and English factories produce, keeping up with the latest improvements. It is only as they became civilized that they would care for such other capital as the civilized state requires, or that it would be of any use to them.

Even primitive people manage to acquire and use capital appropriate to their needs.

In the reign of George IV, some returning missionaries took with them to England a New Zealand chief called Hongi. His noble appearance and beautiful tattooing attracted much attention, and when about to return to his people he was presented by the monarch and some of the religious societies with a considerable stock of tools, agricultural instruments, and seeds. The grateful New Zealander did use this capital in the production of food, but it was in a manner of which his English entertainers little dreamed. In Sydney, on his way back, he exchanged it all for arms and ammunition, with which, on getting home, he began war against another tribe with such success that on the first battle field three hundred of his prisoners were cooked and eaten, Hongi having preluded the main repast by scooping out and swallowing the eyes and sucking the warm blood of his mortally wounded adversary, the opposing chief.[1] But now that their once constant wars have ceased, and the remnant of the Maoris have largely adopted European habits, there are among them many who have and use considerable amounts of capital.

Likewise it would be a mistake to attribute the simple modes of production and exchange which are resorted to in new communities solely to a want of capital. These modes, which require little capital, are in themselves rude and

[1]"New Zealand and its Inhabitants," Rev. Richard Taylor. London, 1855. Chap. XXI.

inefficient, but when the conditions of such communities are considered, they will be found in reality the most effective. A great factory with all the latest improvements is the most efficient instrument that has yet been devised for turning wool or cotton into cloth, but only so where large quantities are to be made. The cloth required for a little village could be made with far less labor by the spinning wheel and hand loom. A perfecting press will, for each man required, print many thousand impressions while a man and a boy would be printing a hundred with a Stanhope or Franklin press; yet to work off the small edition of a country newspaper the old-fashioned press is by far the most efficient machine. To carry occasionally two or three passengers, a canoe is a better instrument than a steamboat; a few sacks of flour can be transported with less expenditure of labor by a pack horse than by a railroad train; to put a great stock of goods into a cross-roads store in the backwoods would be but to waste capital. And, generally, it will be found that the rude devices of production and exchange which obtain among the sparse populations of new countries result not so much from the want of capital as from inability profitably to employ it.

Where population is sparse, the appropriate methods of production usually require only modest capital.

As, no matter how much water is poured in, there can never be in a bucket more than a bucketful, so no greater amount of wealth will be used as capital than is required by the machinery of production and exchange that under all the existing conditions—intelligence, habit, security, density of population, etc.—best suit the people. And I am inclined to think that as a general rule this amount will be had—that the social organism secretes, as it were, the necessary amount of Capital just as the human organism in a healthy condition secretes the requisite fat.

But whether the amount of capital ever does limit the productiveness of industry, and thus fix a maximum which wages cannot exceed, it is evident that it is not from any scarcity of capital that the poverty of the masses in civilized countries proceeds. For not only do wages nowhere reach the limit fixed by the productiveness of industry, but wages are relatively the lowest where capital is most abundant. The tools and machinery of production are in all the most progressive countries evidently in excess of the use made of them, and any prospect of remunerative employment brings out more than the capital needed. The bucket is not only full; it is overflowing. So evident is this, that not only among the ignorant, but by men of high economic reputation, is industrial depression attributed to the abundance of machinery and the accumulation of capital; and war, which is the destruction of capital, is looked upon as the cause of brisk trade and high wages—an idea strangely enough, so great is the confusion of thought on such matters, countenanced by many who hold that capital employs labor and pays wages.

In any case, it is clear that poverty in civilized countries is not due to any lack of capital.

The belief that capital employs labor and pays wages leads to other confused thought.

Our purpose in this inquiry is to solve the problem to which so many self-contradictory answers are given. In ascertaining clearly what capital really is and what capital really does, we have made the first, and an all-important step. But it is only a first step. Let us recapitulate and proceed.

We have seen that the current theory that wages depend upon the ratio between the number of laborers and the amount of capital devoted to the employment of labor is inconsistent with the general fact that wages and interest do not rise and fall inversely, but conjointly.

To summarize: the current theory that wages depend on the ratio between number of laborers and amount of capital is inconsistent with the fact that wages and interest rise and fall together.

This discrepancy having led us to an examination of the grounds of the theory, we have seen, further, that, contrary to the current idea, wages are not drawn from capital at all, but come directly from the produce of the labor for which they are paid. We have seen that capital does not advance

Capital assists in production but does not advance wages.

wages or subsist laborers, but that its functions are to assist labor in production with tools, seed, etc., and with the wealth required to carry on exchanges.

We must therefore conclude that any remedy which seeks to eliminate poverty by increasing capital, or restricting the number of laborers, must be condemned.

We are thus irresistibly led to practical conclusions so important as amply to justify the pains taken to make sure of them.

For if wages are drawn, not from capital, but from the produce of labor, the current theories as to the relations of capital and labor are invalid, and all remedies, whether proposed by professors of political economy or workingmen, which look to the alleviation of poverty either by the increase of capital or the restriction of the number of laborers or the efficiency of their work, must be condemned.

Increasing numbers of laborers, other things being equal, make labor more efficient, and so, other things being equal, should raise wages.

If each laborer in performing the labor really creates the fund from which his wages are drawn, then wages cannot be diminished by the increase of laborers, but, on the contrary, as the efficiency of labor manifestly increases with the number of laborers, the more laborers, other things being equal, the higher should wages be.

So now we must consider whether the productive powers of nature tend to diminish with increasing population.

But this necessary proviso, "other things being equal," brings us to a question which must be considered and disposed of before we can further proceed. That question is: Do the productive powers of nature tend to diminish with the increasing drafts made upon them by increasing population?