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## X

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Perry followed Master Davis' advice and spent several days making up problems to play out with his economic tin soldiers. He drafted Olga and Diana into the game, and they solemnly played through various combinations of financial and economic situations. At first the women played simply to be agreeable, but they became fascinated by the strange possibilities of early day finance. Olga developed remarkable skill in stock market and commodity manipulation, and amassed fabulous fortunes on paper. Diana protested this and maintained that it obviously would be illegal for anyone to do such wicked things with the necessities of life. References to history left her only partly convinced. Diana liked to run factories but was a failure as a banker, as she could not see any sense in interest and was reluctant to clamp down on a debtor. Both of them admitted that they had not understood the operations of finance and industry before, and had rather taken the economic regime for granted. Perry found himself in the pleasant position of being able to instruct natives of the new America in the workings of their own environment.

In due course he felt that he understood fully the workings of both economic systems, the old and the new, and felt capable of analyzing correctly any possible economic system. Nevertheless he found growing up inside a curious distaste for the modern

system. He now understood the mechanics of it, true, and realized that its mathematical theory was correct, but notwithstanding it did not suit his taste. He decided to call Davis and discuss it with him.

After a decent interval of drink and smoke, Davis opened the conversation.

“What is it, my boy? Found a black swan?”

“Why a black swan?”

“That’s the classic example of the fallaciousness of the deductive method. The syllogism ran ‘All swans are white. This bird is a swan. Therefore this bird is white.’ Along in the nineteenth century somebody found a black swan and the perfect syllogism was wrecked.”

“No, I haven’t found a black swan, but I do have a problem.”

“I don’t think you will find a black swan in the conclusions we have reached. You’ll find many problems not covered by the Law of Capital Investment. But the law itself is simply a statement of the workings of an invented mathematical entity, money. Sometimes we get into dilemmas through a failure to distinguish between mathematical necessity and objective realism. Marx fell into that error and it vitiated his whole work. For example and in particular, his definition of value. Did you happen to notice that we spoke of cost in money and price in money and never once mentioned value?”

“Now that you speak of it, yes.”

“Can you define value?”

“Well, perhaps not. I seem to know what it means.”

“Marx defined it as a measure of the number of work-hours required to produce a given article. His definition was meaningless in the real world, and he ran into all sorts of difficulties, which he tried to avoid by patching the definition. But the definition was wrong and his beautiful, monumental, logical

structure was invalid. He was important only as an agitator against social injustice and he contributed more error than truth to the art of economics. He made a similar mistake in assuming that a man lives in his belly rather than in his head. *Animals do, but not men. They must serve their bellies, it is true, but aside from that, their motives may have nothing to do with economic considerations. Consequently Marx's Economic Determinism was not valid. But I've digressed again. Value in economics is a relationship between an individual and a thing or a service. It is a personal relationship which expresses how much a particular individual desires a thing or a service. Economic value of a thing or a service approximates the average of the summation of the personal values placed on the thing or service by the individuals who constitute the consuming public. Value plus purchasing power in the hands of the consuming public constitutes effective demand. Price is a function of supply and demand. Value may be expressed in dollars and cents through this complex functional relationship, but value is not price, and is not a measure of work-hours, it is a word used to express the desire of an individual to possess a thing or a service. I am not giving the word a new definition; I am simply stating explicitly the observed fact that such is what people mean when they speak of value. Sale takes place when the value to the prospective buyer is greater than the value to the owner. Note the difference between Marx's idea of value and that which I have expressed. Marx attempts to measure value by the amount of labor expended. Yet it is an obvious fact in the real world that an inefficient, careless, or unimaginative worker can slave for hours to produce an article practically worthless, that the public won't buy, valueless. An intelligent skillful inventive worker may turn out in a short time an article that the public will snap up at once at a high price. Which has the greater value?"*

“The one made by the better workman, of course.”

“Of course. There is an old maxim which states it neatly: ‘The value of a thing is what that thing will bring.’ Even in our present system in which the government ensures the maintenance of sufficient purchasing power, if an entrepreneur is so inefficient that he produces articles of value less than cost, he goes broke. However, I’ve digressed again. I’m a garrulous old man. What was it you wanted to talk about?”

“Oh no, I enjoyed your digression and it cleared up another point. As to what is bothering me, I believe I understand the present financial system and I see that it works more smoothly than the one in my day, but there are still things about it that I just can’t see the justification for. Especially this dividend or inheritance check. Why in the world should everybody in the country be handed money to spend whether they work or not? I concede that it is all right for widows and orphans, the sick and the blind and crippled, but why support in idleness some big overgrown lunk who is too lazy to support himself? Why put a premium on laziness? Here is my idea: let’s increase the discount if necessary, and give a big dividend to those who need it but can’t support themselves, but if a drone won’t work, let him starve. Don’t let him live off the rest of us.”

“I see your point. It irks you to see anyone at all who is able to work permitted to live without working. But why do you consider work a virtue?”

“Well, these idle persons use up goods that the workers might otherwise enjoy.”

“Do you know of anyone who doesn’t have everything he wants of the good things of the world?”

“Well, no.”

“Then how can you say that the idle are consuming things that rightfully belong to workers?”

"Well, it seems obvious."

"You mean that it seems logical to you. But if you can't find a case in the real world, can your logic be correct? I'm afraid you've encountered a black swan."

"Maybe so. But how can you justify able-bodied men living in idleness?"

Davis pursed his lips. "Ethics is more a matter of opinion than a science. Morals are customs rather than natural law. However if you want a moral argument to justify the situation, I'll give it to you. Did anyone live without working in your day?"

"Oh, those on relief did."

"I'm not speaking of them. They were presumed to be people who wanted to work but couldn't get work, and we have proved mathematically that they couldn't. I mean others who might have worked, but wouldn't, yet lived well."

"Why, no."

"Positive? How about coupon clippers, land owners, owners of capital who were not in management? Idle sons and daughters of the rich? Were there none of those?"

"Oh yes, of course. A few thousand perhaps. But they were entitled to be idle if they chose. Either they or their fathers had earned the money. A man is certainly entitled to provide for his children."

"All the idle today are the rich sons of hard working fathers."

"Are you trying to kid me?"

"I didn't jest, but I did use a figure of speech. Tell me, what are the factors that enter into production of real wealth?"

"Well, there is labor, of course—and raw materials and land."

"What were the factors when we set up our game of production and consumption?"

"Oh yes—and capital, and enterprise or management, and

invention or technique, government came in there too, but I am not sure that it is a factor in production.”

“It is, as you will see. Let’s examine these factors and attempt to make a rough estimate of their importance. Work is basic, certainly. In any but the most Elysian of South Sea islands, man must work to live. Marx made the mistake of thinking that because it came first, it was the only factor worthy of consideration, even though his writings implied the existence of others. Enterprise is more important than work. Without enterprise, management, directive ability, and imagination, our present highly productive culture would be impossible. It is a form of creative work, more difficult than the imitative work of the laboring men, and absolutely necessary to a high rate of production. Capital or rather capitalization is essentially the willingness of the owner of accumulated wealth to risk it in the hope of acquiring more. Its return is interest. We don’t think very highly of it anymore. Capital is plentiful and by direct competition through the Bank of the United States we have driven interest down to a point where the return is commensurate with the risk. Franklin Roosevelt taught us that lesson with the Reconstruction Finance Corporation and the Federal Housing Administration.

“I said that government is a factor. It is, if for no other reason than through its police powers it makes the environment safe to work in. Without it no one could accumulate wealth and the creation of wealth on a large scale would not be feasible. Which is another way of saying that individuals acquire wealth only at the sufferance of the community and the community may require any tribute necessary to promote the general welfare. The government performs many other useful services too numerous to mention, but you see my point.

“Land and raw materials are obvious factors in the production of wealth. In the simplest economy labor must have something

to fabricate and some place to stand on in order to produce wealth.

“The last factor is invention or technique. I mean not only new inventions now held by patent, but also all useful accumulation of knowledge from the stone age to date. Although wealth can be created without, or with very little of it, it is the greatest factor of all. You need only consider any common article to be convinced of it. Take a pair of shoes. In a modern shoe factory the production is around six hundred pairs of shoes per man per day. By figuring in raw material and capital costs it drops only to about four hundred pairs per laborer per day. Does one man make four hundred shoes per day? Put him at a cobbler’s bench and assume him to be an experienced cobbler, yet he will do well to turn out one pair. Is it management? Management is important, for a poor manager will reduce production by perhaps 50%, yet the factory still turns out enormously more than a number of hand cobblers equal to its employees could do. Obviously the factor which produces this enormous multiplication of wealth is technical knowledge, the contribution of the creative inventor and creative artist. That is why we reward them so highly today. There is one outstanding characteristic of the creator-discoverer. His work lives after him and is cumulative in its effect. We owe more to the unknown genius who invented the wheel and axle than we do to all the workers now on earth. Furthermore, inventors stand on the shoulders of all their predecessors. No modern invention would be possible without the work done by Bacon, Da Vinci, Watt, Faraday, Edison, et cetera without number.”

“Yes, that is evident but what of it? I can’t see that the work of those men justifies laziness today.”

“These men are our forefathers. They have left to each one of us the most valuable inheritance possible, other than the good

earth and life itself. To each one of us, mind you, lazy and industrious alike. To refuse your brother who prefers not to work his share in production for moralistic reasons of your own devising is to claim for yourself that which you have not earned and have no right to."

Perry looked baffled but unconvinced. "Granting that what you say is true—it is, I suppose—nevertheless it takes labor to apply this heritage of technical knowledge. Why shouldn't every able-bodied man have to contribute equally to that labor?"

"But surely, Perry, you can see that there is not enough drudgery in this world to go around. The machines have released us from the curse of Adam. How can all of us crowd into the control stations of the machines? We have short hours, naturally, and most machine tenders and such retire at an early age, but it isn't practical to change shifts every fifteen minutes nor to train new men every few weeks. Would you have men dig holes and fill them up again for the sake of work itself? Would you destroy the machines and restore the cobbler's bench? There is always creative work to be done; there is no limit to that, but there is no way to punch time clocks on it either. If a man has creation in his system, all we can do is to give him leisure in which to develop it. Tell me, have you seen very many idle people?"

"No, I haven't as yet."

"You won't. The urge to work exists in more than ninety per cent of the population. Free him from drudgery and he putters in the garden, in a workshop, learns to draw, tries to write poetry, studies, goes into politics, invents, sings, devises salad dressings, climbs mountains, explores the ocean depths, and tries to fly to the moon. Few are those who sit in the sun and whittle."

"Say, are they really trying to reach the moon?"

"Yes, surely. But I want to give you an illustration of the current situation. Suppose in your day seven men own a big car

together and all wish to drive from San Francisco to New York. John is crippled and can't drive. Joe is too young to drive. Jack doesn't know how to drive. Jake is a good driver but hates to drive, being of a nervous temperament. Jep is just plain lazy and prefers to watch the scenery, but Jim and George are both good drivers and don't mind doing it. Of course only one person can drive at a time. You propose that they all take turns at the wheel, barring the cripple and the child. Isn't it more reasonable to pay the two drivers for their services and let everyone reach New York in comfort? That is what we do today. Those who perform the drudgery of the nation are paid—and well-paid—in addition to their dividend from their inheritance.”

Perry threw up his arms in mock surrender. “Enough. Enough. Frankly, I'm not convinced yet, but you certainly can make out a case.”

Davis shrugged his shoulders. “Personally I'm not interested in moralistic reasons. The present system is the one the American people have chosen to serve them at this period of their development. It suits my temperament so I don't try to change it. If you want another you now know how to devise another which will be economically feasible. Then you are free to try to persuade the country to adopt it. You might even try to persuade a state. Several of the states have modifications.”

“So I gathered. How do they work?”

“Well, Wisconsin has very high income taxes and pays a state dividend in addition to the Federal dividend. They have a nearly complete socialism with most business run co-operatively. It seems to suit them but I find it a dull pace. However, let me mention the practical advantages of the blanket dividend as compared with your moralistic proposal. In the first place it ensures high wages, because men who are free from economic necessity won't work for sweatshop wages. For the same reason it ensures good

working conditions. Unions are no longer necessary. Those that remain have turned into fraternal organizations rather than battalions in class warfare. In the second place it ensures social security for everybody all the time and thereby makes government much simpler. In your day the social service bureaucracy was growing by leaps and bounds. We don't need social service workers where poverty is unknown. And it saves private citizens from the insufferable buttinskyness of social work, the prying catechisms that determine the 'deserving' poor. If for no other reason the dividend is desirable because it ended the incredible red tape and indignities of your old system of relief, and welfare work, and private charity."

"But see here, the dividend will hardly pay for operations and sickness. Suppose the idlers fall sick?"

Davis looked surprised. "Hadn't you gathered that health service is free? It obviously has to be. The community can't afford to let anyone be sick for fear of contagion and unsocial mal-adjustment. If medicine hadn't been socialized we couldn't have stamped out syphilis and gonorrhoea for example, and our present social standards couldn't have developed. Medical men are public servants and among the most highly paid in the community."

"Doesn't that tend to make medicine un-enterprising and give it a tendency to fall into a rut?"

"Did it for the army and navy in your day? Before your time they were private professions, you will remember. However, a physician need not be a public servant. He can hang out his shingle if he likes. But with higher returns for public practice, plus every opportunity for research with unlimited facilities and no economic restrictions on the expense of treatment, practically all of the best ones prefer to work for the government."

"That reminds me of another objection. Won't everybody ask to be treated by the best physicians?"

“They ask, but if a physician has more cases than he can handle, he picks the interesting and difficult ones, and mediocre physicians get the commonplace ones. That works out best for everybody. In your day a wealthy hypochondriac could command the services of valuable men who should have been on the difficult cases.”

“That’s fair enough, I guess. Medicine has always fascinated me.”

“You ought to fly up to the United States Medical Academy some day and get them to show you around. It will open your eyes. We’ve made a lot of progress in the last hundred and fifty years.”

“Thanks for the idea. I’ll do that someday. But to return to our argument. I’m a die-hard. Everything may appear rosy right now, but I believe that I see the seeds of decay in this system. Doesn’t it encourage the reproduction of the unfit in unlimited numbers? Wasn’t Malthus right in the long run? Aren’t you steadily weakening the race by making life too easy?”

“I don’t believe so. I think your fears are groundless. The pathologically unfit are inhibited from breeding by a combination of special economic inducements and the mild coercion of the threat of coventry. The exceptionally brilliant and creative persons are sought after as parents. A famous surgeon, musician, or inventor will receive literally thousands of invitations to impregnate women who desire exceptional children or covet the social honor of bearing the offspring of genius. From a physical standpoint the race is being re-tailored by the development of gland therapy and immunization. A baby born today will never grow excessively fat nor emaciated, and couldn’t catch typhoid fever if he slept with a victim of it. Instead of protecting a child from infection we modify the genes of his grandfather so that the baby has ten times the hardihood of a jungle savage. As for

Doctor Malthus, he lived before the day of voluntary conception. If we need to limit the population, we are prepared to do it.”

“Well, you’ve given me a lot to chew over and a lot of new angles to investigate. But I can’t help feeling that there’s a black swan lurking. Maybe I’ll be back at you in a few days.”

Davis chuckled. “Go to it, son. You’ve given me the first real workout I’ve had in years. Is there any more port in that bottle? That’s enough. Thanks.”