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WEALTH AND PROPERTY

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One is the distinction between two kinds of property—property in the form of wealth to be consumed and property that is used to produce wealth. The same piece of property may be either. The house that an individual owns is consumable wealth if lived in by its owner. It is income-producing property if rented or sold to another. Only some forms of property can be used either for consumption or to produce income. Most forms of capital are exclusively income producing.

A second point follows close on the first. Just as a given piece of property may be only consumable wealth or only income-producing capital, or may be used by different persons or at different times by the same person as one or the other, so an individual may engage in the production of wealth solely as a laborer or solely as a capitalist, and may at the same time or at different times be both a capitalist and laborer. Which an individual is depends upon the source from which his income is derived—from the use of his labor power alone, from the productive use of his capital, or from both at the same time or at different times.

Still another point reflects back on matters already considered. The fact that wealth can be earned and become the property of the capitalist who does no work as well as by the laborer who does shows, as clearly as one might wish, that labor and capital are quite distinct and separate factors in the production of wealth. If that were not the case, they could not be separately owned by the capitalist who does no work but puts his capital to work and by the laborer who works by using the labor power that is his.

Anyone who does not accept Locke's answer to the question about the capitalist's appropriation of all the wealth left from the week's productive efforts, after the laborer has been paid the wages agreed upon, must defend the opposite answer—that the capitalist's appropriation, being unearned, is theft.

I cannot pass on without venturing to say that the distinction between earned and unearned income under our present income tax law would appear to identify earned income entirely with the wages of labor and unearned income with the profits accruing to capital. As we saw earlier, Locke thought that the nonworking capitalist who put his capital to work earned income from doing so.

Still another point deserves our attention. The simple model presented by Locke pictured a barter transaction between the capitalist and the laborer in which the wage-payment to the laborer took the form of consumable goods. After that wage-payment to the laborer, the rest of the wealth produced became the income of the capitalist, also in the form of consumable goods. Money as an instrument of exchange has not yet entered the picture.

When money enters the picture, many things change. First of all, money facilitates the exchange of commodities and other forms of wealth. Second, the wages paid to labor and the income derived by the capitalist from the productive use of his capital cease to be in some form of real wealth and take the form of its economic equivalent—money. This economic equivalent can also be regarded as property, as an earned possession.

The money people place in banks, in boxes, or under the bed is their private property as much as the food they eat or the physical capital they own. When the money they have in banks earns interest for them, it is income-producing property, just as the physical capital they own outright or own shares of is income-producing property. The financial capital they own is not income producing if they keep it in boxes or put it under the bed.

The introduction of money also changes Locke's simple picture when we face the question whether there are any limits to the rightful acquisition of private property, appropriated by the productive use of labor power, of capital, or both.

Staying within the confines of his primeval models, Locke sets three limits to the rightful acquisition of property.

One is that no more wealth should be acquired than can be consumed or used for daily needs. A second is that if more than what is needed on a day to day basis is accumulated and stored away for future consumption, it should be limited to an amount that does not spoil or perish before it is put to use. Locke's third limitation required the appropriator to consider the needs of others. What an individual takes out of the common should leave enough untouched for others to appropriate for their needs.

All three of these limitations are set aside by the introduction of money, either coined metal or its paper equivalent. Not being consumable wealth, the accumulation of it cannot be limited by reference to need for the means of subsistence. Nor can it be limited by reference to wastage and spoilage. And since money can be multiplied beyond a fixed limit, as the natural resources to be found in the common cannot be, Locke's third limitation does not appear to apply to money as it does to natural resources, even with an ever increasing population on earth.

Aristotle before Locke had distinguished natural wealth-getting, which acquires consumable goods and other forms of real wealth, from artificial wealth-getting, which acquires only the monetary equivalent of real wealth.

When individuals or families engage in natural wealth-getting, their acquisition cannot avoid being subject to the limitations of need and spoilage or waste. In a barter economy, no one would produce shoes in excess of need except to exchange them for other goods that are in short supply.

But when anyone engages in artificial wealth-getting, there is no such limitation on the amount of money he can try to accumulate. He can lend the money he has, in excess of what he must use to purchase things he needs, to make more money in the form of interest on the money loaned. He can use his excess money to buy commodities and other forms of wealth in order to make more money by selling them at a profit.

Aristotle and Marx disagree about the criteria that determine a fair exchange in the marketplace. Marx's labor theory of value maintains that a fair exchange is one in which commodities of equal value are exchanged, their respective values being determined solely by the amount of labor that went into their production. It makes no difference whether the exchange occurs through bartering or through the use of money.

Aristotle, on the other hand, in a passage that Marx confesses to having read, first formulates the principle of fair exchange as involving an exchange of equal values determined by the amount of labor employed in the production of the things exchanged. He then dismisses this principle as untenable. He substitutes for it the operation of supply and demand in the exchange of goods under the conditions of a free market.

Having mentioned Marx in this context, I cannot refrain from calling attention to his disagreement with Locke as well as with Aristotle. Locke's position leads to the view that the private ownership of capital, of the instruments of production, can be justified, either by the labor of the individuals who appropriated them, by the purchase of them in the marketplace, or by inheritance from those who have acquired them by labor or purchase. Marx maintains that this view holds true only of hand tools, relatively small parcels of land cultivated by an individual or a family, and a few, domesticated animals similarly employed.

In his view, the power-driven machinery of modern industrial capital differs in two significant respects. Hand tools can be made by individuals and used by them to produce wealth; therefore, they can be rightfully owned by the individuals who make and use them, and so can the wealth produced by their use. But, according to Marx, modem industrial capital is socially produced and socially used. The whole of human society, both past and present, has contributed to its production. An organized labor force must be employed to put it to use.

Therefore, it must be socially or collectively owned—owned by the state. It cannot rightfully be owned as the private property of, individuals, families, and other associations that are private not public enterprises.

Whether Marx is right or wrong about this ultimately turns on one critical point. The contributions made by society as a whole to the production of modern industrial machinery consist in all of: mankind's inventions or discoveries from the wheel and pulley and other simple devices in antiquity down to the intricate devices that result from scientific discoveries and their applications in technology.

Let it be granted that none of these contributions is paid for by a modern industrial capitalist. He only pays the inventor who makes use of them in projecting the technological innovation he contracts to sell for a fee, a royalty, or both. Can the purchaser of this new capital instrument rightfully own it without having paid for everything that went into its production? Is there some measure of unearned ownership or stolen property here?

The answer turns on the limited time within which inventions or innovations can be patented or copyrighted. When patents and copyrights run out, the things that they protect return to the public domain and can be appropriated by anyone with the enterprise to do so. The public domain, like the common, is open to such rightful appropriation by anyone. The point just made applies to discoveries, inventions, and innovations that were made before any individual paid for them or could patent them. They are all in the public domain, just as are the paid for and patented inventions when the patent runs out.

The matters we have so far considered are not the only matters that raise questions of economic justice with regard to the production, exchange, distribution, and ownership of wealth. The matters we shall next consider raise further questions of the same sort.

The Wealth of Societies: Different Economies Compared

The first distinction that must be made between different economies is one that turns on the way in which they produce wealth for the society in which the economy operates, whether the society is a tribe or village, a city-state or a nation-state.

To begin with, we have an economy that is labor-intensive. The amount of wealth it is able to produce depends largely on the number of individuals employed in labor, and only slightly on all the other, or capital, factors put to use.

Let us consider two labor-intensive economies, calling one Economy Alpha and the other Economy Beta. In Economy Alpha, the labor force is double the quantity of the labor force in Economy Beta. All other things being equal, Economy Alpha will produce more wealth for its society than Economy Beta.

While both are still labor-intensive economies, Economy Alpha may depend almost wholly on its labor force, while Economy Beta may employ a labor force that uses efficient hand tools and is also aided by powerful beasts of burden, neither of which are present in Economy Alpha. Now, if their labor forces are equal in number, Economy Beta will be more productive; and this may also be the case even if Economy Beta employs a smaller labor force than Economy Alpha.

Economy Alpha can, however, overcome the superiority of Economy Beta by doubling or tripling its work force. With much more labor at work, Economy Alpha can produce as much wealth as Economy Beta, even though it lacks the better hand tools used in Economy Beta and also the domesticated animals.

Economy Alpha remains a labor-intensive economy and Economy Beta becomes a capital-intensive economy under the following conditions. Economy Alpha produces all its wealth by the work of its labor force, augmented by the effectiveness of its hand tools and labor's skill in using them, as well as by the work done by domesticated animals. In sharp contrast, Economy Beta produces most of its wealth by power-driven machinery, tended by a labor force that has less skill than those still engaged in the use of hand tools.

Because the major portion of its wealth is produced by industrial capital in the form of power-driven machinery in factories and by the power-driven machinery of mechanized agriculture, Economy Beta is a capital-intensive economy. It can produce more wealth than Economy Alpha even if the labor force of the latter is many times larger.

In fact, the difference in productiveness between labor-intensive Alpha and capital-intensive Beta can become so great (with technological advances and innovations) that no feasible increase in the labor force of Alpha and no augmentation of it by hand tools, increase of skill, or the use of animals as powerful and skillful as elephants, will be able to overcome the difference between them.

Comparing economies in this way raises an important question that I wish to submit to readers for their consideration, without trying to answer it myself. Here it is: Does the employment of capital in any form by an economy only increase the productiveness of its labor force, or does it increase the productiveness of the economy as a whole without increasing the productiveness of its labor force, or does it do both? If the latter, in what proportion does it do each?

Whatever answer one gives to this question determines the share of the wealth produced by the economy that should rightfully go to the owners of labor power who work to produce wealth and to the owners of capital who put it to use in the production of wealth. The underlying principle here can be stated as follows: Each of the two factors in the production of wealth should receive a share of the wealth produced equal to the degree of its contribution to the production of the society's wealth. If capital contributes nothing, it should receive nothing; if capital contributes more than labor, it should receive more in the aggregate than labor; if less, less.

Let us now consider only capital-intensive economies. The economies of all technologically advanced, industrialized societies with mechanized agriculture are capital-intensive. In that respect, considering only how wealth is produced, not how the capital instruments are owned and operated, all such economies can be called forms of capitalism.

That name applies to socialist and even communist economies as well as to the most extreme form of free-enterprise, private ownership, laissez-faire economy. The differentiation among all forms of capitalism, so-called because they are all capital-intensive economies, is to be made in terms of how the capital instruments are owned and how they are controlled and operated.

Without regard to the ownership and operation of the capital involved, capital-intensive economies can be differentiated in another respect. As a result of the extraordinary technological advances made in this century, a capital-intensive economy may be one in which the system of production is highly flexible and, therefore, easily changeable; and also one that involves high degrees of skill in its work force, with its efficiency augmented by the planned cooperation of all its members from the top management down. Or it may be a capital-intensive economy of an older type, developed in the era prior to recent technological innovations. It will then be a high-volume, standardized system of production of the assembly line variety, with much less skill in its work force, and little or no cooperation among its members from the top management down.

There would appear to be four quite different forms of capitalism (capital-intensive economies) to which names have been applied that instantly indicate their character.

Of these four forms, the first predominated exclusively throughout the nineteenth century, persisted in existence in the first decades of this century, and is now rapidly disappearing. It has become nonexistent in all the technologically advanced industrial and postindustrial economies, and remains only in relatively undeveloped or slowly developing economies.

What Marx called bourgeois capitalism, and can just as readily be called nineteenth-century capitalism, is the form that antedates the three other forms of capital-intensive economies. In this form of capitalism a relatively small portion of the population, less than one-tenth, privately owns all its capital, operates it for the sake of maximizing profits, and is able to do so because its operations are an extreme form of unregulated free enterprise.

In such an economy, a chasm separates the few very rich, who are the capitalists, and the many very poor who are the proletariat. Their only income consists in the wages of labor which, prior to the emergence of labor unions, the laborers must sell in the labor market at whatever price the capitalists are willing to pay. The capitalists cannot, of course, pay less than bare subsistence wages, enough for laborers just to stay alive and replenish the labor force by reproduction. They are seldom compelled to pay more, except by unusual circumstances of short supply and great demand.

From bourgeois capitalism emerged two other forms of capitalism in the twentieth century. Both innovations were motivated by the misery of the laboring class under bourgeois capitalism and by a correct sense of the economic injustice done—the serious deprivations suffered by the working class, unable to earn by their work what anyone needs to live a decent human life.

These two new forms of capitalism appeared more or less simultaneously in the second and third decades of this century. The one that emerged in England and the dominions of the British Commonwealth, in the United States, and in the Scandinavian countries and the Netherlands, to name only some outstanding examples of one of these two new forms, can be called mixed economies, because they have both a private and a public sector so far as the ownership and operation of capital is concerned.

This new form can also be called socialized capitalism, because free enterprise is so regulated that labor is paid a living wage, more than what is needed for bare subsistence. These increased wages go part way toward providing the conditions for a decent human life. They are augmented by a wide variety of welfare payments and by government intervention in the fields of education, health care, recreation, and so on.

The other emergent form of capitalism first saw the light of day with the communist revolution in tsarist Russia and then spread far and wide to the satellites, wards, and progeny of the Soviet Union.

Communist economies are all capital-intensive. It is extremely difficult for a labor-intensive economy to adopt communism or to do so without making every effort to change into a capital-intensive economy as rapidly as possible.

That, in fact, was what had to happen in Russia's transition to a communist economy. Tsarist Russia was neither technologically advanced nor highly industrialized. Communism has prospered in the Soviet Union only to the extent it has succeeded in becoming more and more a capital-intensive economy with more and more mechanized agriculture. The same holds true for communist China.

To call a communist economy a form of capitalism because it is or must become capital-intensive amounts to calling it state capitalism. All of the major forms of capital are owned and operated by the state. The private ownership of capital is negligible. No private corporations or associations exist, not even labor unions. The economy is state controlled. There is little or no free enterprise in its operation. The unequal distribution of the wealth thus produced is determined entirely by government.

State capitalism is also a form of socialism. Like the mixed economies that are forms of socialized capitalism, state capitalism seeks, in principle at least, to see that all individuals and families participate in the general economic welfare. It has not so far achieved for its people a standard of living that compares favorably with the standards of living achieved by the mixed economies. In both types of economy, the standard of living enjoyed by the people is affected by the conflict between guns and butter—by the size of government expenditures for destructive military establishments, relative to the amount that is left for the economic welfare of the people.

When I call communist economies and mixed economies forms of socialism, I have in mind the distinction between socialism and communism. An economy is socialist if it has the economic welfare of all its people as its end, regardless of the means it adopts to achieve that end. The mixed economy is socialist in aim without abolishing the private ownership and operation of capital and by retaining free enterprise under more or less government regulation. The means it employs thus differ from the means employed by communism, which abolishes the private ownership and operation of capital, transferring both to the state.

The fourth and last form of capitalism, more recently emergent and not yet fully in existence, is also socialist in aim, but it is not communist because it employs means that include the private ownership of capital, private corporations, and free enterprise regulated to a certain extent.

It also differs from the mixed economy by seeking to enlarge the private sector of the economy and reduce the public sector as far as possible. While in this respect it resembles bourgeois capitalism, it differs radically from it. The private ownership of capital under bourgeois capitalism was in the hands of the very few. In contradistinction, universal capitalism, as its name implies, seeks to achieve the aims of socialism by approaching, as a limit, the private ownership of capital by all members of the population. Most of them would derive their income from the wages of labor and from the profits of capital. Comparatively few, at either extreme, would support themselves solely by the wages of labor or solely by the returns from income-producing property.

Some slight approach to universal capitalism now exists in the United States, to the extent that a larger and larger number of individuals or families derive their income from two sources: (1) the wages or salaries of employed labor and (2) the returns received from the profits made by the capital in which they own equity shares, together with the interest they receive on money saved in bank accounts, and the returns from the pension trusts in which they participate.

Whether universal capitalism can be enlarged in scope and can flourish as an economy remains to be seen. There are those who think not only that it can, but also that it must, in order for the production of wealth to be increased and for it to be earned and distributed in as just a manner as possible.

All three of the capital-intensive economies that I have classed together as being socialist in their aims (of which only one is communist with regard to means) try to embody two principles of economic justice.

All three, in varying degrees, try to secure the basic economic rights of every individual by seeing that they possess, through the incomes they earn and the goods or benefits they receive through social welfare, the wealth that any human being needs to lead a decent human life. So far as that minimum amount of wealth is concerned, these three capitalist economies try to establish an equality of economic conditions.

Beyond that, however, all three distribute wealth unequally according to the principle *to each according to his contribution*, waiving for the moment the question of how the degree of contribution is determined and by whom.

The principle just mentioned is subordinate to the principle already stated, which was *to all according to their common human needs*, the basic minimum of wealth that anyone and everyone needs to lead a decent human life, to which all human beings have a natural right.

These two principles of justice, operating together, bring into existence a nonegalitarian socialism—a society that has established an equality of economic conditions according to the first principle, and an inequality of incomes according to the second.

Only the earliest form of capitalism was nonsocialistic. There a wide gulf of unequal conditions separated the few capital-owning rich from the vast multitude of the laboring class. There neither of the two principles of justice were in operation for most human beings.

For the substantial and serious injustices it inflicted, that early form of capitalism deserved the extinction it suffered, when economic reforms transformed it into one or another of the other three types of capitalism.

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