THE SETTLEMENT OF WAGE DISPUTES

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THE SETTLEMENT OF WAGE DISPUTES

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PREFACE

"The Settlement of Wage Disputes" falls naturally into two almost equal parts: the first an account of the present industrial situation in the United States, and of the factors which govern American wage levels at the present time; the second an attempt to formulate principles which might serve as the basis of a policy of wage settlement for the country. The proposals made in the second part are based on the theoretical analysis of the first part.

Certain chapters in the first part (III and IV) may prove difficult for the ordinary reader. They are intended to be merely an analysis of a particular set of facts and tendencies—those which affect the present wage situation in the United States, or may affect it in the near future. Such an analysis of a particular set of facts is all that economic theory can successfully accomplish.

This book was first projected in the summer of 1914. The Dress and Waist Industry of New York City had set up a Board of Protocol Standards to settle wage disputes. The late Robert C. Valentine was then engaged in finding a basis of wage settlement for the industry that would be of more than passing value—and as his assistant, I first became convinced that there could be no permanent peace under the wages system, once different interests became organized, unless a clear body of fundamentals principles applicable to all industries are supported and enforced.

In the course of the work I have incurred many obligations both in the United States and Great Britain. I can only acknowledge a very few here. To my teachers, Prof. F. W. Taussig and W. Z. Ripley, I owe much, both for their instruction, direct help and example. In Great Britain, Mr. John A. Hobson, Mr. Henry Clay and Mr. and Mrs. Sidney Webb aided me greatly to understand British experience. My debt to the work of Judge Jethro W. Brown of the South Australia Industrial Court is heavy as the book shows. Above all I have to thank my friend Dr. Walter B. Kahn for his share in the work.

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CHAPTER I—INTRODUCTORY

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1.—The industrial life of the United States is marked by an almost continuous series of open struggles between the employers and wage earners of its highly organized industries. No one defends these struggles for their own sake. There is a general inclination, however, to regard them as a necessary accompaniment of industrial activity and change. It must not be supposed that all labor troubles are merely wage controversies—that is to say, that they are all incidental to the settlement of the wage incomes of the laborers. Many of them arise in whole or part from a shifting and conflict of ideas about various other aspects of the industrial order. It is possible, however, to concentrate attention upon those conflicts which center around the settlement of wages.

There is a quick and somewhat tumultuous stream of investigation directed to the invention and formulation of principles which could be used as a basis of settlement of wage controversies. In various countries such principles have been formally set forth and used. The awards of the War Labor Board are an example of their imperfect application. In the Industrial Court of the Commonwealth of Australia we have an example of the consistent use of one set of wage principles. The material that has arisen out of this process of discussion and experimentation is of the utmost value to any one endeavoring to work out a wage policy for industrial peace in the United States. It forms a body of doctrines. It gives evidence both as to the chief subjects of wage controversy, and indicates the suitability or the shortcomings of many of the principles or doctrines that might be proposed. Thus in any investigation of principles of wage settlement—with a view to industrial peace—we are not without the guidance of experience.

This experience consists, firstly, of the principles worked out and applied in the decisions and orders of the courts or boards which have served as agents of wage settlement in the United States, England, Canada and the Australian dominions. Of almost equal value is the material growing out of those great industrial conflicts of recent years, in which claims have been put forward and agreement has been sought on the basis of some definite theory of wages. Such, for example, is the material prepared and presented in the course of the railway wage arbitrations in the United States and England. Such also is the evidence and material presented in the course of the inquiry recently held in Great Britain upon the wages of transport workers.

2.—It should be understood that the principles which have been used in wage settlements in the past were not ideal solutions. That is to say they were not arrived at solely by the use of reason, directed to the discovery of what is just and what is for the general good. The situation has been rather that described by Mr. Squires, when he writes: "Too often in the past arbitration has followed the line of least resistance. With much unction, the lion's share has been awarded to the lion. Decisions proposing another settlement were speedily forgotten because not enforced. Those submitting to arbitration frequently did so with the mental reservation that the decision to be acceptable must at least approximate the conditions they felt they would be able to establish by a show of strength. From this position to one of complacent acceptance of arbitrary decisions, applied not to an isolated group but seeking to comprehend all labor or a given class, is a long step for both employers and employees." And again:

"In arbitrary wage adjustments the absence of well defined and acceptable standards to be used in wage determination as well as the difficulty in enforcing awards that did not conform closely to the law of supply and demand has forced arbitration to resort to the expediency of splitting the difference. Cost of living, proportionate expense of labor, and net profits, when taken into account have been more often evoked in defense of claims made than as a means of determining what claims were just under the circumstances." [1]

So, also, with any attempt to devise principles which might serve as the basis of a policy of wage settlement in the United States. They would represent the effort to develop standards by which conflicting claims could be resolved. It is not desired to signify agreement by this admission with those who believe that all principles of wage settlement must be purely passive, with those who argue that wage settlement must perforce be nothing more than a recurrent use of expedients produced on the spur of the occasion out of the magical hat of the arbitrator. All that is meant is that no policy of wage settlement will succeed if its results diverge too greatly from the interests which it, in turn, would guide and restrain. Any policy of wage settlement must take into consideration the moral and social circumstances perti-

[1] "New York Harbor Wage Adjustment," B. M. Squires, *Monthly Review of the U. S. Department of Labor*, Sept., 1918, page 19.

nent to the dispute as well as the economic. It must express active social and ethical claims as well as recognize economic facts. It must be supported by the sense that it is at least moderately just.

Most attempts, furthermore, to settle wage disputes by the use of defined principles have resulted in an incoherence of policy due to the necessity of bowing to the facts of force. This interference of force and the consequent disturbance of policy is likewise to be expected in all future attempts. For, in all human affairs private interest will, on favorable occasions, revolt against laws or rules which restrain it.

Again, in the United States all past attempts to settle wage disputes by reference to principles have been isolated and sporadic. They have, therefore, been virtually foredoomed to failure. For as will be made clearer as we progress, any successful attempt to base wage settlements upon principles will demand the consistent and courageous application of these principles for a not inconsiderable period, and to all important industries alike. Otherwise compromise and a search for any way out of the immediate crisis is the only possible principle of settlement. Any well-conceived policy of wage settlement must have regard for a far wider set of forces and facts than are presented by any single controversy. The objects of any policy could only be attained through a long series of decisions ranging throughout the field of industry, and related to each other. This, it is trusted, will become plain as the difficulties of formulating policy are discussed.

3.—Prof. Marshall in his great book has an arresting passage on the importance of the tendency to organization which characterizes the whole field of industry. He writes: "This is not a fitting place for a study of the causes and effects of trade combinations and of alliances and counter alliances among the employers and employed, as well as among traders and manufacturers. They present a succession of picturesque incidents and romantic transformations which arrest public attention and seem to indicate a coming change of our social arrangements now in one direction and now in another; and their importance is certainly great and grows rapidly. But it is apt to be exaggerated; for indeed many of them are little more than eddies such as have always flitted over the surface of progress. And though they are on a larger and more imposing scale in this modern age than before; yet now, as ever, the main body of the movement depends on the deep, silent, strong stream of the tendencies of normal distribution and exchange which 'are not seen' but which control the course of those episodes which 'are seen.' For even in conciliation and arbitration the central difficulty is to discover what is the normal level from which the decisions of the court must not depart far under penalty of destroying their own authority." [1]

Writing in England in 1920, it seems to me as if the events of change in England were more than the surface movements he speaks of, and that slowly but definitely industrial arrangements are undergoing modification so as to give scope to new energies and ideas which will modify the "normal" distribution and exchange as he conceived it. The future in the United States is even less clearly marked. There too new purposes and claims are arising and will seek adjustment with established arrangements.

The attitude of all those who really desire industrial peace must be that of readiness to judge such forces of change as may become active, by the balance of good or harm they seem to promise. For that is the attitude which alone can make possible a fusion of the conservatism of experience and of established interest, and the radicalism of hope and desire—by which fusion society can experience peaceful development.

[1] A. Marshall, "Principles of Economics," 7th Edition, page 628.

CHAPTER II—SOME PERTINENT ASPECTS OF THE PRESENT INDUSTRIAL SITUATION.

Section 1. The chief aims of any policy of wage settlement for industrial peace defined—the chief tests to be passed. A knowledge of present industrial facts essential to the formulation of sound policy.—Section 2. The present economic position of the wage earners.—Section 3. Their relations to the other groups in industry. The acceptance of the practice of collective bargaining essential to any policy of wage settlement in the United States to-day. Trade unionism must prove itself fit for this responsibility, however.—Section 4. The economic position of capital in the present industrial order. Its service to production. The problems to which the accumulation of capital has given rise.—Section 5. The economic position of the directors of industry. Industrial control an attribute of ownership. Two important suppositions used in this book, concerning: a. The forms of industrial income; b. The possible spread of public ownership, and its consequences for a policy of wage settlement.

1.—The problem of wage settlement may be regarded as the task of elucidation or invention of methods and principles in accordance with which the product of industry might be shared among the wage earners and the other participants in the product with relative peace and satisfaction. It is necessary and permissible, as has been remarked, to separate this problem from other closely related problems. However, any policy of wage settlement that might be adopted would be also an important influence in other industrial issues outside of those it settles directly. It would affect in numberless ways the relations between the groups concerned in production. It follows that no policy of wage settlement will work successfully unless it accomplishes two ends. First, it must represent convincingly the effort to divide the product of industry so as to satisfy the most widely held conceptions of justice in the industrial system. Second, it must contribute, wherever it is a factor, to such an adjustment of industrial relations as will command the voluntary support of all groups whose coöperation is necessary for the maintenance of industrial peace.

For the accomplishment of these two objects, any policy must be based upon a knowledge of the present economic position of the various groups engaged in industry, and of the present state of industrial relations between them. It is obviously impossible to review these matters adequately in this book. The most that can be attempted is a brief survey of those aspects of these questions with which the problem of wage settlement must definitely concern itself. Such a survey will occupy this chapter. If it serves no other purpose, it will serve the important one of making clear the source of certain general presuppositions with which the problem of formulating a policy of wage settlement for industrial peace is approached.

2.—It is convenient to deal with the general field under survey by considering in the order stated, the present economic position, firstly, of the wage earners; secondly, of those who own invested capital; and thirdly, of those who direct industrial activity. Questions of industrial relationship between these groups can then be presented at the point at which they arise most pertinently. Such a loose order as this is dictated by the desire to avoid all questions except those which inevitably arise when studying the problem of wage settlement.

To begin with the wage earners. The task of giving exact scope to the term "wage earners" may be shirked. The term may be taken to include, at least, all those grades of workers whose incomes would be governed directly by any scheme of wage settlement. When using the term in the course of theoretical discussion, as in the ordinary analysis of distribution, it may be taken to include also other grades of workers, whose incomes probably would not be so governed, as for example, assistant or department managers of large businesses.

The recent past has witnessed important changes both in the economic position of the wage earners, and in the relations between them and the other groups engaged in industry. A close connection may be traced between the two lines of change. Up to the beginning of the present century, at any rate, it may be asserted that the wage earners of the country were not separated from the rest of the industrial community, either socially or economically; although at all times throughout the last century, there was to be found a section of recent immigrant labor which had not yet found its way into the main channels of economic society. The farms, the shops and private businesses of the small and semi-rural towns; these were the common origins and discipline of our industrial leaders and of the more skilled groups of wage earners. There was no great difference either of educational or of industrial opportunity between the mass of men. The few great financial centers of the East may have been the home of an established and separate economic class, but this class was not one of the most important industrial forces. The standard of life as well as the economic prospects of all wage earners who had been thoroughly absorbed into the community encouraged a feeling of equality and independence. The tradition of our period of industrial expansion was that most men should seek to operate their own farm or business (and be their own master). This tradition could flourish as long as a great variety of industrial opportunity existed for the ordinary individual. The first stages in the development of our natural resources, the course of mechanical invention and improvement, the rapid growth of our population—all these changes stimulated independent enterprise, and offered great hopes of success in enterprise to men possessed of common sense, energy, and character. No family felt itself placed in a fixed position in the industrial scale except by reason of its own inferior powers of utilizing opportunity. The wage earners were those workers who worked for some one else, but they did not form a separate class different in experience and outlook from their employers. The possession of wealth, under such circumstances indicated individual capacity, temperament, and ambition.

That phase of American industry is certainly not entirely past, although it has not persisted to the extent that some of the industrial leaders whose rise was contemporaneous with the earlier stages of industrial expansion, are wont to argue. At the present time able and determined individuals, who in youth are manual workers frequently succeed in discovering openings to the higher industrial positions. The need for business ability is still too great to be supplied by any one level of society; all are drawn upon. The thought that each man can attain to the possession of a business of his own, or to a position of importance in some big business, is even now a common conviction and inspiration among the more skilled groups of wage earners. Yet the economic position of the wage earners in industry has undergone genuine change.

The chief characteristics of the present situation are familiar knowledge. First of all, the percentage of employers to wage earners in industry has decreased.[1] Again most new undertakings in the important branches of productive industry require a large amount of capital, a specialized and rather rare capacity for organization and a considerable knowledge of a wide sphere of industry. Indeed, the undertaking of new business enterprises has itself become to no small extent the function of organizations rather than of individuals. Further the personal coöperation between employer and the best men among his wage earners which was in the past the ordinary method of business education is not often practised now. Industry is not a good education for the skilled and able wage earners. Industrial management has usually taken the view that there is no need or profit in educating the wage earners beyond the requirements of their specialized task. The gap between ordinary wage work and managerial work

[1] A. Marshall, Appendix N, "Industry and Trade," entitled "The Recent Increase in the Size of the Representative Business Establishment in the United States," has drawn up some tables on this very subject.

He writes, "The table given below shows that the 208,000 establishments engaged in manufacture in 1900 had increased to 268,000; but meanwhile the total value of their output had increased from $4,8311 M to $8,529 M: that is, their average output had increased from 232,000 to 318,000: if we go back to 1850, when workshops, etc., were reckoned in, we find the average output of an establishment to have been less than 4,000 dollars." And again "Industrial establishments having a less output than 100,000 dollars accounted for 20.7 per cent of the whole in 1904; but only 17.8 in 1909. In the same years the share of establishments with output between 100,000 dollars and 1,000,000 dollars fell from 46.0 to 43.8, while that of grant businesses with not less than 1,000,000 dollars output rose from 38 per cent to 43."

and ownership is in most industries great—the path upward hard to discover.

The jobs which carry the easiest opportunities for advancement in many important industries are now the subordinate positions in the various executive, administrative or sales branches. These jobs tend to be given to young men from that section of society which has affiliations, direct or indirect, with the management of industry. The growth in importance of these branches has led to the development of a specialized form of education for industrial leadership which the wage earner does not receive. Indeed, with the ever increasing complexity of the problems of business enterprise, prolonged education, itself, has become of more importance in determining individual chances of success. All these developments have greatly lessened the chances of the ordinary wage earner for any position of ownership or control. They have tended to separate the wage earners from the groups controlling industry; they have taken away in a large measure the inspiration which work receives from hopes of steady advancement. When that hope is gone only the hope for high wages is left, and that is not a sufficiently potent common aim to insure the coöperation required for so complex an activity as modern industry.

Simultaneously with the revolution in industrial structure and interacting with it in many ways, there has occurred a great change in the composition and character of the wage-earning body.

The change that occurred between 1870 and 1910 in the sources of the immigration which has furnished the United States with the bulk of its supply of unskilled and semi-skilled labor, is a commonplace of American industrial history. The effects of this change have been largely governed by other industrial events, chief among which may be put the increased concentration of industry in and around a relatively small number of cities or regions. For as Mr. Chapin in his study of the sources of urban increase has stated: "Immigration has been the chief source of urban increase in the United States during the past quarter of a century." [1]

There has assembled in each of our great cities a mass of workers, many of whom are of recent alien origin, quickly habituated to the routine of existence in crowded city streets and busy factories. The interchange of opinion and of sympathy between these lowest grades of industrial workers and the rest of the community is very imperfect. Their industrial position and outlook tends to be that of a separate class. As a rule, they are unorganized. It is of these grades of labor that Prof. Marshall has written "Some of these indeed rise; for instance, particular departments of some steel works are so fully manned by Slavs, that they are beginning efficiently to take the place of Irish and others who have hitherto acted as foremen: while

[1] *Publications of the American Statistical Association,* Sept., 1914.

large numbers of them are to be found in relatively light, but monotonous work in large cities. They may lack the resolute will which put many British, German and Scandinavian immigrants on terms of equality with native Americans. But they are quick withal, versatile; and as a rule, easily molded; they take readily to the use of machinery; and they have no tradition that could prevent them from doing their best in using semi-automatic machines, which are simple of handling, while doing complex work. Thus America has obtained a plentiful supply of people who are able and willing to do the routine work of a factory for relatively low wages, and whose aptitudes supplement those of the stronger races that constitute the great bulk of the white population."[1] They have sought chiefly such improvement in their position as might come from increased wages. They have remained in the regions of the will and of thought subject to those who controlled industry; for they themselves have been in a strange environment, and so have not been able to display, to any considerable extent, the qualities requisite to industrial leadership.

The difference of viewpoint and even of economic interest between the groups of skilled craftsmen in industry and the unskilled grades is

[1] A. Marshall, "Industry and Trade," p. 149. See for analysis of occupations of immigrants, "Report of U. S. Ind. Commission," Vol. IX.

being gradually reduced. Industrial developments have tended to emphasize the measure of common interest between all grades of wage earners. The steady trend to standardization in production and to simplification of the machine processes has lessened somewhat the difference between the character of the work of the upper and lower grades of labor. Modern industrial developments have led to an increased emphasis upon "general ability" and a lessened emphasis upon "special ability." To quote Marshall again, "Manual skill that is so specialized that it is quite incapable of being transferred from one occupation to another is becoming steadily a less and less important factor in production. Putting aside for the present the faculties of artistic perception and artistic creation, we may say that what makes one occupation higher than another, what makes the workers of one town or country more efficient than those of another, is chiefly a superiority in general sagacity and energy which are not specialized to any one occupation."[1] As labor organization tends to become recognized as a regular part of the framework of industry, as the duties put upon trade union leadership are broadened in order that industry may give the wage earners collective representation, it is to be expected that stronger

[1] A. Marshall, "Principles of Economics" (7th edition), page 206.

bonds will arise between the skilled and unskilled grades of wage earners than those which unite them at present.[1]

The position of the female industrial workers remains to be noted since the employment of women in industry seems likely to increase. Women are employed, on the whole, on the lighter and more routine stages of the process of production. They have shown capacity, endurance and steadiness upon monotonous and nerve straining work both upon machine and hand tasks. It seems likely that they will continue to displace men in many of the simpler mechanical jobs. Many individual women wage earners have risen to tasks of responsibility and direction. This number will be greatly added to by improvement in the education of women for industry and by their continued self-assertion. Nevertheless, it is likely that the great bulk of women wage earners will continue to be employed as at present upon relatively simple, light and unskilled work.

Such, in briefest outline, is the economic position of the wage earners in American industry to-

[1] In an analysis of the trend toward union amalgamation published by Glocker in 1915, he concludes that "Instances in which the self interest of the skilled workers demand their amalgamation with the unskilled are still rare, however. If common laborers are admitted in the near future to unions of other workers in the same industry, they will be admitted not from self interest, but from more altruistic motives, from a growing spirit of class consciousness attended, perhaps, by a correspondingly growing realization of class responsibility —"Amalgamation of Related Trades in Unions." *American Economic Review,* Sept., 1915, page 575.

day. There is a diversity of outlook and of animating spirit among the various groups or classes. There is no very settled opinion among them as to the place of the wage earner in the industrial system. There is besides a diversity of racial and sex faculty and adaptability.

3.—Change and diversity also mark the relationships between the wage earners and the other industrial groups. Up to the very recent past, the connection of the wage earners with the enterprise in which they served was limited practically to the fulfillment of the individual wage contracts which were made. The obligation of the wage earners to the enterprise which employed them has been considered at an end with the performance of the work they were employed to do. Similarly, the obligation of the enterprise to the wage earners has been considered fulfilled by the payment of wages earned. The wage earners have been called upon to give their whole-hearted efforts to their work by reason of the belief that such effort was to their own interest, and by reason of their own hopes and desires for advancement. The American wage earners have usually tackled their jobs with energy, good will, and sincerity.

It is impossible to attempt to sketch here the development of the practice of collective bargaining, and the various concepts of industrial relationship to which the rise of trade unionism has given impulse. We are now in the midst of a struggle brought about by the efforts of the wage earners to add to their traditional rights of freedom of contract and of enterprise certain other rights. These may be collectively described as the right to organize and to use their organized strength collectively in all ways which may be reconciled with the public interest. Some of the greatest industrial conflicts of recent years have been consequences of the efforts of the wage earners to establish these additional rights both in fact and in law (as for example the strike in the steel and iron industry in 1919). Much headway has been made in the establishment of the rule of collective bargaining in industry. The scope of the matters usually settled by that method varies greatly between individual establishments and industries.

Organized labor has frequently received official recognition by the fact of its representation on bodies concerned with the investigation or control of the conditions of labor, or with general questions arising out of, or closely connected with, industrial activity—especially during the war. The President's Second Industrial Conference, which was appointed to make recommendations concerning the most urgent problems of industrial relationship that had been accentuated by the war, emphasized the need for the "deliberate organization" of the relationship between employer and employees in large industries, but contributed little to the matters in dispute. Their view was expressed as follows: "To-day we have a complex interweaving of vital interests. But we have as yet failed to adjust our human relations to the facts of an economic interdependence. The process toward adjustment, though slow, nevertheless goes on. Right relations between employer and employee, in large industries, can be promoted only by deliberate organization of that relationship. Not only must the theory that labor is a commodity be abandoned, but the concept of leadership must be substituted for that of mastership." The attitude of the community has been to take no step in advance of what resulted from the trial of argument and force by the directly interested parties. But it is probable that in the future public opinion will be more positive and will grant to labor organizations fuller recognition and greater participation in the control of industrial activity than heretofore.

It will be impossible to develop any policy of wage settlement while certain of these questions of industrial relationship remain unsettled—particularly the question of the acceptance of the method of collective bargaining. Any proposals of wage policy must put that matter, at least, on firm ground. It is probable that in order to administer any policy of wage settlement some means of representation for the wage earners will be indispensable. And it is likely that satisfactory representation can only be obtained by the organization of the wage earners. Furthermore, this organization will have to be on a wider scale than shop organization, although shop organization may also be useful. Thus it may be said that it will be found necessary in any attempt to secure industrial peace in the United States by the enforcement of a policy of wage settlement, not only to recognize labor unions where they already exist, but also to give encouragement to some form of organization where none exists.[1]

If in the trying times immediately ahead the trade unions give proof that they are more than servants of craft interests; if they stand up as democratic institutions capable of exercising power in industry and not abusing it; if their leaders show they can be humble, when made powerful, then that opposition to the growth of trade union power which is based on a genuine concern for the public welfare will be disarmed. If the trade unions show none of these qualities, the common sense of the community will resist them in the name of traditional equality and democracy. Popular movements such as trade unionism must make mistakes constantly, but because of the spirit behind them, they have great powers of recovery. The trade union movement,

[1] Under the Kansas Industrial Court Law passed in 1920, no provision in that direction is made. The Court is instructed to deal either with organizations or with individuals. It is likely that the Court, in its efforts to get disputes settled before they reach it, will find it necessary to encourage organization. A related question which is bound to arise sooner or later is in regard to the stand that the court will take in disputes arising out of attempts to organize an industry.

as a whole in the United States, has not yet shown a thorough comprehension of the economic system of which it is a part; it has, therefore, often erred in its efforts to end an evil or injustice. Particular unions and leaders have often pursued mean, short-sighted and self-seeking policies—which have reflected upon the whole movement. Much like other economic groups, when their own interest has not coincided with the general interest, they have frequently put their own interest first.

It is the test of all great popular movements, however, that they show they possess the ability to pursue a just and generous policy even while they are hard pressed, provoked by injustice, and maligned. That is the trial which trade unionism faces in the United States to-day; it is the example trade unionism must set before it can expect willing acceptance as a fundamental industrial institution. Unless the union movement proves itself intelligent, disciplined, and aware of ethical considerations, a continuance of industrial conflict will be inevitable; for any practicable policy of wage settlement for industrial peace will require union participation.

4.—Let us pass now to the economic position of "capital" (the owners of capital) in the industrial order which uses it (of which they are a part). In a society where labor works upon the gifts of nature almost unaided by instruments invented by man and fashioned by previous human labor, the society must content itself with small numbers or little product or both. Modern industry has been shaped, perhaps predominantly, by the effort to support large numbers at a high standard of economic existence. Production has become greatly subdivided among specialized groups. In industry to-day, the wage earners of various kinds perform their tasks with the assistance of such equipment, machinery, and general organization as will serve to make their labor result in a large product. The means which make possible this effective employment of labor in industry are what we mean by the term "capital."[1] The section of the community which owns and directs the investment of the bulk of these means has received the name of capitalists.

Almost all the capital accumulated within the

[1] It should be observed that the above definition of capital as the "means which make possible the effective employment of labor in industry" is a functional definition. To make the definition good, so to speak, it would be necessary to enter into an analysis of a complex series of interactions including a study of the action of the banking systems, and the methods of industrial finance. To attempt to state the various forms of capital would involve the same process—for capital is to some extent a secretion of the whole industrial organization. For present purposes it is better to disregard the finer shades of interaction involved in the process of creation of capital and the provision of capital to industry important as they are.

It will suffice to take note only of the simpler and most fundamental aspect of the process. Thus it is not misleading, for present purposes, to say that the capital which is at the command of industry in the U. S. at the present time is the result of accumulation in private hands of some part of the product of past labor.

United States is privately owned. Since the beginning of our industrial history the opportunities for accumulation have been left to individuals and the capital which industry has used has been provided by private owners. We have depended upon the personal motives of individuals to persuade them to refrain from the immediate consumption of some part of the product of industry which has come into their possession, and to lead them to put their savings at the further command of industry.

The circumstances which have governed the course and direction of this accumulation, and the question of the amount of economic cost that it involved have been the subjects of much capable exposition and of very violent differences. Much accumulation has resulted from the fact that industrial or rent incomes have been at certain times distinct surpluses over the possible consumption of the individuals in receipt of them. Much has been prompted and maintained by the efforts of men to move ahead to success and power—that is by ambition and rivalry; much by the idea that pecuniary success is itself an achievement, a mark of ability and leadership. The ordinary hopes of the multitude of men, such as the desire for a secure existence for themselves and their family, and the wish to figure among their friends as an equal, have been the steadiest motives of all. Saving is not one of the most deeply implanted habits. It is a habit that is closely bound up with the qualities of personal ambition, calculation and the desire for responsibility. That is the reason why rich men are so seldom very likable. It is the reason also why those who are the most needy are at times least disposed to save when they have a chance. And if in the immediate future, the responsibility for accumulation is to be more widely diffused than at present, there will have to be a general cultivation of these qualities—qualities, indeed, most requisite for a complex, mechanical civilization like our own.

The accumulation of capital, as has been said, enables industry to utilize such methods of production as result in a high volume of product for a given expenditure of effort. Much of the hopefulness and energy which has characterized our industrial life arose out of the belief that the continuous course of capital accumulation, since it made possible the utilization of new inventions and improved methods of production, was preparing the way for a future that would be marked by even a wider distribution of comfort than men saw around them. Thus it has been urged that by devotion to industry and by consuming less than was produced, the time would come when the world would be so well equipped that none of its workers would have to be in want of the economic essentials of a satisfactory life. In Mr. Keynes words, "Society was working not for the small pleasures of to-day, but for the future security and improvement of the race,—in fact for 'progress.'

If only the cake were not cut, but was allowed to grow in the geometrical proportion predicted by Malthus of population, but not less true of compound interest, perhaps a day might come when there would be at last the enjoyment of our labors. In that day, overwork, overcrowding and underfeeding would come to an end and men secure of the comforts and necessities of the body could proceed to the nobler exercise of their faculties."[1]

Under the guiding force of this conviction, and in the United States, with the extra stimulus of the belief that individual effort was throwing open vast new resources to the world, the course of accumulation has been viewed with approval and in the spirit of emulation.

We, however, have recently been assailed by growing doubts in regard to the idea of economic progress based upon capital accumulation. We have witnessed the growth of severe tensions between those who receive the greatest share of the income from accumulated wealth and the other groups engaged in production. It is pertinent to inquire into the reasons for this change of feeling; for, within the sphere of its operation, any policy of wage settlement must aim to lessen or eliminate this cause of discontent.

First of all it must be observed that the bulk of the accumulation has been accomplished by a rela-

[1] J. M. Keynes, "Economic Consequences of the Peace," pages 18-20. See also A. Marshall, "Industry and Trade," Appendix P headed "Possibilities of the Future."

tively small number of individuals. If this concentration of wealth were peculiar to the United States it might be attributed to the fact that this country has undergone exceptionally rapid expansion, during which the opportunities for accumulation were both unusual and irregularly distributed. But the explanation seems to lie deeper, for the same condition is to be found in all advanced industrial nations. The opinion may be ventured that it is characteristic of such industrial arrangements as have prevailed in the United States, that the tendency towards diffusion of the results of advances in production (obscured, besides, by the growth of population) should lag seriously behind the tendency towards concentration.[1]

The condition of inequality of wealth, heretofore a condition of the process of capital accumulation, is one of the chief causes of the embitterment of industrial relations. Firstly, it is one of the factors which tend to the creation of separate group interests. A high degree of inequality of accumulated wealth leads to a concentration of the control of the larger industrial enterprises

[1] In the very interesting study made by Prof. Bowley on "The Change in the Distribution of the National Income, 1880-1913" (Great Britain), page 27, a similar conclusion is stated.

See also the article of Prof. A. A. Young entitled "Do the Statistics of the Concentration of Wealth in the United States mean what they are commonly assumed to mean?" In the March, 1917, issue of the *Journal of the American Statistical Association.*

within the hands of a small section of the community. The interest in high returns from accumulated wealth appears to be a group interest. And, indeed, if the lag of diffusion behind concentration passes a certain point it is in reality a group interest—in the sense of being opposed to the general interest. Secondly, great inequality of wealth leads to the growth of institutions incompatible with the purposes of a democracy. These are a cause of economic antagonism, which has its reflection in industrial relations. Thirdly, it has evil psychological effects. In a country bred upon the general ideas of democracy, not even political equality and a wide distribution of economic necessities and comforts will suffice to produce general contentment, if a top stratum of the community is possessed of the social advantages of vast wealth. Few are satisfied with their lot as long as they see others, often through no qualities of their own, more satisfactorily endowed with worldly goods. Lastly, although great inequality of wealth makes possible a high level of production, it also makes great waste possible.

Thus, grave dissatisfaction surrounds that very process of capital accumulation which has been regarded as the high road of economic progress. Grave doubts have arisen as to the ultimate attainment of the vision at its end. The task is presented of directing and safeguarding the course of capital accumulation. It is evident that no policy of wage settlement can, of itself, do a great deal in this regard. Something it can do. That, it is ventured, should be along the following lines: it must aim to effect a distribution of the product of industry in which the return to the owners of accumulated capital does not exceed a point determined by weighing the following considerations:

First, the service of capital in production, the sacrifice involved in much accumulation, and the need of assuring capital accumulation, as discussed above.

Secondly, the evil effects of inequality of wealth as discussed above.

Thirdly, the fact that the health, energy, and intelligence of those that carry out the work of production are no less important factors in effective production than capital itself. And that the possession and use of these qualities by individuals is to a considerable measure dependent upon their economic position here and now.

These various considerations, it need hardly be said, cannot be weighed mechanically, but only by the use of the informed judgment.

The policy of wage settlement must, in addition, give indirect encouragement to the growth of such industrial beliefs and institutions as will enable the wage earners to participate in the control over the conditions of production. Only then will the effect of industrial methods on the welfare of the wage earner receive constant attention, and the desire of the wage earners for self-improvement be given encouragement. In these directions, then, the policy of wage settlement can and should safeguard and direct the course of capital accumulation.

5.—The preceding discussion bears directly upon the next question to be considered, namely, the present economic position of those who perform the work of direction in industry. Only one or two aspects of this subject require attention in this investigation.

It may be remarked, to begin with, that those who own the capital invested in industrial enterprises thereby possess the most general powers of control and direction over them. These powers they may exercise personally or through their agents—but in either case, the fact of ownership is the decisive influence in the settlement of these questions in which the wage earners are most interested. The fact that some of the capital invested in particular enterprises may not carry with it any rights of control or direction—as for example, the capital invested in railway bonds, or the temporary borrowings from the banks contracted by most industrial concerns—does not affect this truth. It is entirely conceivable that enterprises might be carried on wholly with the use of such capital as gave no title to control over the conduct of the enterprise; but at present, the opposite, generally speaking, is the fact. And as is to be expected the work of direction is dominated normally by the necessity of earning profit for the owners of the enterprise—though many other sentiments and motives may and do mingle with the motive of profit-making. These facts form the basis of two suppositions, by the aid of which the argument of this book is carried out.

The first one is to this effect: that if rent incomes (in the sense of Ricardian rent) are left out of consideration, since they will not be directly affected by the policy of wage settlement, the product of industry is distributed in two major forms. These are to wit: that which is received by workmen in direct return for their labor, which is called wages; and that which goes to those who own, and therefore govern, directly or indirectly, the operation of industrial enterprises, which is called profits. It is hardly necessary to remark that the same individual may be in receipt of both forms of income. The second form of income "profits" is a mixed form of income which may be analyzed in different instances, into very different quantities of the elements which make it up. This mixed form of income, which goes to the owners of industry by virtue of their dual connection with industrial enterprise—the connection of ownership and direction—contains in some forms of enterprise a large element of what has been called "the wages of management"; in other forms this element may be almost entirely absent. So too with the element of "interest" and with the other elements which may enter into it. Throughout this inquiry the term "profits" will be used to indicate this mixed form of income.

The second supposition supplies an answer to a question that must be faced in any attempt to formulate a policy of wage settlement for industrial peace in the United States. That question is whether it shall be taken for granted that the desire for private profit will continue to govern the performance of the tasks of industrial direction. The wage policy that is developed in the course of this book is based on the assumption that the large majority, if not all, of the industries which would be included in it, were it adopted, will remain privately owned and operated. At the same time, it is by no means outside of current possibilities that certain of our greatest industries may change over into some form of public ownership; and that this ownership would be accompanied either by direct public operation, or very considerable public regulation of their operation. Therefore, we are led to ask whether a wage policy conceived on the assumption of private ownership and control would be applicable to industries under public ownership.

The answer will be different according to circumstances. If the régime of public ownership should become general, as is contemplated in the orthodox socialist theory, it is likely that, then, an attempt would be made to rest wage policy on principles fundamentally different than any that would be practicable under a régime of private enterprise. On the other hand, if public ownership should be extended only to a very few though important industries such as the railroads and coal mines, it is almost certain that the principles underlying the settlement of wages in the publicly owned industries would have to be the same as those applied in the privately owned. The general policy of operation might differ, however, in other respects. Thus, a policy of wage settlement formulated on the assumption of private ownership would not become unsuitable in the event that some industries became publicly owned.

The relations between those who carry out the actual work of direction in industry and the wage earners have been touched upon already from the point of view of the wage earners. It has been stated that the policy of wage settlement should give encouragement to such arrangements as will enable the wage earners to participate in the control over the conditions of production. Alongside of this general aim may now be put one other, which cannot in any way be embodied in the terms of wage policy, but which should be given a leading place in the calculations of those who execute the wage policy and therefore possess educative influence. That purpose is to try, by the educative power of their position to give vitality to the idea that those who direct industry have a duty to weigh the public interest in their operations, and to emphasize the necessity of seeking a basis of coöperation with the wage earners which will give them all possible chance to find their work healthy and interesting.

CHAPTER III—THE PRINCIPLES OF WAGES

Section 1. A knowledge of the forces governing existing wage levels essential in any attempt to work out a policy of wage settlement for industrial peace.—Section 2. Wage incomes determined by great number of forces. The three most important and constant among these stated.—Section 3. These three to be taken up in order. The volume of the flow of wealth in the country of the worker the first to be considered. Its relation to wages indirect, as all product is joint result.—Section 4. The scientific management theories of wages based on a misconception of the relation between the productive contribution of labor and wages. These theories merely an elaboration of one method of wage payment. They have perceived one important truth, however.—Section 5. The "group-demand" theory of wages as held by some trade unions, based on a similar misconception. Valid, sometimes, from group point of view; unsound from point of view of labor in general.—Section 6. The second important force determining wages is the relative plenty or scarcity of the different groups or agents of production. How this governs the share of the product going to wage earners.—Section 7. Many important modifying forces to the influence upon wages of relative plenty or scarcity. The most important considered.—Section 8. The forces determining the sharing out of the product of industry summarized. The idea of normal equilibrium in distribution a mistaken one.—Section 9. A brief analysis of the factors which determine actual plenty or scarcity of the different agents of production at any one time.—Section 10. The third important force introduced—the relative plenty or scarcity of different kinds of labor. The existence of relatively separate groups of wage earners discussed. The nature of an investigation of the principles of wages.

1.—In the preceding chapter, an attempt was made to mark some of the broader tests which will confront any policy of wage settlement for industrial peace and to foresee the ends that must be accomplished. An effort was made to define some of the conditions of industrial peace. To what extent these conditions are attainable, and how they are to be sought, remains to be studied. The starting point of further study is a knowledge of the forces which govern the distribution of the product of industry at the present time in the United States—that is, a knowledge of the principles of distribution. Our intention, however, is to undertake that study only in so far as it is necessary to explain how wage incomes are determined. Such a partial study of the principles of distribution with the special purpose of making clear the factors that govern wage incomes will occupy the next two chapters. They will constitute a statement of wage principles.

2.—The distribution of the product of industry between the wage earners and the other groups who share in it is a continuous process in which each group asserts its own interests and purposes. Wages are settled through a series of separate bargains between the wage earners and the owners or directors of industrial enterprises. The outcome of these bargains, as regards wages, is determined by the interaction of a great number of circumstances or forces, some of which are relatively more constant and more important than others. We will begin our study of wage principles by considering those forces which are relatively the most important and the most constant.

These have been cogently summarized as follows: " . . . the volume of the flow of wealth in the country of the worker; the relative plenty or scarcity of different agents of production; the relative plenty or scarcity of different kinds of labor." [1] They may be taken up in the order stated, at the same time noting the way their action is modified and complicated by other factors.

One preliminary comment may be admissible. It is to the effect that there has been in the past a tendency to view the problem of distribution (and so, of wages) as if it consisted of making clear by analysis the balance or equilibrium of a few given and unchanging tendencies—which were deduced from human and physical nature. These forces furthermore, were frequently held to be universal; the conclusions based on them have often been likened to physical laws. Such a view obscures the fact that any analysis of distribution is but a description of the working of a particular industrial society at a particular time. To mistake what is a description of a particular society for a study of the action of physical laws has the effect of leading men to believe that the present must forever reappear in the future.

[1] H. Clay, "Economics for the General Reader" (English edition), page 333.

3.—The first factor, "the volume of the flow of wealth in the country of the worker," was never more under discussion than to-day, when from all sides demands are heard for the material means necessary to the realization of desires. As the matter is ordinarily put, the greater the product of industry is, the more there is for distribution among all. The truth of this statement seems obvious. Yet in interpreting it into policy more than usual care must be taken lest it be forgotten that other things may make a larger contribution to satisfactory living than an increase in these possessions which make up the flow of wealth. Instances are by no means lacking of increases of production obtained at the sacrifice of something more important to human life than the additional product secured. There is a "mean" here also between labor and leisure.

All this, however, reads like a lawyer's brief about a simple matter. The greater the volume of goods and services resulting from the labor of society, the more there is to share out; and the greater in amount will the share of the wage earners be, even if their relative share is not increased.[1]

The volume of production depends upon the quantity and quality of each and every agent that assists in production, and upon the organization of the separate powers, and above all upon the progress of invention and of the industrial arts. It depends directly upon: first, the natural re-

[1] See A. C. Pigou, "Wealth and Welfare," page 20.

sources of the country—which are ordinarily summarized in economic discussion under the term "land"—"by land is meant the material and the forces which nature gives freely for man's aid, in land and water, in air and light and heat;"[1] second, the "accumulated provision for the production of material goods"—capital—which was discussed in the preceding chapter; thirdly, on the labor of men and women—on the degree of spirit, skill, energy and intelligence which characterizes that labor; fourthly, on the quality of leadership which manifests itself in industrial affairs, and the success with which the elements of production are brought into well directed coöperation; fifthly, on the progress of invention and the industrial arts.

The relationship between the volume of production and wages is indirect. Though it is true that the larger the product, the higher wages will be, all other forces remaining the same, the connection between them is by no means simple or direct. That is because the wage earners share in a product to the making of which other agents contribute. In our present industrial system work is done under direction, and by the aid of tools and machinery; it is highly subdivided. It is impossible to determine the contribution to total production of any group of workmen, or of all workmen. The product is a joint result in

[1] A. Marshall, "Principles of Economics" (7th edition), page 138.

which the part played by any one group, instrument, or factor of production cannot be traced. Who, for example, is able to say how much productive activities have been aided by the invention of the telephone and the growth of the telephone system? The problem of the distribution of the product of modern industry is so difficult and so much to the fore because so many different people contribute in some way or other to the product and have a claim upon it.

Wage incomes may be affected by changes in the volume of the product, no matter what the cause or nature of the change. If suddenly some new chemical fuel were discovered in the laboratory, or some business efficiency expert were to discover some formula which made motors go round, the labor now spent in coal mining could be turned to other tasks. The volume of economic goods produced would be increased. The product to be distributed would be greater, and wage incomes would rise. A similar result would ensue if the magic formula of the expert endowed all workingmen with greater skill and energy. Any addition to or subtraction from the capacity of any agent of production tends to affect not only its own income, but that of all claimants. The reward of any one agent of production, for example, labor, depends not only on its own part in production, but upon the contribution of all other factors. A craftsman in the United States may be no abler than his fellow workman in France, but may receive twice his wage.

This line of reasoning must be qualified in one respect. There is some competition for employment between the several agents of production. Their relative efficiency will affect the demand for them, and so will also affect the share of the product each receives most directly. That is a phase of the subject that will be considered at greater length at another point.[1]

4.—Given an industrial society at work like the United States, producing each year a varied flow of commodities and services, the question arises as to what determines the share of that flow that goes to the wage earners. We have already seen that the larger the product is, the higher wages are likely to be. But what determines the sharing out? That is the next matter to be considered. First, however, let us examine briefly two theories of wages which are more or less current in certain quarters, and which are built upon partial or complete misunderstanding of the connection between wages and the work actually performed by the wage earners.

The first theory, or rather group of theories, is that to which some of the leaders of the scientific management movement have given their sanction. The central idea of this group of theories is that in the output of the wage earners, considered either as individual output or as the output of a small group engaged on a common task, is to be

[1] See pages 56-8, this chapter.

found the final and just measure of wages. It is frequently assumed in the course of the reasoning used in support of these theories, that wages can and should measure a separate contribution which the individual wage earner makes to production. The positive, although hazy, belief which ordinarily underlies the scientific management theories of wages can be perceived in the following quotation from a speech of one of the leading advocates of the movement. "There are two ways in which wages can be advanced. One is the natural method, the proper method, the beneficial method, the one that tends to the uplift of the world. That is to make the advance depend absolutely on the effort of the worker. When the worker delivers more, it is perfectly proper that the returns should go up. In other words as unit costs go down wages can very properly rise, and they should rise. Under these circumstances, the worker is tremendously interested in seeing that the unit costs go down. There is a regular mathematical law here. Only to a certain extent can the unit cost go down and only to a certain extent can the wages go up. . . . On the other hand, when you raise wages without any connection whatever with the unit cost you inevitably find that the worker takes his bonus in the form of more leisure. . . ."[1]

[1] Address of Mr. Harrington Emerson at the National Conference of the "Society of Industrial Engineers and Western Efficiency Society" on labor problems.

At the risk of repetition, it may be remarked that the output of an individual or a group of individuals is of necessity but a contribution to a joint product, and is dependent upon many other things besides the effort of the individual. And, therefore, even if the view that each individual should get what he produces were found to be acceptable as a basis for distribution, any attempt to base wages solely upon considerations of individual or group output must rest on a false assumption. Any laws or principles for the determination of wages must reckon with a far wider and more numerous set of considerations than those taken into account by the scientific management theories of wages. These can only be understood by a study of the economic facts and arrangements which govern distribution, and by weighing many questions of social and economic expediency. To talk about basing wages solely on the effort of the worker is to ignore the obvious fact that much of the most laborious work is the worst paid.

The exponents of scientific management have not discovered a law of wages; they have simply elaborated a method of wage payment. Mr. G. D. H. Cole has expressed that well. "Clearly, although scientific management methods may reduce the possible margin or error in determining piece-work prices, they cannot altogether remove it, and even if the time that ought to be taken for a job is clearly established a further complication confronts us. All the time-study in the world cannot show how much ought to be paid for a job. It can only show at most the length of time a job ought to take. That is to say, it cannot determine what is to be the standard of living or of remuneration of the workers. . . . This, indeed, is only another way of saying that Scientific Management has only devised a further method of payment under the wage system."[1]

The exponents of these theories fell into the error of believing they have unveiled a law of wages because they grasped one important truth. That truth is that where the productivity of labor is high, where labor is efficient, there is a greater chance, all other circumstances being the same, of securing high wages than when the reverse is the case. Or as the matter has been put in one of the reports of the U. S. Industrial Commission (1912-16) "A close causal relationship exists between productive efficiency and *possible* wages. Greater efficiency and output makes *possible* higher wages in general and better conditions of employment and labor."[2] (Italics mine). That the scientific management doctrine of wages consists of nothing more than a method of wage payment is clearly established by its failure to substantiate in

[1] G. D. H. Cole, "The Payment of Wages," page 67.

[2] Final Report of the Committee on Industrial Relations (1912-16). Report signed by Commissioners Manly, Walsh, Lennon, O'Connell, and Garrettson—the section on scientific management stated to be based on an investigation conducted by Frey, Valentine, and Hoxie, page 128, Vol. I.

practice its claims of furnishing a scientific and equitable method of fixing wage rates. On that point the same Industrial Commission reports that "In analyzing the wage fixing problem in connection with scientific management two matters are considered; one—the "base-rate" sometimes called the day wage, which constitutes for any group of wage earners the minimum earnings or indicates the general wage level for that group, and two—added "efficiency payments" which are supposed to represent special additional rewards for special adjustments. The investigators sought in vain for any scientific methods devised or employed by scientific management for the determination of the base-rate, either as a matter of justice between the conflicting claims of capital and labor, or between the relative claims of individual and occupational groups." [1] As a method of wage payment, of course, the method of scientific management must be judged by its good and bad effects like other methods of wage payment. That, however, is not a task which need detain us.

5.—The other group of wage theories that is based upon a similar misconception of the relation between the productive contribution of labor and wages cannot be so briefly dealt with. This is the group of theories which has been named "the fixed group demand theory" and it has figured

[1] *Ibid.*, Vol. I, pages 131-2.

prominently in most discussions concerning restriction of output. This group of theories also rests upon the assumption that there is a fixed relation between the productive contribution of a group of workmen and the wages received by these workmen.

The fixed group demand theory has been summarized as follows: "The demand for the labor of the group is determined by the demand for the commodity output of the group. The community-wealth and distribution remaining the same—has a fairly fixed money demand for the commodities of a group. It will devote about a given proportion of its purchasing power to these commodities, that is, if the prices of the group commodity are higher, it will buy less units and vice versa, but expend about the same purchasing power. Therefore, the demand for the labor of the group; profits remaining the same, is practically fixed, and increasing the group commodity output means simply conferring a benefit on the members of other groups as consumers without gain to the group itself. Therefore, to increase the efficiency and output of the group will not increase the group labor demand, and group wages. Decreasing the efficiency and output of the group will not decrease the group labor demand and the group wage."[1] Or in simpler terms, that the community will want a relatively fixed amount of the

[1] R. F. Hoxie, "Trade Unionism in the United States," page 162.

product which the group helps to produce. And thus if the group reduces the time needed to make that product, it will not benefit and may even be harmed, because the services of some of its members will be no longer needed. And, on the other hand, that the members of the group will not be harmed by keeping the products of its labor scarce and high.

This line of reasoning, as held by some trade unionists, is valid on occasion, from the point of view of particular groups of workmen—especially during short periods. It is a fact that in many cases workmen employed in particular industries or occupations, may not be benefited and may even be injured by a display of extra effort or by the adoption of a new and more efficient method of production. The benefit of that extra effort or new method may not go *directly* and *immediately* to the group which makes the effort or utilizes the new method—it may not go to that group at all except in so far as they may be consumers of their own product.

The question of an adequate supply of new houses is at present a vexed one and is likely to remain so for some years. Therefore it makes a good illustration of the difficulties involved in the question under discussion. Suppose it were possible for all the labor employed in the construction of houses to increase their effort and accomplish, let us say, a third again as much as at present. Would that increase of effort repay these workmen—would they receive higher wages? It is not a matter that can be argued with certainty. The expense of construction would fall rapidly, unless combination among the firms supplying building materials or among building contractors prevented such a fall. In the event that the cost of construction fell, there can be little doubt that more construction would be undertaken. Would the increased demand for construction lead immediately to an increase in demand for building labor sufficiently great to give employment to workmen who would not be needed on the old construction because of the increase in individual output? Would it be so great as to mean a more than proportionate increase in demand for building labor and a consequent rise in wages? Would its effect be felt immediately or only after the passage of some months, during which a number of the building laborers would be without employment? What will be the effect on employment two years hence?

Looked at in this light, the skepticism of trade union groups in regard to appeals for an increase of effort is easy to understand. It arises from the simple desire of the group to protect their position in industry by the only means they possess. It is an attitude strengthened in many cases by the memory of weeks without work and efforts ignored. It is a bitterness, like to others, which men inherit from experience.

Yet it can be stated with emphasis, that from the point of view of the wage earners as a whole, and of all of society, that any consistent adherence to this group demand theory of wages would be mistaken and unsound. The use of improved methods of production by any group, the more efficient performance of their work, may not result in a quick fall in the price of the product they are engaged upon, though sooner or later it usually does. The fall in price may or may not lead to rapid increase in the demand for the product of the group sufficiently great to give employment to all its members, or increased employment; although that result has usually appeared in the long run also.

The fundamental fact is that the demand for the product of labor is ordinarily subject to indefinite increase. If labor is economized in one direction, the power dispensed with will be utilized in another direction. The community income of economic goods is a flow. Under our present system of division of labor each individual uses his share of the product (which he measures in terms of money) to buy the particular commodities, or to make the particular investments he desires. If he gets some commodities cheaper than formerly, he will buy more, or buy commodities he had not been able to buy hitherto or increase his investments. The demand of the community for the product of labor in general will ultimately keep pace with the supply of the product. Economies in production throughout the whole industrial field mean that there will be more commodities to be shared out.

Thus, in spite of the fact that there may be, and often are, serious breaches of interest between particular groups of wage earners and society as a whole on the matter of increased production, there can be but one sound policy for labor as a whole. That is to strive to increase production up to a point where further effort would entail a sacrifice of welfare more important than that which the extra product might represent.

Such general theoretical propositions as the above, however, will never be sufficient to persuade particular groups of wage earners to take a different view of the interests involved. It is easy to understand Carlyle's contempt for the smug complacency with which such propositions have often been put forward, when he wrote, "New Poor Law: Laissez faire, laissez passer! The master of horses, when the summer labor is done, has to feed his horses through the winter. If he said to his horses: 'Quadrupeds, I have no longer work for you; but work exists abundantly over the world: you are ignorant (or must I read you Political Economy pictures) that the steam engine always in the long-run creates additional work? Railways are forming in one quarter of this earth, canals in another, much cartage is wanted; somewhere in Europe, Asia, Africa and America, doubt it not, ye will find cartage, and good go with you!'

They with protrusive upper lip snort dubiously; signifying that Europe, Asia, Africa and America be somewhat out of their beat: that what cartage may be wanted there is not too well known to them. *They* can find no cartage. They gallop distracted along highways, all fenced in to the right and to the left. Finally under pains of hunger, they take to leaping fences; eating foreign property, and—we know the rest."

The reasons are plain. First, because the fixed group demand theory is, after all, only one variation of the art of monopoly—though a variation in regard to which special conclusions may be drawn. Therefore, as long as monopoly is widely practised particular groups of wage earners will be likely to take advantage of whatever opportunities for monopoly may present themselves; even if it can be proved that the policy pursued injures the wage earners as a whole more than any other industrial group. Short-sighted selfishness will always arise in an atmosphere of distrust. If the wage earners, for example, believe that the product of their increased effort will serve but to add to the profits of rings or combinations controlling prices, they will not make that effort. They must be able to see that conscientious work really does contribute to the general good. And second, because at times, the general interest in effective production can only be served at the direct and serious expense of particular groups of wage earners. Such a situation arises, for example, when a skilled craft is faced with a revision of its processes that eliminates the need for skill, and results in the lowering of the wages of the group. This is a common event.

Up to the present, such conflicts between particular interests and the general interest in effective production have been solved by a trial of economic strength, and by time. The viewpoint of the wage earners is clearly put in a statement by the National Organizer of The Transport Workers Federation (Great Britain) before the Court of Inquiry held upon the subject of the wages of the transport workers. He maintained "that the industry ought to carry to a greater extent than it had done hitherto the responsibility for the unemployment that was peculiar to it. He had always been quite frank with the employers. If they wanted a ship speedily dispatched he would not do it, if that meant that his men would be thrown out of work."[1] That, however, is a method which results ordinarily either in a sacrifice of welfare or production, or of both. The worst results incident to these conflicts could often be avoided by making them the subject of joint discussion by all those whose interests are directly involved. Discussion might lead to working compromise which would protect the wage earners against too great or too sudden loss. Even under the best arrangements, however, such conflicts of interest will be far from easy to resolve satisfac-

[1] London *Times*, Feb. 7, 1920.

torily; they will remain in the words of Mr. Cole "a question, not of machinery, but of tact and temper." [1]

6.—We may now turn to the main question in hand. What forces do govern the sharing out of the product of industry in the United States today? What determines wage incomes? So far we have only examined the general proposition that the larger the product, the higher wages are likely to be, other things remaining unchanged.

The relative plenty or scarcity of the different groups or agents of production is a constant and important force in the distribution of the product of industry. From the perception of its significance, spring many of the loose statements of the action of "supply and demand," which are ventured as complete explanations of the wage situation. It is not possible to give a simple explanation of the part which relative plenty or scarcity does play in the determination of wages. For other forces which affect distribution act simultaneously with it, and all intermingle their results.

[1] G. D. H. Cole, "Payment of Wages," page 30. Discussion of the speeding up question. The best analysis of the problem created by the introduction of new and simplifying machine processes in skilled trades is to be found in a volume called "Labor, Finance, and the War," Report of the Committee of Investigation (1917), The Econ. Section, British Assn. Advancement of Science. In the same volume there is a careful analysis of the whole question of limitation of output. See also the chapter called "Unemployment" in Lord Askwith's "Industrial Problems and Disputes."

The influence of relative plenty or scarcity (to use an elliptic phrase) upon the outcome of distribution is easily understood if it is kept in mind that the distributive process is one of repeated negotiation and bargain. In this process each group or agent strives to get a high return for its services in production. There is a steady, though imperfect competition between the various units of each and every group or agent for employment; there is likewise a steady, though imperfect, competition for the use of the various units of each and every group or agent. These conditions require no elaboration.

It is in this process of competition for employment, and competition to employ, that the return to labor—wages—is decided, simultaneously with the return to each and every group or agent. The return to labor will be high if the employment of the ordinary worker, *as part of a productive organization,* adds considerably to the total of market values produced. For if the ordinary wage earner, by his work, makes possible a considerable addition to the market values produced, competition among employers for men will lead to the payment of high wages, and vice versa.

Now this last result will be largely determined by the relative plenty or scarcity of the various agents of production. If the productive organization has at its command a plentiful supply of capital; if in the community there are many men possessed of a high order of business ability; if then, labor for the commoner tasks of production is relatively scarce, the work of the ordinary wage earner will be a means of adding considerably to the total of market values produced. Or, as it is sometimes put, each use of labor will be an important use. Labor will be in great demand, and wages will be high. If the opposite conditions exist, the outcome will be reversed. In other words, there is a tendency for work to be highly valued when the number of men available for doing it is small and when the work is performed with the aid of highly perfected machinery, in a community in which able business men are plentiful. Each laborer will find his services easily sold for good wages; for his labor will be an important aid to production.

A word of warning should be added to this summary conclusion.

It does not follow that because the wage incomes of the individual laborers are high, the total relative share of the product which takes the form of wages will be high. The wages received by individual wage earners are no indication of the share of the product received by all wage earners. That depends not only on the return to each wage earner, but also on the total number of wage earners, and upon the number and return to each of the other agents of production. In China, for example, where most work is done by simple hand labor, wage incomes are low. But because the number of wage earners is great, and the amount of capital used is very small, the total share of the product that takes the form of wages is high. The opposite is true in the United States and England. There individual wage incomes are relatively high. But because of the great amount of capital employed, and the great call for business direction, it is doubtful whether much more than half the total product is received by wage earners.[1]

7.—Moreover, any statement as to the influence of the relative scarcity or plenty of the various groups or agents of production, as unqualified as that just made must be incorrect. It gives no clew to the importance of interacting factors. Here, as elsewhere in economics, many separate causes meet to produce a result. The disentanglement of their effects is frequently so difficult as to make more than an approach to the truth possible. The part each cause plays often remains somewhat obscure. Yet without reckoning with these interactions not even an approach to the truth is possible. So it is necessary to proceed now to a brief study of the other influences which play a part in distribution; and which lead to results somewhat different from those just described.

First, account must be taken of the fact that the various groups or agents of production are not entirely complementary, as has been assumed up to this point. Their outstanding relation—that of coöperation in the production of a joint product

[1] See A. L. Bowley, "Distribution of Income in the United Kingdom Before the War."

—has already been studied. But there is also a measure of genuine competition between them for the field of employment. An unusually clear and detailed example of the nature of this competition is to be found in the report of the commission on "The Decline of the Agricultural Population in Great Britain." To quote "Many expedients, other than actually stopping the plow, were adopted to reduce the labor bill. But while manual labor has no doubt been economized to some extent by curtailing some of the operations which require it, the main cause of reduction is undoubtedly the extended use of labor saving machinery. This is referred to by the large majority of correspondents in all parts of the country. With the exception of the self-binding harvester, which was introduced into this country in the eighties, few machines for the performance of a specific manual operation have perhaps been invented since 1891 (unless milking machines, shearing machines, and perhaps potato diggers come within that category), but whereas twenty years ago labor saving machinery was fully employed by comparatively few, it has now become almost universal on all holdings of sufficient size to make its use practicable. The substitution of mechanical for horse or hand power, for mixed machinery, e.g., threshing machines, chaff cutters, pumps, etc., has taken place largely, although it has made comparatively little progress for tractive purposes. It may indeed, be questioned if steam is so largely employed in the cultivation of land as it was twenty years ago. But the displacement of manual labor arising from the greatly extended use of drills, horse hoes, mowers, binders, manure distributors and the like must have been in the aggregate very great and probably to this more than to any other single cause the reduced demand for farm laborers may be attributed."[1] As Professor Marshall has remarked of such cases of competition for employment between labor and capital as this, the competition is in reality between one kind of labor aided by much waiting, and another kind of labor aided by little waiting. Nevertheless, the fact of competition between the various groups or agents is a fact of no mean importance in distribution. As has already been suggested, the efficiency of the wage earners plays a part in determining their field of employment in this competition for employment.

Secondly, the simpler statements of the action of the factor of relative plenty and scarcity, such as are represented by the marginal diagrammatic expositions familiar in economics, obscure the fact that distribution is a process in which human wills are actively engaged. The constant assertion of will is a real force in the working out of distribution. Each group with a claim to a share of the product, by organization, agitation, and other tricks of the market place strives to forward its in-

[1] Report of the Commission on the "Decline of Agricultural Population" (Great Britain), 1906, page 14, CD 3273.

terest. It explores, by pressure upon the price mechanism and otherwise, the full extent of the dependence of the industrial system upon it or its product, as when monopolists control prices, or a trade union strikes to enforce a wage demand. Each group or agent tends to favor or resist changes in laws, industrial methods, and institutions according as it expects to be benefited or otherwise by the change. This may be seen in the discussions surrounding the introduction of the eight hour day, or concerning the limitation of immigration. However, it is a careless exaggeration to state, as is frequently stated, that the attitude of groups to economic legislation must inevitably be determined by their economic interest.

Every part of the industrial system yields at some time and occasion to the impact of the human will. Even changes in the arts of production may result therefrom, as is well exemplified in Mr. Clay's analysis of the way in which the standard of life of the wage earners may exert an influence over wage rates. . . . This conception of a standard of life, though fluctuating, is a relatively fixed thing in the flux of forces determining distribution. The workman, by combination tacit or explicit, fixes it and his employer adjusts production to it. The employer will do all in his power, usually with success, to secure an increase in output in return for every increase of wages, and where the local standard compels him to pay higher wages than his competitor in other districts to extract an amount of work correspondingly greater."[1] Or, take the hope entertained by the advocates of the living wage, that its enforcement would produce a better type of management in those industries to which the legislation is applicable.

It is characteristic of the present industrial situation that no group should rest quietly under the dictation of what it is told is economic law or necessity. Given its way, each group tests anew the habits and arrangements by which it is constrained. Every time an industrial method is modified, the agents which share in distribution strike a slightly new balance. The direction of the stream of product changes with every modification of its banks. Some of these modifications occur so unexpectedly that they are not to be found upon the maps. The pilot, as Mark Twain said of the Mississippi, must carry the conformation in his head.

Thirdly (this is usually stated as a limitation of the precision of economic analysis), such a simple analysis of the action of the factor of relative plenty or scarcity as has been given, takes no account of the existence of certain human traits and qualities. As a matter of fact each group or agent of production receives, not what it must

[1] H. Clay, "Economics for the General Reader," pages 237-38. See also Essay by the same author entitled, "The War and the Status of the Wage Earner" in a volume entitled, "The Industrial Outlook" for a more extensive analysis of the part played by the standard of life in fixing wages.

receive, but rather what it manages to secure in the higgling of the market. Ignorance of the state of the market plays a part in distribution. A sense of fairness plays a part, as when an employer pays wages higher than are current because his business is prosperous. Anxiety plays a part, as when the fear of unemployment leads a man to accept a wage below that which he might have asked and secured if he had some money to fall back upon.

Lastly, changes in distribution resulting from a change in the relative plenty or scarcity of the various groups or agents of production may, in turn, cause further changes in the actual state of plenty or scarcity; or may bring about changes in any of the other forces which affect distribution. For example, it is conceivable that an increase in men's wages in certain industries (due, let us say, to an improvement in productive methods) should be the cause of a withdrawal of a certain amount of juvenile labor from employment in these industries. This withdrawal might in turn lead to an increased demand in those industries for adult labor, and so in turn affect the distributive situation. The process of distribution is a process in which few changes can occur in any direction, without these changes in their turn giving rise to further changes.

8.—The foregoing exposition of the forces determining the share of the product of industry that goes to the wage earners can be briefly summarized. The process of distribution is carried out mainly by the action of competition; it is marked by active and stubborn self-assertion on the part of all groups which share in the product. One of the most important and constant factors in the determination of the outcome as regards wages is the relative plenty or scarcity of the various groups or agents of production. For the contribution made by the ordinary worker, *as a part of a productive organization,* to the total of market values produced, is largely settled thereby. However, other human qualities besides those which are ordinarily considered as to be active in the competitive process figure in the distributive outcome. Furthermore, changes in distribution, brought about by any other cause may in turn modify the relative plenty or scarcity of the various groups or agents of production, and thus result in further changes. And lastly, since the distributive situation at any given time, is dependent upon human arrangements, the idea that underlying all distributive action, there is a tendency to approach a point of "normal equilibrium" must be rejected. For human behavior is frequently directed to produce change, not repetition. The better informed that human beings and communities are of the consequences of their actions, the stronger the tendency mutually to control and adjust them for defined purposes. Therefore, the idea that the distributive situation at any given time is directed to a point of rest or equilibrium is incorrect. Many diverse tendencies, some of long standing, some of newer birth, act to produce future results different from those of the present or past. The concept of normal equilibrium is inadequate to account for the distributive situation at any given time; it is misleading with regard to prospective policy.

9.—The preceding sections were devoted to an explanation of the manner in which the relative plenty or scarcity of the various groups or agents of production influenced the sharing out of the product of industry, and of the interactions to which this factor was subject. It may now be asked what governs the actual state of relative plenty or scarcity of the various groups or agents of production. No answer could be returned to that question, however, without undertaking a far-reaching investigation of a great number of separate conditions and tendencies. The task is far beyond our present opportunity. It is worth while, however, for present purposes, to delimit the task sharply, and to attempt a brief enumeration of the most important of the conditions which determine, on the one hand, the need of the productive system for labor, and, on the other hand, the supply of labor—that is, of the relative plenty or scarcity of labor.

The conditions which govern the need of the productive system for labor may be summarized as follows: Firstly, the consumption habits of the community, by which is decided the direction in which the productive powers are employed; secondly, the state of the productive arts, which governs the manner in which the various agents of production are combined for purposes of production; thirdly, the available supply of the agents of production, other than labor. Each of these are in return governed by a complex set of forces.

The conditions determining the supply of labor may be summed up under two headings: Firstly, "the state of knowledge, and of ethical, social and domestic habits." [1] Secondly, the tide of immigration and emigration. The conditions which are summarized under the first heading govern the supply of labor in many different ways. They govern the length of the working day; they settle the regularity of work. They determine the number of the members of the family that seek work. They regulate the ages of entrance into industry and retirement from industry. They tend to govern the rate of growth of the population—both through the birth and the death rate. It should be clearly understood, however, that many of these habits or conditions are themselves, in a measure, a function of the level of production and of earnings. For example, the state of knowledge within a community is to-day very considerably

[1] A. Marshall, "Principles of Economics" (7th edition), page 642.

affected by the financial support of education—by the amount the community can (as well as does) spend upon it.

The importance of immigration and emigration is firstly, the addition or subtraction thereby made to or from the supply of labor, and, secondly, the influence of the immigrants upon those habits of the community, which in turn affect the supply of labor.

10.—The third of the forces quoted earlier in the chapter, as among those which play a constant and important part in the determination of wages, is the relative plenty or scarcity of different kinds of labor. The statement of this force acknowledges the existence of facts which up to this point have been barely recognized. It calls attention to the existence of considerable differences in the levels of earnings of different groups or kinds of labor. It suggests also that the relative plenty or scarcity of the different kinds of labor is the chief explanation of these wage differences. We shall investigate at some length the causes of these differences in the next chapter. Before going on to that subject, however, it is well to trace out the connection between the idea of "a general rate of wages" as it has been held, and the existence of different wage levels.

The idea of a general rate of wages, as it appears in economic theory, rests upon certain broad assumptions. One of the most important of these is that there are no "differences of inborn gifts," which would lead to a limitation of the flow of labor into the upper grades, and thus lead to a separation of grades. A second important assumption is that of complete mobility of labor—no obstacles of habit, expense or ignorance to retard the flow of labor from place to place, or from industry to industry. A third assumption is the absence of combination among the workers. A fourth is that of equality of opportunity among the wage earners; and the absence of barriers of race, religion or sex.

Granted these assumptions, the tendency to equality of earnings for labor demanding equal skill and effort and performed with equal efficiency is established. Competition among the workers for employment and among the employers for workmen would bring this about. Such differences of wages as would exist would arise from differences in the nature of the work performed. Thus Adam Smith wrote that "in a society where things were left to follow their natural course, where there was perfect liberty, and where every man was perfectly free both to choose what occupation he thought proper, and to change it as often as he thought proper" five circumstances would explain "a small pecuniary gain in some employments, and counter balance a great one in others." These in his words were: "First, the agreeableness or disagreeableness of the employments themselves; secondly, the easiness and cheapness, or the difficulty and expense of learning them; thirdly, the constancy or inconstancy of employment in them; fourthly, the small or great trust which must be reposed in those who exercise them; and, fifthly, the probability or improbability of success in them."[1] All such differences would be such as "equalize the attractiveness of occupations" and would be "equalizing differences."[2]

If these assumptions were realized in fact, it would be correct to view the problem of wages as the study of one set of relationships that governed a basic level of wages—called the general rate of wages—with purely supplementary studies of the circumstances governing equalizing differences. The problem of wages would be a study of forces which were uniformly influential in relation to the wages of all labor. For all wages bargains would be governed by them.

In truth, however, practically none of the assumptions underlying the theory of a general rate of wages are perfectly realized in the United States to-day, and some of them stand in almost direct opposition to the fact. It has come about, therefore, that different kinds of labor have relatively independent economic fortunes. The forces which govern distribution do not effect them equally. Facts and circumstances which enter into the de-

[1] Adam Smith, "Wealth of Nations" (Cannan's Ed.), Book I, pages 101-2.

[2] F. W. Taussig, "Principles of Economics" (Revised Edition), Vol. II, page 124.

termination of the level of earnings of one kind of labor may not affect the level of earnings in other groups. The differences between the level of earnings of the various groups cannot be explained entirely as "equalizing differences." The "perfect liberty" of choice of Adam Smith does not exist.

Therefore, an investigation of wage principles requires study of two sets of forces and relationships. Firstly, of the forces which govern the outcome of distribution as between each and all of the labor groups and the other agents of production.[1] And secondly, of the causes of the formation of relatively separate groups of wage earners, and of the forces which govern the differences of wages between them. The first set of these distributive relationships has been the principal subject of this chapter. The other set will be the principal subject of the following chapter. Any policy of wage settlement must be based upon a knowledge of both sets.

[1] The phrase "each and all of the labor groups" is used to indicate that the level of earnings of all the labor groups is determined largely by forces which affect them greatly (those examined in this chapter), and yet that the determination of the level of earnings of each group is something of a separate process—due to the fact that the suppositions underlying the idea of a general rate of wages are not fulfilled.

CHAPTER IV—PRINCIPLES OF WAGES
(*Continued*)

Section 1. We have next to examine the causes of formation of relatively separate groups of wage earners.—Section 2. What is meant by a "relatively separate group"?—Section 3. The causes of the existence of these groups in the United States to-day. Inequality of natural ability; inequality of opportunity; artificial barriers. All these contradictory to assumptions behind theory of general rate of wages.—Section 4. Trade unions another factor in the formation of relatively separate groups. Indirect effects in opposite direction.—Section 5. Each of these groups has a relatively independent economic career. There are a series of wage levels, all of which are governed to a considerable extent by the same forces.—Section 6. The way in which the relative plenty or scarcity of each kind or group of labor affects its wages. Other forces play a part also.—Section 7. The nature of wage "differentials."

1.—We have next, therefore, to look at the causes which lead to the maintenance of relatively separate groups of wage earners, and then at the forces which govern their relative levels of earnings.

2.—First of all let us make clear some of the characteristics of the relatively separate groups of wage earners in the United States to-day. They vary greatly both in size and in kind. They are apt, however, to be conceived as similar because of the force of logic. It is not entirely satisfactory to classify them either as horizontal groups (having reference to their position in the scale of skill, or of society) or as vertical groups (having reference to their separation by industries). For the position of certain groups may be due both to the influence of those forces which bring about horizontal divisions, and of those which bring about vertical divisions. Such, for example, is the position of a craft which requires a measure of education and training which those who are placed by circumstances at the bottom of the industrial scale cannot easily get, and which besides it is difficult to enter because of trade union regulations.

Marshall has described the situation in England in terms that roughly fit the facts in the United States also. He suggests that the different occupations may be thought of "as resembling a long flight of steps of unequal breadth, some of them being so broad as to act as landing stages." "Or even better still," he writes, "we may picture to ourselves two flights of stairs, one representing the 'hard-handed industries' and the other 'the soft-handed industries'; because the vertical division between the two is in fact as broad and as clearly marked as the horizontal between any two grades." [1]

[1] A. Marshall, "Principles of Economics" (7th Edition), page 218.

The position of any relatively separate group is usually to be accounted for only as the result of many forces, each of which has some effect upon the rest. For example, barriers of custom or on vested right may limit the field of employment for women. This would tend to establish one level of earnings for women, and a different one for men. As a result women might find it harder to get the training necessary to enable them to compete with men. And so the interaction of causes would proceed.

So much in the way of preliminary remark upon the characteristics of the relatively separate groups of wage earners in the United States to-day.

3.—Among the causes which account for the existence of these groups there are some which if they stood alone would merely modify the applicability of the idea of a general rate of wages.

Such, for example, is the fact that the wage earner's knowledge of existing opportunities for employment is limited. Considerable discrepancies of wages for the same work may arise; although the facilities for the spread of information regarding wages has greatly improved, especially in the more skilled trades. Then there are, also, various expenses of removal, both material and psychological, such as are involved in the shifting of a family from the city in which it has long been established.[1] There are, also, the handicaps and hazards attached to the learning of a new job or trade even though the new job holds out hopes of considerably better wages than the old one. All such facts as these—for but a few examples have been chosen from among many—however, are reconcilable with the theory of a general rate of wages. They are but minor qualifications of a broad general principle. Other facts challenge that theory more seriously. They really do point to the existence of relatively separate groups of wage earners, each with an economic career somewhat independently determined.

First among them must be put the inequality of natural ability possessed by individuals, and the consequent fact that the numbers who possess the inborn capacity required for certain kinds of work is relatively small. It results from this

[1] For an interesting account—from the point of view of the visiting observer—of the mobility of American Labor, see the Board of Trade (Great Britain) investigation: "Working Class Rents, etc., in American Towns" (1911). CD 5609, Pt. V. ". . . As a consequence partly of the comparatively rapid industrial development of the country and partly of the scope of its resources, and acting in response to the opportunities which are offered, either in centers where urban industries may be more rapidly expanding, in agriculture or in mining the mobility of labor is unusually great. In fields of employment that are well known as centers towards which great numbers of foreigners drift; in which much of the labor is unskilled; in which work is especially laborious as in the iron and steel works, or especially intermittent as at the stock yards and packing houses of Chicago, the constantly changing stream of labor that passes through is a conspicuous factor of the situation. But in general, there is an unusual degree of movement and restless change."

limitation of the higher forms of natural ability, that the wages received for the more skilled forms of labor may be considerably higher than for the less skilled forms without such an increase of numbers in the more skilled groups as would bring down their wages to the general level. The competition for employment on the tasks demanding skill is limited; separate groups develop. It is impossible to tell the extent to which differences in inborn capacity would lead to the formation of relatively separate groups of labor, if all the other assumptions underlying the theory of a general rate of wages were fulfilled in fact. Prof. Taussig has expressed this well. "What would be the differences in wages, and to how great an extent would groups and classes persist, if all had the same opportunities, and if choice of occupation were in so far perfectly free? Would wages then differ only so far as they might be affected by attractiveness, risk, and other causes of equalizing variations? Would coarse manual labor, for instance, then receive a reward nearly as high as any other labor, nay, conceivably (since the work is dirty and disagreeable) higher than any other? Would the soft-handed occupations lose entirely the advantages in pay which they now commonly have? The answer must depend on our view as to the limitation of natural abilities. It is clear that some gifted individuals—a few men of science and letters, inventors and engineers, business men and lawyers, physicians and surgeons—would tower above their fellows, and would obtain in a competitive society unusual rewards. But would physicians as a class secure higher rewards than mechanics as a class? They would do so only if the faculties which a capable physician must possess are found among mankind in a limited degree. And mechanics, in turn, would receive wages higher than those of day laborers only if it proved that but a limited number possessed the qualities needed. On this crucial point, to repeat, we are unable to pronounce with certainty. What are the relative effects of nature and of nurture in bringing about the phenomena of social stratification, we cannot say." [1]

Next among the facts which account for the existence of relatively separate groups of wage earners are those which are usually summed up under the phrase inequality of opportunity. Equality of opportunity in the way of education and training, and in the way of healthy and strengthening environment would have to be assured before the theory of a general rate of wages could possibly apply. This equality of opportunity is not realized in the United States to-day.

The United States has been the scene of continuous and heavy immigration. The mass of this immigration entered into the field of unskilled labor. The great majority of these workers because of the partly unavoidable handicap of their

[1] F. W. Taussig, "Principles of Economics" (Revised Edition), Vol. II, page 142.

strangeness, and their ignorance of American life, and because of their poor education, did not have equal chances with the older inhabitants to rise in the industrial scale. They could not possibly make the same use of the common opportunities —even if their natural ability were on a par with those of the older inhabitants. Furthermore, the rapid growth of our great cities and the accompanying social changes, the growth in the size of the average industrial enterprise, and the progress of standardization have all lessened equality of opportunity. The chances of the children born in the lowest industrial groups to discover and fairly test their natural abilities have declined in relation to the chances of the children more fortunately born. These conditions have certainly checked the working out of those forces on which the theory of a general rate of wages rests.

Thirdly, there is the fact that certain forms of work on which youthful labor is employed, give no preparation and training for the further stages of life and work; and these blind alley employments are filled by children born in the lowest industrial groups.

Then there are the barriers of different kinds to free movement throughout all parts of the field of employment. There are the barriers of sex which have added to the crowding of certain occupations and industrial grades. There are the barriers of race and religion, which have affected the flow of labor between different industries.

Lastly, there is the barrier of color, which has prevented the negroes from developing their natural ability. These barriers may be well justified, in part or in whole, by other considerations. That question need not be considered here. But they certainly contribute to the formation of relatively separate groups of wage earners, with different levels of earnings.

4.—The existence and activities of labor unions are still another factor in the formation of relatively separate groups. In many cases labor organization tends to follow closely the lines of separation or unity established by the other causes of group separation or unity. There is often a tendency for a single union to include within its limits the whole of a group within which all the conditions underlying the idea of a general rate of wages are well fulfilled; or for various unions to merge or act together, if these conditions are well fulfilled between them. G. D. H. Cole has given a case in point. "Clearly the ease with which an industrial union can come into being depends upon the sharpness of the distinction between the skilled and unskilled in the industry concerned. Thus in the mining and textile industries, as we have already noted, there is no very sharp distinction between the two classes of workers. In mining, the boy who enters the pit has every chance of passing before many years have gone by into the ranks of the coal getters, who form the skilled section of the mining community. There is no sharp division or cleavage of interest between the main sections of the mining community. Promotion runs easily from one grade to another, and therefore, it is easier to realize a form of combination in which all the various sections are grouped together in a single industrial organization."[1] . . .

This tendency, however, has not been perfectly realized by any means. It often happens that the scope of a labor union will coincide with the underlying facts of unity at one time, but not permanently. The limits of particular trade unions have sometimes been set by an accident of time or place; by some episode in union history. The internal politics of the union movement has been the decisive factor in still other instances. Furthermore, industrial conditions are constantly changing and creating new lines of group separation or unity, which may vary from the lines of the existing labor unions.

Labor organization affects the formation of relatively separate groups of wage earners both directly and indirectly. First as to its direct influence. A labor union is a combination of a number of individuals, formed with the intention of advancing the material welfare of the group and for such wider purposes as the group may agree upon. The chief peaceful method of unionism is collective bargaining; its chief combative

[1] G. D. H. Cole, "Introduction to Trade Unionism," page 11.

method is the strike. Labor unionism is a factor in the formation of relatively separate groups of wage earners, because each autonomous, or practically autonomous, trade union is a point of pressure upon the distributive mechanism. Each trade union strives to turn the balance of distribution in its own direction. This it does in a variety of ways.

It may by its wage demands tests out the nature of the demand for the products of its labor. It strives to force the price of these products up to the point which seems to promise the greatest wage income for the group. It may by its pressure on the employer brings about a revision of productive methods. It seeks by its strength to secure that portion of the product which, in its view, goes to the strongest contender for it. Unions, indeed, sometimes strive to restrict the flow of labor into their craft or industry by deliberate regulation or silent obstruction. Such instances are less important than formerly in all probability. On occasion unions may even play a part in determining the field of employment for their members. Thus G. D. H. Cole points out that in England the trade unions do not recognize "differences between skilled and less skilled workers as demarcation disputes, and do not recognize the right of unskilled workers to raise such cases against skilled unions. In fact, the skilled unions virtually claim the right to do such work as they think fit, and so far as they can enforce their claim, to exclude the less skilled where they think fit."[1] Again unionism may indirectly through its wage policy cause a slowing up of recruiting of new men into the craft or industry. In short, by every means at its command, a union strives to assert the importance of its group as against other interests. Thus, in respect to the activities just described, unionism must be included among the influences which lead to the formation and maintenance of relatively separate groups of wage earners.

On the other hand, trade unionism in many indirect ways tends to have an effect in the opposite direction. By a constant adherence to certain broad policies, the trade union movement may contribute much to a realization of the conditions on which the idea of a general rate of wages is based. Such, for example, is the emphasis played by the trade union movement upon free and compulsory education, and the raising of the age of entry into industry. Such, also, is its advocacy of social legislation which is aimed to give more nearly equal opportunity to the lowest grades of industrial workers. Or, to take a third example, such is the result of the aid given by the skilled trade unions to the unskilled workers in their efforts to organize. Unionism works against the formation of relatively separate groups of wage earners to the extent that its activities contribute towards the achievement of equality of opportu-

[1] G. D. H. Cole, "Introduction to Trade Unionism," page 61.

nity for all wage earners, and to the extent that the strong groups come to the assistance of the weaker.

5.—The main cause of the formation of relatively separate groups of wage earners, with different, though closely related levels of earnings have now been considered. As a result of these influences, it must be concluded that the determination of the wage level of each of the various groups of wage earners is a sufficiently independent process to make it necessary to account for it as such. The various groups of wage earners have relatively separate economic careers so to speak. The economic fortune of each group is not settled merely as part of one general process, though the economic fortunes of all are intimately connected. The wage situation is not to be explained as consisting of one basic level of wages with a series of equalizing differences; but rather as consisting of a series of wage levels, all of which are governed to a considerable extent by the same forces or conditions.[1]

6.—We can now pass on the final question which confronts us. How are the differences between

[1] For an eloquent and incisive discussion of this whole subject, based, of course, on the facts of his own time, see the chapter in J. S. Mill, "Principles of Political Economy," entitled "Of the differences of wages in different employments." Book II, Chapter XIV, concludes: "Consequently the wages of each class have hitherto been regulated by the increase of its own population rather than of the general population of the country." Page 393. (Edition Ashley.)

the level of earnings of the relatively separate groups of wage earners determined?

The factors which determine the relative levels of earnings of each of the different groups may be put into two sets. First, those factors in regard to which each group stands alone and separate. Second, those which arise out of the dealings between the several groups.

"The relative plenty or scarcity of the different kinds of labor" falls in the first set. It will be remembered that this was among the three forces which, earlier in the book, were stated to be among the most constant and important in the determination of wages. The processes by and through which the facts of relative plenty or scarcity work out their effect in the distributive result have already been examined. If the numbers in any group of wage earners are high relative to the uses in which the employment of the members of that group results in a considerable addition to the product of market values, the wages of that group will be low, and vice versa. The need of the productive system for any kind of labor, relative to the supply available to fill that need is an important factor in determining the reward paid for that labor.

Furthermore, the statements in regard to the interactions to which the action of the factor of relative plenty or scarcity was subject, apply with equal force to the problem under discussion. Every human quality plays its part in the actual processes and negotiations by which the wages of the various groups of wage earners are settled. The outcome depends on many forces, some stable, some shifting and difficult to trace. Among those forces labor unionism, as the assertion of group economic power, holds a significant place.

In one respect, indeed, the previous analysis does not apply accurately to the question of different, though closely related wage levels. It is probable that the opportunities for the substitution of one type or group of labor for another type or group are more extensive and numerous than the opportunities for the substitution of one agent of production for another. And this fact limits the differences of wage levels that may arise between different kinds or groups of labor. For substitution of one type or group of labor for another is one of the ways in which changes in the relative plenty or scarcity of the different types or groups are brought about.

So much for the first set of forces—those in regard to which each group stands alone. The second set—those which arise out of the relationships between the various groups—remains for consideration.

Among these is the influence of customary wage relationships upon the course of wage movements within an industry, and to a lesser extent throughout industry. Because of the existence of vague customary relationships, wage movements affecting some groups or classes of labor are likely to stimulate similar movements among other groups; though it is plain that the efforts of different groups may not meet with equal success. This is well exemplified in the case of railway labor, of which Mr. Stockett has written, "Indeed there is every likelihood that the existence of a powerfully organized and highly paid group of labor in any industry—such as the engineers and conductors in railway transportation—far from being detrimental, may in the long run, be beneficial to the interests of the unorganized and low paid workmen. There is a tendency among the employees to keep a close watch on the wages paid to other groups of their fellow workmen, and the differential between their wage and that of some other grade of employment is jealously guarded. Thus on the railways, wage increases usually advance in cycles, an advance to engineers being followed at a close interval by an equivalent advance to firemen, conductors and trainmen. Existing differentials are more jealously maintained among the train service employees than among other railway workers, but that the latter do aim to maintain their relative level below the skilled groups is evidenced by the reference in arbitration proceedings to the advances made by the train service employees and by their claims to proportionate advances. Thus an increase in the wages of a highly paid group of employees, on account of this tendency to maintain existing differentials tends to put in motion a cycle of wage advances extending to all grades of labor."[1] Public opinion and public agencies of wage settlement have in the past been inclined to give support to the idea of the maintenance of customary relationships, even when the justification was flimsy.

Far more important is the factor of mutual aid between groups. For example, in pursuance of some general object skilled groups of labor have given support to minimum wage legislation for unskilled female labor; or again, such instances as the occurrence after the panic of 1907, when various organized groups of wage earners made common cause to resist wage reductions even for unskilled and unorganized labor. Such mutual aid plays its part in determining the wage levels of the different groups of wage earners.

This concludes the explanation of the forces which govern the relative wage levels of the separate groups or classes of labor. The actually existing differences of earnings between different groups of labor can only be explained by the combined influence of all the forces discussed.

7.—Differences in the levels of earnings of various groups of wage earners have been called "differentials." An effort has been made to explain their causes. Several practical conclusions, in

[1] J. N. Stockett, "Arbitral Determination of Railway Wages," pages 165-6. See also account in Lord Askwith's "Industrial Problems and Disputes" of the influence of customary differentials upon wage movements during the war, pp. 400-26.

regard to them, may be deduced from the preceding discussion.

Firstly, that these differentials (which may be measured by the differences between the average earnings of various occupations) result from, and in that sense represent, a large variety of actual forces; some of which can only be changed slowly and with much effort, as, for example, the relative plenty of the lowest grades of labor. As complete a knowledge as is obtainable of the various forces which produce these differentials is absolutely necessary to any project of wage regulation.

Secondly, although they represent a large variety of actual forces, it is misleading to apply such adjectives as "normal" or "natural" to them. For such adjectives inevitably suggest that the condition to which they are applied corresponds to a set of facts from which divergence can be only temporary, and is probably accidental. That, however, is not true in regard to the wage differentials which exist at any given time.

Thus, and thirdly, in any project of wage regulation, existing wage differentials can neither be accepted nor rejected blindly. A policy of wage settlement for industrial peace need not be based upon the acceptance and maintenance of all existing differentials. On the other hand, whatever revisions are undertaken should rest upon a knowledge of the forces which have established existing differentials. The policy of the South Australian Industrial Court, as expressed by its

President, would seem to be a practical application of this view. To quote from one of his decisions: "Preëxisting or customary marginal differences are followed by this court as a prima facie rule, but the rule is only prima facie, and is subject to revision in the light of argument and evidence." [1]

[1] Page 232, Vol. II (1918-19), S. Aust. Ind. Reports, The Furniture Trades Case.

CHAPTER V—WAGES AND PRICE MOVEMENTS

Section 1. The transactions of distribution arranged in terms of money. How does this affect the outcome of distribution as regards wages?—Section 2. The characteristics of price movements.—Section 3. The direct and indirect effects of upward price movements upon the distribution of the product.—Section 4. The direct and indirect effects of falling price movements upon the distribution of the product.—Section 5. The doctrine of the "vicious circle of wages and prices" examined. Its meaning and importance.

1.—Up to this point the investigation of the forces which govern wage incomes has proceeded with only the most incidental acknowledgment of the fact that the whole series of processes which is described as production and distribution is performed with the aid of a monetary system. Production entails a constant comparison and calculation of money values. The transactions of distribution likewise. How does the intervention of a monetary system affect the outcome of distribution? How does it modify the share of the wage earners in the total product of industry? The subject of prices and price levels is one of the most difficult of economic subjects. However, our purposes do not require any inquiry into the general theory of the subject. It will suffice for us merely to recognize the existence of different types of price movements, without investigating except at particular points the conditions which govern them.

2.—It is common practice to use the term "price level" to denote the position of prices of commodities in general. The price level is never anything more than the concept of a collection of prices of particular commodities. It is convenient to be able to express the position of this collection of prices by a single figure. To do this, use is made of various statistical devices by which this collection of prices can be combined into one price—which will be statistically representative of the collection. That single figure is known as the Index Number of that collection of prices. Changes of the Index Number represent changes in the position of the collection of prices from which it has been statistically derived.

All price changes are changes in the prices of particular commodities. Of course, a change in the price of one commodity may produce a change in the prices of other commodities. Relatively small and occasional changes in a few, or even in a great many of the prices which make up the price level, have no importance for the problem of wages. Indeed, if the price level remained nearly stationary there would be no necessity of undertaking this investigation of the effects of price change upon the distribution of the product. However, large and protracted changes in the price level do occur, and these are genuinely important factors in the distributive outcome.

A study of the major price movements of the past makes clear the chief characteristics of these large and protracted changes in the price level. They are irregular changes. That is to say, all of the individual prices which make up the price level do not change at the same time, nor to the same extent. Certain prices may even change in opposite directions.[1]

It is well to mark also, in passing, that the prices of some or many of those articles which occupy a very important place in all calculations of the cost of living of the wage earners—the articles of food and clothing, and shelter—may change in a different measure, or even in a different direction from the prices of the other commodities which compose the general price level. This possibility is the most genuine as regards food prices. Movements of food prices, and, indeed, of the prices of all agricultural products, are apt over short periods to be determined by weather conditions rather than by the industrial events which govern the general price movement. Mr. W. C. Mitchell in his book on business cycles studied the relation

[1] For data upon this irregularity, see the tables in W. C. Mitchell, "Report on Prices in the United States," 1914-18. See also his "Gold, Prices and Wages under the Greenback Standard." Tables 20-22 for study of dispersion of retail prices.

between the movements of retail food prices (the figures ordinarily used in cost of living investigations) and general business conditions during the 1890-1910 period in the United States. He writes in conclusion that "these figures (i.e., of 30 retail food prices) indicate a certain correspondence between retail prices and business conditions. In 1893, indeed, the thirty foods rose slightly instead of falling, but they declined during the dull years which followed the panic, and rose again when prosperity returned. The rise was slow until 1900-02; it became slow again in 1902-04; but rapid in 1905-07. The panic of 1907 came too late in the autumn to exercise much influence upon the average retail price level of that year. On the whole, this series reflects the course of business cycles better than might have been expected. For the supply of vegetables and animal foods varies in an arbitrary fashion determined by the weather, and the demand for staple foods is less affected by prosperity and depression than that for the more dispensable commodities."[1] Even over periods of some duration there may be a marked

[1] "Business Cycles," W. C. Mitchell, page 95. See also page 109. "In the case of animal and farm products, however, where dependence is not upon natural deposits of minerals and forests which have grown through decades, but upon the fruits of human labor during one or two seasons, frequent contradictions between the movement of prices on the one hand, and changes in business conditions on the other hand, seem likely to continue for a long time to come." See also "Gold, Prices, and Wages under the Greenback Standard," pages 48-54.

difference between the movement of food prices and other prices.

3.—Changes in the general level of prices must have prior causes, but they, themselves in turn cause economic disturbance. They give a tilt to the whole industrial system which manifests itself in the outcome of distribution. The effects upon the distribution of the product of an upward movement of prices are ordinarily different from those produced by a general decline in prices.

It is well to begin with the first case—a period of a rise in the general price level. To give an accurate analysis of the successive interactions by which an upward movement in the general price level, once stimulated, asserts itself, is both a delicate and lengthy task. It cannot be attempted here.[1] It suffices to note the ordinary distributive results of the process; with the important reservation, however, that they do not occur in the measure that the rise is occasioned by a general reduction in the productivity of industry such as might be caused by war.

There are firstly what may be called the direct results. Prime costs of production do not increase as rapidly as prices, and supplementary costs rise even less rapidly than prime costs. Prices rise faster than wages and interest charges, and rents tend to remain fixed by leases and other arrange-

[1] See W. C. Mitchell, "Business Cycles." Also B. M. Anderson, Jr., "The Value of Money."

ments. Especially in the first year or two of rising prices, the rise in wages tends to be slow; in the later stages it ordinarily becomes more rapid.[1] Thus Mitchell in his study of wage and price movements during the Greenback Period in the United States (1860-80) writes that " . . . The table shows an almost universal rise of wages during the war—though a rise far from equal to the advance of wholesale or retail price." [2] And in his study of price and wage movements from 1890-1910 in the United States he writes, "The figures indicate that the prices of labor are influenced by changes in business conditions, but in less measure than the price of commodities, even at retail. The general average declines after the panic of 1893, recovers in 1896, advances in 1898-1903, makes very little gain in the dull year of 1904, and then rises rapidly again in 1904-7. But the degree of rise and fall is considerably less than that of commodities at wholesale and just about the same as that of food at retail." [3]

The lag of wages behind prices varies in degree in different industries and occupations, for neither prices nor wages go up uniformly. The general direction of wage change is marked, but there is nevertheless considerable variation in the amount

[1] See W. C. Mitchell, "Business Cycles," pages 465-6, 476.

[2] See W. C. Mitchell, "Gold, Prices, and Wages under the Greenback Standard," page 10.

[3] See W. C. Mitchell, "Business Cycles," page 132, Chart 13. See also F. W. Taussig, "Results of Recent Investigations on Prices in the U. S.," in *Yale Review,* Nov., 1893.

of wage change.[1] These variations in wage change are to be explained by the fact that the wage earners tend to fall into groups whose economic fortunes are in some measure independent of each other. They therefore are only slowly affected by changes in each other's position.

On the other hand, since the increase in expenses of production in most industries tends to lag behind the rise in the price obtainable for products, profit returns increase during such periods, especially in industries in which the wages bill is an important part of the expenses of production. To quote Mitchell again, "The net resultant of these processes is to increase profits. Of chief importance is the fact that supplementary costs rise slowly in comparison with the physical volume of business. . . . In many instances prime costs also lag behind selling prices on the rise. . . ."[2]

The definite exception to this last conclusion is when the rise in prices is caused by general lowering of the productivity of industry. And so

[1] Mitchell writes with reference to the 1890-1910 period that "on examining the figures for separate industries, one finds there is less variety of fluctuation than in commodity markets. But still considerable differences appear between, say, cotton mills and foundries, or building trades and shoe factories. However, no industry escaped a reduction of wages after 1893, and none failed to register a large advance between 1894 and 1907," page 132, "Business Cycles." See also for 1914-1919 data, Research Report Number 20 of the National Industrial Conference Board on "War Time Increases of Wages."

[2] W. C. Mitchell, "Business Cycles," pages 468-9.

also it may be said that to the extent that higher prices are merely a mark of an increased cost of labor, or a drop in the efficiency of industrial enterprises, it does not follow that profits are growing. It is generally held that there is such a falling off in the efficiency of industrial enterprises, and an increase in the cost of labor in a period of very rapid business expansion and rising prices—especially toward the end of the period. Mitchell writes: " . . . Prosperity is unfavorable to economy in business management. When mills are running overtime, when salesmen are sought out by importunate buyers, when premiums are being offered for quick deliveries, when the railways are congested with traffic, then neither the over-rushed managers nor their subordinates have the time and the patience to keep waste down to the possible minimum. The pressure which depression applies to secure the fullest utilization of all material and labor is relaxed, and in a hundred little ways the cost of business creeps upward." [1]

[1] W. C. Mitchell, "Business Cycles," page 483. The increased cost of labor arises from many causes besides the increase of wages. The less efficient workers receive fuller employment; extra rates are paid for "the tired labor of overtime"; there is likely to be an increase in the rate of labor turnover due to the rapidity of wage movements and the ease of getting a job; and lastly it is said that work is carried out with less energy when the workmen are secure in their employment. Mitchell goes so far as to write that "labor is a highly changeable commodity—its quality deteriorates as its price rises" (pages 476-7), "Business Cycles." See also J. C. Stamp, "The Effect of Trade Fluctuations on Profits," *Journal of the Royal Statistical Society,* July, 1918.

Then there are the indirect effects of the process of price change upward. Since profits generally are large, production tends to be stimulated and the volume of production increases. The turnover of industry is quickened somewhat. Plants are more fully utilized, and unemployment is small. More overtime is worked. The total earnings of the wage earners are likely to advance more than wage rates. The extent of the divergence between the increase in hourly or piece rates and weekly or yearly earnings is likely to vary greatly according to the nature of the causes of the price movement. When the price movement is just the reflex of a situation of depreciated paper money, for example, the volume of production may or may not be increasing.

An interesting study of the divergence between hourly earnings and weekly earnings for the recent war period (Sept., 1914-March, 1919) is contained in one of the Reports of the National Industrial Conference Board. In the metal industries (those most directly affected by the war) the advance in weekly earnings for men was stated to be 103 per cent. as against 71 per cent. in hourly earnings. In the rubber and chemical industries the increases in weekly earnings were greater than in hourly earnings also, but not to the same extent as the above. In the textile industries the percentage increases were practically equal, while in the boot and shoe industry the increase in weekly earnings for men was less than the increase in hourly earnings. And for women in most industries the weekly earnings show the smaller per cent. of increase.[1] Of course, figures of yearly earnings would be more significant as a comparison.

It is not easy to reach a general conclusion in the matter. It may be said that if the increase in prices is but the mark of an ordinary business revival—with no unfavorable attendant circumstances—weekly and yearly earnings will be favorably affected. Whether they will be affected sufficiently to prevent real wages from falling, particularly at the beginning of the period of rising prices, whether towards the end of the period real wages may not actually have increased—these are questions it is not possible to answer except

[1] See Research Report No. 20, National Industrial Conference Board, "Wartime Changes in Prices." See also the controversy between the railways and railwaymen arising from the difference described by J. N. Stockett, Jr., "Arbitral Determination of Railway Wages," pages 107-8: "In determining the increase in railway wages for the purpose of ascertaining whether wages have kept pace with increasing prices the question arises as to whether wages mean earnings or rates. The railways maintain that the cost of living argument is fundamentally directed to the establishment of the proposition that earnings have not kept pace with the increase in the price of commodities, and therefore wages, in connection with the cost of living, means earnings. The employees, on the other hand, contend that the computation of the increase in wages should be based on the assumption that wages mean rates of pay, and that the high earnings which the railways show for the men are the result of excessive hours worked. They claim that it is not valid to assert that wages have kept pace with the increase in prices, if an employee must work continually over the time set for the minimum day in order to make his wages bear the increased price of commodities."

as regards a concrete situation. And if the increase in prices is the result of currency inflation, or of a general falling off in the level of production, weekly earnings are likely to be even more unfavorably affected during the period of price increase than hourly rates.

4.—The effects of the process of falling prices may also be considered as direct and indirect. The direct results are somewhat of the opposite character to those just related for a period of rising prices. It is difficult to generalize about them. If the period of falling prices follows closely upon a period of sharply rising prices, during which latter period wage increases lagged greatly behind price increases, the tendency for wages to rise may continue to manifest itself for some time after prices have begun to drop. An example of such a period is furnished by the years immediately following the Civil War.[1] In the case of the price decline of the year—1920-21, however, wage decreases have come promptly—and this is more likely to be the ordinary case. Unless industry in general becomes more efficient during the period, a continued fall in the price level tends to bring about a fall of some degree in the wage level. However, just as in periods of rising prices the wage increase usually tends to lag behind the retail price increase, and even more behind the

[1] W. C. Mitchell, "Gold, Wages and Prices under the Greenback Standard," page 102.

wholesale price increase, so in times of falling prices, wages often tend to fall more slowly than retail prices, and much more slowly than wholesale prices.[1]

The wages of different groups do not fall equally. The same dispersion that was noted in times of rising prices is found equally in periods of falling prices. This is to be explained in the same way as the dispersion which occurs in periods of rising prices.[2] Organization, however, is likely to play a more decisive part in resistance to reduction of wages than in demands for increased wages. Industries in which the wage earners are highly organized generally find it more difficult to economize by way of wage reduction than industries in which the wage earners are not organized.

The range of profits of industry during periods of falling prices will depend upon the nature of the causes which produce the decline. If it is simply the result of an increase in industrial efficiency, or progress in the industrial arts, profits will continue to be satisfactory and may even be on the increase. If, on the other hand, the price decline results from the occurrence of those short periods of forced liquidation known as crises, and is accompanied by that state of recuperative and cautious business activity known as depres-

[1] For examples, see W. C. Mitchell, "Gold, Wages, and Prices under the Greenback Standard," pages 102-3.

[2] See pages 92-3, this chapter.

sion, profits in most industries are apt to be quite low. Such was the 1893-96 period in the United States. During the period of forced liquidation and immediately thereafter, the number of bankruptcies is likely to be high.[1] No general statement is possible concerning the duration of such a period of depression and low profits; all accompanying circumstances play a complicating part in retarding or hastening business recovery.—The present depression of 1920-21 is almost of unprecedented duration, for example. Nor should it be supposed that the state of depression must be identical with the period of price decline.[2] Given favorable circumstances, the price decline soon leads to a search for new methods of economy in production. Raw materials are likely to fall in price. Supplementary costs are rapidly reduced. The price of labor tends to fall. Even though prices continue to fall slowly, profits may rise to a level encouraging to business activity. This may also be true of a period of liquidation not preceded by crisis.

In conclusion, it can only be repeated, however, that confident generalization as to the direct effects of falling prices is impossible. Each business cycle has its own peculiar characteristics—it is unique as Mitchell says.[3]

So, too, as to the indirect effects of a general

[1] See W. C. Mitchell, "Business Cycles," pages 438-44.
[2] *Ibid.*, page 558.
[3] *Ibid.*, pages 449-450.

fall in the price level. No one description can be given that will hold true of all instances. If the main cause at work is of the kind that may be called "natural," for example, a gradual increase in the productivity of industry, or a decided falling off in gold production, such periods are not necessarily periods of depression in industry. Employment may be constant and weekly and yearly earnings high. Thus the period of 1873-1896 in the United States was one of declining prices and it is generally admitted that that period was one of great industrial activity.[1] Moments of excessive activity are rarer in periods of falling prices than in periods of rising prices, but the average amount of unemployment may be either greater or less. Again, if the decline of prices is in reality a movement from a state of depreciated paper money to a gold standard, there is a possibility that the period may be one of industrial activity due to a prevailing confidence in a coming recovery. It is more likely, however, that such a period will be characterized by a falling off in business activity and an increase in unemployment, particularly at its commencement.

Lastly, if the price movement is an indication of such a period of depression as may precede and usually does follow serious industrial crises, it is ordinarily accompanied by liquidation and curtailment of production. In these periods, and especially at their height, unemployment grows and

[1] See Laughlin, "Money and Prices," Chart III, page 86.

earnings fall more than wage rates. Or wage rates may remain comparatively steady, but weekly and yearly earnings will fall. The extent to which this fall in earnings will go depends upon the seriousness of the industrial maladjustments.[1] Still it is safe to conclude that a period of serious depression following upon a crisis is the least favorable phase of the industrial cycle for the wage earners—notwithstanding the fact that wages frequently fall more slowly than wholesale prices, and somewhat more slowly than retail prices.

5.—Our object in discussing the effect of price movements on distribution is to discover how they complicate the problems of wage settlement. Before proceeding to this main purpose, however, it is desirable to pay particular attention to one doctrine of the relation of wage change to price change which figures prominently in current discussion.

That is the doctrine known as the "vicious circle of wages and prices." It has been well stated by Mr. Layton: "It is often asserted that a rise in wages is only a move around a vicious circle, the argument being put thus; starting with a rise in wages achieved, let us say, as the result of a strike, the increased wage bill will add to the cost of production, and so raise prices; if the rise becomes general, the cost of living will increase and diminish the purchasing power of wages; this will

[1] See W. C. Mitchell, "Business Cycles," page 58.

produce a renewal of discontent among the working classes and result, perhaps, in a further demand, culminating in a strike for still higher wages."[1] This doctrine is affirmed somewhat indifferently, when the demands for increased wages are made during a period of a relatively steady price level, or during a period in which the price level is rising steadily. What elements of truth does it possess and what is its importance?

The first thing to note is that the series of events visualized in the above quotation can be set into motion by any other cause which disturbs the price level just as well as by a demand for increased wages. For example, a great influx of gold into the United States may take place as a result of a steadily favorable balance in international trade. Bank reserves may mount, discount rates may fall, and if all other circumstances happen to be already favorable, a period of increased industrial activity may follow. Demand for basic products will increase and prices will begin to rise. With the tendency of prices to rise, the general demand for labor will increase. Wage demands will follow, and all the conditions required to make the theory applicable are supplied.

Certain conclusions may be stated at once. Firstly, the industrial situation is rarely so balanced, no matter what the price situation, that a measure of wage increase may not be possible

[1] W. T. Layton, "Introduction to the Study of Prices," Appendix C, page 128.

without an equivalent increase in prices. The distributive situation is never one of static equilibrium. The gain of one group or agent of production may simply be another's loss. Each group or agent strives for a large return. If wages go up, profits may go down, or new methods of production may be devised, or strikes may cease. The same possibilities exist in essentials, irrespective of any prior price movement. The movement of prices upward simply gives ground for the presumption that there is a greater possibility than usual of increasing wages without causing equivalent price increases.

It is incorrect to reason that all participants in distribution must come off equally well in this succession of changes. A continuous testing out of the distributive effectiveness of the various agents of production, and of any divisions which may exist within each agent, occurs. The various groups of wage earners may be better or worse off than before. When the price level has shown a prior tendency to rise, there is good reason to believe that the wage earners stand to gain by a vigorous policy of assertion. For then in particular, unless the general rise in prices is to be accounted for by a reduction in the general productivity of industry (a possibility always to be considered), wage increases can come out of the extra income which the other agents are in receipt of because of the price movement.

Secondly, in normal times the process visualized could not go on indefinitely. Sound banking practice imposes a limit upon credit expansion. In an abnormal time such as Europe is now passing through credit expansion may, indeed, continue beyond the point dictated by banking reserves. Thus depreciation ensues. This, in turn, is ordinarily limited by the desire to return to a gold basis; otherwise it results in financial chaos. Barring out this last eventuality, the process of price change has a final limit, which must set a limit upon wage increases.

What these general theoretical propositions regarding the idea of the vicious circle do show, is that this idea is in itself an attempt at a complete theory of distribution. That theory, if consistently formulated, would be that the product of industry is already being shared out among the various agents of production in such a way that an attempt on the part of any agent to get more than what it is receiving at any particular time can result only in a price increase. For each agent, it is presumed, is getting its "normal" share as settled by the general economic position and certain unchangeable economic laws. The idea is but the shadow of the theories of normal distribution mentioned in preceding chapters. It does, in common with these theories indeed draw attention to certain fundamental economic relationships. These Judge Brown has expressed well in one of his decisions which reads, "The element of truth in the 'Theory of the Pernicious Circle' is that, at a given stage in the history of a particular society, there is a limit to the amount which should properly be awarded for wages,—both wages and profits have to be paid out of the price paid by the consumer. If, whether by collective bargaining or by strikes, or by judicial regulation on the part of the public authorities, an attempt is made to narrow unduly the margin of profit on capital, then there is likely to be a period of industrial dislocation, and every class in the community is likely to suffer."[1] But the idea has all the misleading effects which have been attributed to that general theory of distribution of which it is a corollary. It is derived from an analysis of the distributive process which does not fit all the facts.

[1] "The Carpenters' and Joiners' Case," Vol. I, S. Australian Ind. reports, page 174.

CHAPTER VI—WAGES AND PRICE MOVEMENTS (*Continued*)

Section 1. The problems of wage settlement arising out of upward price movements two in number: (a) Should wages be increased during such periods? (b) If so, on what basis should increases be arranged? The doctrine of the maintenance of the standard of life analyzed.—Section 2. An alternative method of adjustment proposed, based on a new index number.—Section 3. Periods of falling prices also present two problems of wage settlement, similar in essentials to those presented by upward movement. These problems discussed.

1.—We can now proceed to the consideration of the problems of wage settlement which arise out of price movements. First, we will deal with the problems presented by upward price movements. Then subsequently we shall take those questions presented by price movements downward.

The problems presented by upward price movements are two in number. Firstly, is there any reason why wages should be increased during a period of advancing prices? Secondly, if there is reason, on what basis should the increases be arranged?

The answer to the first of these questions is simple. In periods of rising prices wage increases tend to lag behind the retail price increase, and very much behind the wholesale price increase. The chief aim, therefore, of any plan for the adjustment of wages to upward price movement must be the protection of the interests of the wage earners. Changes in the distributive situation that are unfavorable—judged by reference to the distributive outcome to be sought by any policy of wage settlement—must be prevented, if possible. It is the second of the problems which presents the difficulty.

There is one method of wage and price adjustment which holds an important place in current discussion. Indeed, it has tended to be the prevailing method although it has never been applied systematically in the United States.[1] That is the method based upon the doctrine of the maintenance of the standard of living. This doctrine aims to maintain real wages at a constant level throughout the course of price change. The labor unions have usually given it their support, finding in it a strong basis for their claims.[2] Is it the best possible method of adjustment considering the end to be attained?

Its advantages are definite. It is a simple claim. It is a claim the justice of which could be denied only under unusual circumstances. It has in the past brought considerable benefits to the

[1] Nor has it for that matter been applied with consistency in Great Britain. See the Minority Report of the War Cabinet Committee on "Women's Wages," 1918, page 262.

[2] Webb, "Industrial Democracy," Doctrine of the Vested Interests, pages 562-572, 595.

wage earners, because they have usually stood to gain by any vigorous assertion of their interests.

What are its disadvantages? The first of its disadvantages is in the difficulty of interpreting the doctrine into practical policy. There has seemed to be one straightforward way of interpreting it. Investigations have been made from time to time of the commodities and services on which the working class household tends to spend the bulk of its income. As a result of these investigations budgets have been drawn up which were deemed sufficiently representative of the main currents of expenditure of the mass of wage earners at a given time and place. On the basis of this data an index number of the cost of living for the mass of wage earners, at the given time and place, has been prepared by methods too familiar to require explanation here. In the past the price collections ordinarily used were composed mainly of the prices of foodstuffs. But recent data covers a much wider portion of the total expenditure.[1] An index number for the cost of living having thus been prepared, it has been conceived that the

[1] The data published in the monthly *U. S. Labor Bulletin* covers most of the articles which are at all important in the wage earners' budget. The collection of such data, however, has remained spasmodic up to the present. See the article by H. S. Hanna in the October, 1919, issue of the Monthly Review of the U. S. Department of Labor. The Sumner Committee Report on the "Cost of Living in Great Britain" 1917 (CD 8980), covered food, rent, clothing, fares, fuel and light, insurance, and sundries. Data was collected for skilled, semi-skilled, and skilled labor.

variations in this index number were indicative of the change in the cost of living.

This practice, however, is not altogether satisfactory. Firstly, the concept of a representative budget is necessarily more or less artificial; the budgets of wage earners, even in the same class, vary considerably in composition. Thus hardly any figure on the change of the cost of living has been given out without being challenged by one or other of the interested parties. Secondly, for all except the lowest grades of wage earners, the direction of expenditure changes somewhat as particular prices change in a different measure. This second disadvantage was noted particularly during the war, when the supplies of certain commodities were limited or rationed. Thirdly, and this difficulty is of a more serious nature, the prices of some or many of the articles which occupy an important place in all calculations of the cost of living of the wage earners may change in a different measure, or even in a different direction, from the prices of the other commodities produced within the country. Food prices in particular are apt to respond to different influences than those governing the general price level.[1] However, it is only from the course of change of the price level representing *all* important commodities produced within the country that it is possible to get an indication of the change in the total conglomeration of market values, which has

[1] See pages 89-91, Chapter V.

been called the product of industry. Even then the indication is far from an exact one.

Let us consider the two cases in which the change in the prices of some or many articles important in the wage earners' budget diverges considerably from the change in the index number of the prices of all important commodities produced within the country. The first case is that in which the prices of the relatively small collection increase much faster than the index of general prices. Such might be the fact in the event of two bad harvests in succession. If wages are increased in accordance with the movement of the prices of the relatively limited collection of commodities, the result of the wage increase may be an increase in prices in general. As a result of this the wage earners may be better or worse off than before, depending upon circumstances. The second case is that in which the prices of the relatively small collection of articles may increase less than the index of prices in general. In this case any wage increase undertaken in accordance with the change of prices of the relatively small collection would fall considerably short of that which could have been ventured without fear of causing another price increase—and without waiting for the test of profit accumulation discussed elsewhere.[1]

Fourthly, changes in a relatively small collection of prices, particularly if foodstuff prices bulk

[1] See Chapter XII.

largely in the collection, are apt to be more convulsive than general price movements. They are likely to vary more than general price movements from year to year, and, indeed, from season to season. This is so, although it is true that retail prices tend to be far more stable than wholesale prices.[1]

Lastly, as Mitchell states, as a business factor crops are less an effect than a cause of change in conditions. "Good crops tend to bring prosperity and poor crops depression in the seasons which follow. . . ."[2] If foodstuffs fall because of a good harvest, it is more likely than not that the next industrial year will be a good year. There is, therefore, a preliminary presumption that there will be no occasion for wage reduction (if wage adjustments to falling prices are contemplated—which subject will be discussed immediately hereinafter). If foodstuff prices rise because of a poor harvest, there is a preliminary presumption that the succeeding industrial period will not be one of very great activity. Therefore, an increase in wages corresponding to the rise in the prices of food products would not serve to increase very

[1] "While these two series (i.e., of wholesale and retail food prices) agree closely in the general trend of fluctuations, the retail prices are much more stable. They lag behind the wholesale prices both on the rise and on the fall, but more on the fall than on the rise." Mitchell, "Business Cycles," page 39. The tables given apply to the 1890-1910 period in the United States. They do not show fluctuations for periods less than a year.

[2] W. C. Mitchell, "Business Cycles," page 39.

much, if at all, the command of the wage earners over foodstuffs. This possibility of a divergence in the movement in the price of provisions and of wages was pointed out, indeed, by Adam Smith. To give the explanation in his words, "In a year of sudden and extraordinary plenty, there are funds in the hands of many of the employers of industry, sufficient to maintain and employ a greater number of people than had been employed the year before; and this extraordinary number cannot always be had. Those masters, therefore, who want more workmen bid against one another, in order to get them, which sometimes raises both the real and money price of their labor. The contrary of this happens in a year of sudden and extraordinary scarcity." [1]

2. Such are the disadvantages attaching to a policy of wage adjustment based on the doctrine of the maintenance of the standard of life. It may now be asked whether there is any alternative method to which smaller disadvantages attach?

As to the matter of alternative, it is my opinion that a better plan of adjusting wages to price movements can be devised. The basis of it should be the change in the index number of prices of all important commodities produced within the country. Any scheme of adjustment arranged on that basis would have one distinct advantage. It

[1] Adam Smith, "Wealth of Nations" (Cannan's Ed.), Vol. I, page 87.

would be representative of the fundamental distributive relationship—that is the relationship between the various levels of earnings and the total product of market values. It would assure a closer accord between wages and total product than the widely used method already studied.

Nevertheless, it must be admitted that this plan also is not free from disadvantages and difficulties. Some difficulties of interpretation would remain. The selection of the ratio in which wages should be changed with reference to the course of price changes would be wholly a matter of judgment. For due to the changes in the expenses of production and to the changes in the volume of production, it will always be impossible to reason concerning profits merely from the facts of price change. And secondly, since all prices do not change equally, even if wages are increased in accordance with the changes in the index number of all prices, these wage increases might cause price changes in certain directions.

Weighing all the difficulties, it may be that the best method that can be devised would be something in the way of a compromise between the two methods that have been discussed. That is, wage adjustment to a rising price (and to a falling price level—if such adjustment is contemplated) level could be made on the basis of the change in the price index number of all the important commodities produced within the country; but in the making of the index number, the prices of food, rent, and clothing could be given a heavy weight (50 per cent., for example) of the total. Such a compromise would tend to assure, on the one hand, that the wage change did express in a considerable measure the change in the cost of living. And, on the other hand, it would tend to keep wage changes in closer accord with the changes in the total value product of industry than any method based solely on a measurement of the change in the cost of living.

In conclusion, however, it may be remarked that when the prices of the essentials of economic existence are increasing very rapidly, there is no way, under our wage system, by which the welfare of the lowest industrial classes can be effectively protected merely by wage adjustment. When supplies are short, if their distribution is left to the free play of the market, the poorest classes must come off badly.

3. There remain for consideration those questions of wage adjustment which are presented by downward price movements. They are two in number. Firstly, is there any reason why wages should be reduced during a period of declining prices? Secondly, if they should be reduced, on what basis should the reductions be arranged?

In reference to the first question, three different types of situations may be distinguished on the basis of the analysis of the effects of price declines given in the preceding chapter. The first type is that in which the decline in prices is due to some such cause as the progress of invention or the development of the means of transport. In this case the fall of prices is brought about by an increase in the quantity of goods produced, and there is no reason why wages should be decreased. Indeed, there may even be occasion for an increase.

The second case is that in which the decline in prices marks a period of reaction from a previous period of price increase and a tendency to limit production costs and to proceed cautiously, but is not accompanied by much forced liquidation and is not the result of any urgent necessity to reduce bank credit. In short, when the business conditions accompanying the price decline do not warrant apprehensions of a crisis, serious as they may be temporarily. Price declines of this sort may be considerable in extent; they will be gradual rather than violent. They are apt to be characterized by less dispersion than those which are precipitated by crises. In this case also there would seem to be no good reason why wages should be reduced. A decline of prices would be desirable, it is true. The industrial position would be improved thereby and industrial activity would be put upon a sound financial basis. Some contraction of credit is to be desired if, as is assumed in this case, the period of decline was preceded by one of considerable price increase and credit expansion. But these results may be obtained without any reduction in wage rates. The cost of labor will fall without any reduction in wage rates, as the amount of overtime work is lessened, as employment is concentrated upon the more efficient workers, and as workmen put more energy into their jobs in order to hold them. Such times as these usually lead, furthermore, to the introduction of new or forgotten economies, and to improvements in the method of production. Thus it can be concluded in this case that whatever reduction of the price level is required to restore industry to a sound financial basis can be accomplished without reducing wage rates.

The third case is that in which the decline in prices is abrupt—at the beginning at all events—and is precipitated by much forced liquidation of a character disastrous to the enterprises forced to undertake it. In short, when it is brought about by an industrial crisis—or when an industrial crisis is actively threatened. In this case the decline is usually preceded by a period of rapidly rising prices which brings about an over-extension of credit and puts heavy pressure upon the banking system. Maladjustments in industry manifest themselves and fear comes to govern all production. The price decline in different industries is apt to vary greatly in extent.

In this case, as in the second, the process of price decline—the state of severe depression—tends to set in motion certain forces which work for recovery. The owners and directors of industry seek for economies. They strive to get greater output from the workers, and generally succeed since a job is more precious. Prime as well as supplementary costs are cut down. And yet if there has been great expansion of credit; if the banking system as a whole shows a very low reserve, and some banks suspend specie payment, a reduction in the wage level is necessarily essential to industrial recovery. This may be so especially, if buying is at a halt. The wage reduction should follow the price reduction. There would appear to be no compelling reason for the wage reduction to be in the same ratio as the price decline, since it is probable that the wage increases will have lagged behind prices in the preceding period. The conditions making the case should be clearly present; competition or control must be active, in order to insure that the reduction of wages really does assist price reduction. These important details will be considered at another point.[1]

Against such a policy of wage reduction some arguments of weight can be brought forward. It may be said that all other branches of outlay will be subjected to a more severe overhauling when there can be no resort to wage reduction. It may also be argued out that the maintenance of wage levels would confer such indirect assistance to recovery as might come from the lessening of the fear that a future fall in wages will make present production unprofitable. The factor of industrial

[1] See pages 203-7, Chapter IX.

unrest and discontent is apt to be less menacing. Lastly, it may be said that wage reductions might be reflected in the efficiency of the least favorably placed groups of workers.[1]

These objections should be overridden only if it is believed that a decline in the price level greater than that which could be secured without wage reduction must precede industrial recovery. Or that such a decline would, at all events, greatly facilitate the recovery. It must be believed that at the level of prices existing at the outset of the crises, or at a position somewhat but not markedly under that level, the margin of safety in the financial system by virtue of which modern industry is carried on, is too small—the ease with which the unfavorable turn of affairs could produce another crisis too great. Or that consumers will not resume buying until prices drop greatly. Under which circumstances the policy of wage reduction would be as much to the benefit of the wage earners as to the rest of the community.

This case is to be distinguished from the previous one really only by the decided seriousness

[1] These in general were the motives for the passing of the Temporary Regulation of Wages Act in England (1918). "During the period of six months from the passing of this act, any person who employs in any trade or industry a workman of a class to which a prescribed rate of wages as defined in the Act is applicable, shall pay wages to the workmen not less than the prescribed rate applicable to workmen of that class, or such other rate as may be substituted for the prescribed rate by the Interim Court of Arbitration . . . and if he fails to do so, he will be guilty of an offense under this Act."

of the situation it reveals. In this case it is presumed that a decided judgment may be made that the price level must be greatly lowered before business operations can revive and be carried on with confidence in steady markets. In the previous one it is presumed that a decided judgment can be formed to the effect that the shock to business will be satisfactorily gotten over with just that reduction of prices that liquidation and a more careful conducting of business operations will bring about. The difference is, in the last analysis, one of degree.

A price decline that is in reality a movement from a state of depreciated paper money back to a gold standard may be looked upon as a variant of the third case. For it is obvious that if the depreciation is extensive, the decline in the price level necessary to the attainment of the gold basis must also be extensive.

There is a fourth possible case which will be described, but will not be followed up, since it is not applicable to the United States at the present time. It is the case of a country whose chief industries are export industries—the prices of the products of which are determined by world competition. This case is complex and not to be analyzed by a general rule. A few observations may be made. It is conceivable that a situation should arise in which a policy of wage reduction is expedient because the export industries are very gravely threatened by foreign competition. In such a situation it may be argued that any genuine necessity for a reduction of wages would be manifested by the pressure of the banking system, because of the outflow of gold that would occur consequent to a great falling off of exports. But, as we have seen during the war, such a banking situation may be avoided for a number of years by such devices as foreign loans, and the industries in question would decline in the meantime. On the other hand, any policy of general wage reduction could only be undertaken with caution. Situations of the sort described tend to call out the reserve energies of a country. They are always present to a greater or less extent.

So much then in answer to the first question—as to whether there was any reason for wage reduction during periods of declining prices. The second question then presents itself—on what basis should such reductions as are advocated be arranged? On which subject the conclusions reached in the course of discussion of wage adjustment to upward price movement are applicable. These conclusions will be recalled at various points further on in the book.

CHAPTER VII—THE STANDARD WAGE

Section 1. The remainder of the book will consist of an attempt to mark out principles of wage settlement that could be applied with relative peace and satisfaction in the settlement of wage disputes.—Section 2. Some preliminary notes on the subsequent exposition. The question of the political machinery required to put any policy of wage settlement into effect, avoided on the whole.—Section 3. The principle of wage standardization defined and explained.—Section 4. The characteristics of the standard wage examined.—Section 5. The effect of the standard wage on individual independence and initiative.—Section 6. The effect of the standard wage on the distribution of employment within the group.—Section 7. Its effect upon industrial organization, prices, and managerial ability.—Section 8. Its effect upon the output of the wage earners. This question cannot be satisfactorily discussed apart from the larger one—that of the effect of unionism upon production.—Section 9. Wage standardization and the "rate of turnover" of labor.

1.—In the first two chapters the aims towards which any policy of wage settlement for industrial peace should be directed were discussed. In the following four chapters an effort was made to throw into clear light the forces and relationships which determine wages at the present time. The way has thus been prepared for an attempt to work out principles for use in the settlement of industrial disputes. Past experience in industrial arbitration or adjudication is a fertile source of suggestion in this endeavor; although much of it has been rather like a search in the dark for objects not too well described beforehand. The definition of aims was an attempt to find out the objects of our search. The analysis of the present economic situation and of wage principles was an attempt to get acquainted with the area in which the search must go on.

The remainder of this book will consist of an attempt to work out principles of wage settlement which could be applied in wage disputes with relative peace and satisfaction. If adopted, they would serve as a substitute for a resort to open force in such disputes. Their acceptance would mean that when ordinary collective bargaining fails as a means of settling wages, the dispute would be referred to some constituted authority, who would use these principles to reach a decision.

2.—The plan pursued in the subsequent exposition requires a few brief preliminary notes.

First, in regard to the order of exposition. What follows is simply the direct statement of a series of principles (embodied in measures, as all principles must be). These principles, separately taken, cover most of the problems presented by wage disputes. Taken together they might be composed into a policy of wage settlement. Indeed, at the end of the book, an attempt is made to combine them into such a policy. Not that it is believed that any policy of wage settlement can really be wrought in a piece this way. But because it is believed that ultimately it will be recognized that wage disputes cannot be settled as isolated events. There will have to be recourse to thought out principles, systematically applied. It will be found that no single principle will suffice; that many principles will have to be combined and used with reference to each other. There will be, in short, a call for a unified policy of wage settlement.

Secondly, in regard to the range of the exposition. The question of the political machinery that would have to be created in order to administer the proposed principles is on the whole avoided. To have attempted to discuss that question systematically would have greatly complicated this inquiry. In places, indeed, it will be found impossible to gauge the operation of some proposed principle without an understanding of the machinery by which it is applied. At such points an attempt is made to indicate the arrangements that would best serve the purposes in view.

Thirdly, in the formulation of the principles suggested, past and present experiments in the application of such principles are liberally drawn upon for suggestion. No attempt will be made, however, to enumerate systematically the principles that have been applied in the pursuance of the aim of industrial peace. No effort will be made to classify the various theories or principles which have been put forward somewhere or some-time in the past, and then to submit each theory or principle to criticism.[1] Or, in other words, no attempt will be made to give a primer of opinions either as to the difficulties to be encountered in any attempt to formulate a policy of wage settlement, or of the suggested means of overcoming such difficulties.

3.—The first of the principles or measures which is put forward, is known as the principle of wage standardization. This principle has been well interpreted by Mr. Stockett: "The principle of standardization is designed to abolish within a given area the multiplicity of rates paid for similar service by the application of one standard rate for each occupation, minor differences in the nature of the work due to varying physical and other conditions being disregarded."[2] It represents the desire to do away with the great variety of wage rates for the same work which frequently exists, and the substitution therefor of a minimum wage rate. Good examples of its application are the wage agreements entered into by organized bodies

[1] An attempt to classify systematically and analyze the various theories of wages that have been used in attempts to settle wage controversies in accordance with defined principle has been made by Mr. Wilson Comption in an article entitled "Wage Theories in Industrial Arbitration." In its enumeration and discussion of the difficulties to be met in the application of principles, and of the attitude of most agencies of wage settlement it is particularly interesting. *American Economic Review,* June, 1916.

[2] J. N. Stockett, "Arbitral Determination of Railway Wages, page 75.

of wage earners and employers. In these the standard rates agreed upon for the various occupations are the minimum to be paid for these occupations, regardless of the particular individuals employed, and of minor differences in the nature of the work performed.

Trade union activity is undoubtedly responsible for the introduction into industry of the principle of standardization. By the device of the "common rule," so called, the possible influence upon the wage bargain of the economic position of the individual wage earner, or of the inefficiency or policy of the individual employer, is greatly curtailed. The common rule is a suitable instrument of expression for the group unity; by its use the competition for employment between the various members of the group is prevented from taking the form of underbidding.[1]

The enforcement of standard rates throughout a large area hinders industries from locating in places because of the opportunities for the hire of labor at cheaper rates, notwithstanding the fact that other places may possess greater natural advantages. It puts all competing enterprises and localities comprised within the area of standardization upon the same plane. This is well brought out by a resolution brought forward in the 1920 Convention of the Cigar Makers which reads "Whereas, the cigar makers in local unions are working on prices in some instances ten to twenty

[1] See Webb's "Industrial Democracy," Chapter 5, Part II.

dollars cheaper per thousand lower than the cigar makers and unions of different localities, and, Whereas cigar manufacturers are taking advantage of the situation, moving their factories or establishing branches of them in cheaper districts . . . and, Whereas this is detrimental to the welfare of the cigar makers and detrimental to the principles of the Cigar Makers International Union be it resolved by this convention that the Cigar Makers International Union adopt as one of its aims the securing of a uniform bill of prices, taking into consideration all the local conditions and necessities of the trade and local interests of the cigar makers, etc. . . . "[1] And finally the enforcement of standard rates tends to add to the competitive importance of able management. Shrewdness in bargaining with the labor force becomes a less important factor in economical production; ability to use the labor force, at the standard rate, to the best advantage becomes a more important factor. The tone of competition undergoes a change.

The principle of wage standardization is already accepted in many branches of American industry. Even in those branches, however, there remain many open questions as to the limits of its applicability. It has in the main the approval of public opinion, as shown by its acceptance in all projects of wage regulation undertaken by the

[1] Resolution No. 18 offered to 1920 Convention, *Cigar Makers Official Journal,* May 15, 1920.

government in time of war, and by the report of the President's Second Industrial Conference.

4.—It is necessary to study the characteristics of standard wage rates in some detail, in order to be able to measure the effect of the introduction of the principle into industry, and in order, also, to mark out the limits of its applicability.

The first characteristic of the standard wage to be noted is that it is only a minimum wage for the occupation for which it is enforced. Standard wage rates are not of necessity the actual wage rates received by all or even a majority of the wage earners employed upon the tasks to which they apply. They do sometimes become the actual rates received by most of the wage earners concerned; they become the wage, ordinarily, of those workers who fall around the average in skill and experience. This fact is liable to misinterpretation. It may be taken to mean that the more efficient workmen do not receive recognition for their greater efficiency. What it usually would signify is that the wages of the less efficient members of the group are increased.

As a matter of fact variations from the standard wage are commonly found. Mr. Collier, after an analysis of Australasian experience, concludes on this point ". . . . But this is not saying that the minimum wage is necessarily the maximum. Although statistics as to wage distribution are largely lacking, the weight of opinion is contrary to this supposition. In some industries, such as the building trades, where contracts are made upon the basis of a legally fixed rate, this rate is frequently the maximum. Yet such instances are in the minority. Employers do not reduce the pay of their most competent workers because they are compelled to pay those less qualified at a minimum rate."[1] It will be found usually that the abler, the more skilled or more experienced workers in particular occupations receive higher wages than the standard, because of the special value of their services.[2] Occasionally also agreements are

[1] P. S. Collier, "Minimum Wage Legislation in Australasia," Appendix VIII, Fourth Report of the Factory Investigating Commission, New York State (1915). See also R. H. Tawney's investigations of Retail Tailoring and Chainmaking Trades (Great Britain).

[2] D. A. McCabe in his book, "The Standard Rate in American Trade Unions," calls attention to two aspects of the subject that are frequently overlooked. Firstly, that "in any attempt to estimate the extent to which men receive wages above the minimum on account of superior efficiency, it is important to bear in mind that the minimum in different scales may stand in very different relation to the modal or predominant wage. The proportion of men receiving more than the union minimum is frequently large because the competitive wage has increased since the minimum was established" (page 116); and secondly, that "the extent to which differential wages are paid above the union minimum, when that rate is the rate actually paid to the men whose efficiency is about the average, varies widely in different trades. . . . Standardization of workmen and of work and the practice of dealing with large bodies of men as classes tend to standardize the wages paid in the railway service more than in trades calling for similar grades of skill in other industries" (page 117); so, too, "the tendency towards uniform rates for men engaged in the same kind of work is stronger in large establishments than in small establishments for the same reason" (page 117 ff.).

entered into for the employment of a small number of workers, who are acknowledged to be well below the ordinary level of efficiency in their trade or occupation, because of physical disability, old age or analogous causes. As Prof. McCabe has said, "Nearly all unions permit members who have become unable to command the minimum rate because of old age or physical infirmity to work for what they can get."[1]

A second characteristic of standard wage rates is that they may take the form of time-rates, or payment by results, or any combination of the two. Trade union agreements in the United States include all these varieties. It is true that a system of standard time rates is likely to be more in accord with the sentiment underlying the standardization movement. For under a system of payment by results individual differences in capacity are apt to be more readily reflected in the actual wage payments. And the sentiment underlying the principle of standardization is near-

Prominent among the factors which tend to make standard time rates actual rates he mentions: firstly, that the variations in efficiency within the membership of a time working union are not as likely to be as wide as among the men outside the union in the same trade, because the mere insistence on a standard rate tends to exclude some men much below the standard of competency. Secondly, practically all of the skilled trades unions require candidates for membership to prove their competency or be vouched for as competent by members who have worked with them. And thirdly, because the standard rate is the center of attention in negotiations and thus is made the presumptive rate (page 114-119).

[1] D. A. McCabe, "The Standard Rate in American Trade Unions," page 105.

er the idea of equal payment for equal effort or equal sacrifice within the group, than the idea of equal payment for equal product. This is illustrated in the report signed by the Labor Members of the Committee on Industrial Relations (1912-16) in reference to the wage payment systems of scientific management which reads, ". . . All of these systems of (i.e., of scientific management) payment tend to center the attention of the worker on his individual interest and gain and to repress the development of group consciousness and interest. Where the work of one man is independent of another, the individual has no motive to consider his fellow, since his work and pay in no wise depend on the other man. What either does will not affect the other's task or rates."[1] Furthermore, in some industries it is difficult under a system of payment by result to arrange that the actual wages received by the average members of the group for average effort, will be approximately equal. Those are the industries in which there are a great variety of jobs with different rates, which can only be more or less accurately estimated in the "price list"; or industries in which the working conditions vary greatly, either within the same factory or mine, or between different factories or mines engaged in similar work.

Where the philosophy of unionism is firmly en-

[1] Report signed by Commissioners Manly, Walsh, Lennon, O'Connell, and Garrettson. Vol. I, "Final Report of the Commission on Industrial Relations" (1912-16), page 132.

trenched these two systems of wage payment tend to be so governed by the actions of the wage earners and employers as to lead to approximately the same results. The standard wage under a time-rate system tends to become the wage for an average or customary output. Employers tend to demand at least that output for the standard time wage, and strive to increase the customary output whenever the standard time-wage is increased. And, on the other hand, under a system of payment by results, there is frequently a tendency for the workers to keep their output around a certain general level; which level, indeed, is determined only by all the circumstances governing the group attitude in the particular shop or industry. The "Report on Collective Agreements in the United Kingdom" (1910) has stated this as follows: "Although the main distinction between time wages and piece wages is of the nature described above, it is of importance to note that, whether the method of remuneration adopted be expressed as payment by results or as payment by time, the amount of work performed and the time taken in performing the work are factors, both of which are, to a greater or less extent, taken into account in every agreement for the payment of wages. Thus, on the one hand, the employee who is working on time wages is expected by his employer to turn out in a given time not less than a more or less specifically agreed upon quantity of work—"to do a fair day's work"—while, on the other hand, a list of piece-wage rates usually has an implied, and in some cases has an explicit, reference to the amount of money which can be earned by a man working under the list in a given time."[1]

The principle of standardization can and does find expression under either method of wage payment; its adoption does not exclude the system of payment by results. The terms of all such systems, however, should be made the subject of collective agreement. In that way the group interest in a defined minimum standard wage is protected, and the principle of standardization realized. As Prof. Pigou has written, "In order that the piece-wage system, and the benefit to production which it carries with it, may win further ground, what is required is to develop in these more difficult industries an adequate machinery for subordinating piece-wages, . . . to the full control of collective bargaining."[2]

5.—Such then, being the leading characteristics of the standard wage, what results can be predicted for an attempt to introduce it throughout industry?

During the decades which witnessed the introduction of wage standardization into industry in

[1] Report on Collective Agreements in the United Kingdom (1910) (CD 5366), page xiv.
[2] A. C. Pigou, "Economics of Welfare," page 441.

the United States, the most loudly expressed anxiety was in regard to its conceived effect upon individual independence and initiative. This question cannot be satisfactorily discussed apart from the larger one of which it is a part—that is the question of the influence of labor organization upon individual behavior. A few observations may be ventured with the explicit admission that they leave many sides of the question untouched.

The "common rule" has come into operation only where the ground has been prepared for it, where there has been a growth of group consciousness and unity. Under such conditions its use and observance mould individual ambitions and actions in some measure. It is a device which attaches the individual to the group, and interests the individual in the group advancement more than he otherwise would be. On the other hand, it indirectly guards for the individual an independence and vigor of spirit often lost in modern industry. When the underlying philosophy of the "common rule" is deeply ingrained the problems of industrial direction are completely changed; they become more difficult. Production becomes a task involving the power to win men to their work. Where the ethics of the common rule are accepted, effective work on the part of wage earners depends upon interesting them as a group in their work. The usefulness of wage systems which aim to increase individual production through individual reward is not necessarily at an end. But all such systems are compelled to accommodate themselves to the widespread desire for a standard group minimum.

6.—Another question to which the introduction of the standard wage gives rise is that of its effect upon the distribution of the available employment among the members of the group to which the wage applies. This question should be distinguished from that of its possible effect on the total amount of employment. It has often been contended that the multiplicity of wage rates for approximately the same work in industries in which wages are not settled by collective bargaining, is to be accounted for, above all, by the varying efficiency of individual wage earners. And, therefore, it is argued, that any attempt to standardize wages must lead to a concentration of employment upon those members of the group who are the more efficient, and must deprive the relatively less efficient of their employment.

It is almost impossible to say, except for concrete situations, to what extent irregularity of wage rates is due to differences in individual efficiency and to what extent to other causes. Such factors as differences in bargaining power, differences in the policy or efficiency of the employers, slight differences in the character of the work performed, local differences in the supply and demand situation for the type of labor in question, and the like, certainly account for a great many of the irregularities. Prof. Marshall has expressed one view of the matter well. He writes, "Cliffe Leslie and some other writers have naïvely laid stress on local variations of wages as tending to prove that there is little mobility among the working classes, and that competition among them for employment is ineffective. But most of the facts they quote . . . are only half facts and when the missing halves are supplied, they generally support the opposite inference to that on behalf of which they are quoted."[1] In R. R. Tawney's study of "Minimum Rates in the Tailoring Industry" (Great Britain) a vigorous statement of the opposite view is given. He writes, "The wages paid to a group of workers in a given industry and a given area depend, in fact, very often not on the conditions obtaining in that industry in other areas, but on the conditions obtaining in that area in other industries.[2]

It can be affirmed that the irregularity of wages is due to a considerable extent to other causes than differences in the efficiency of individuals. As D. A. McCabe writes, "Very little seems to be known as to differences of efficiency among men engaged in the same kind of work." But as he adds, "It is safe to assume, however, that they are not re-

[1] A. Marshall, "Principles of Economics" (7th Ed.), page 548.

[2] R. H. Tawney, "Minimum Rates in the Tailoring Industry" (Great Britain), pages 110-111. See for similar view, 4th Report of N. Y. State Factory Investigating Commission, Vol. V (1915), testimony of Miss Van Kleeck.

flected in time-working trades with any exactness by the wages paid, even where there is no trade union minimum."[1]

More to the point, it can be affirmed that the percentage of individuals in any occupation whose efficiency is decidedly below the average efficiency of the group is small. For, as a matter of fact, what really comes into question upon the introduction of wage standardization, is the employment of that small percentage of individuals whose efficiency is decidedly below that of group average. The employment of this small percentage in each group will be decisively affected by the general demand and supply situation of that group at the time when standardization is introduced. If the need for the services of a group is relatively great, employment at the standard rate will be given even to those members of the group who are decidedly below the average efficiency of the group. Such is the case during periods of industrial expansion. When the demand for the services of the group falls, however, it is probable that these men will be discharged first—more promptly than if wage standardization had not been introduced. There is probably some connection between the progress of the standard wage movement and the tendency to limit overtime in the industries in which the standard wage is enforced. Lastly, the effect of the enforcement

[1] D. A. McCabe, "The Standard Rate in American Trade Unions," page 14.

of wage standardization upon the employment of the least efficient members of the group can be modified by special arrangements, whereby a wage lower than the standard is set for such individuals as are mutually acknowledged to be decidedly below the average of the group.

In this regard Mr. Collier's report on the Australasian experience is a useful guide. He writes: "That workers may be displaced following the application of wage regulation to an industry is a fact sustained by the experience of Australasia. In New Zealand, many bona fide workers were thrown out of employment during the early years of the arbitration law. There was also considerable distress among the boot and clothing workers of Victoria. Many of the old, inefficient, and slow workers were discharged. But in each case other factors than labor legislation figured in the situation. We have seen that in the board trades of Victoria there has frequently been a decrease in the number of employees immediately after a determination became effective, but that in almost every instance this decline was temporary. After the period of adjustment, industry pursued its normal course. This seems to have been the general experience in this and other states." [1] It may be concluded that some redistribution of available employment will sometimes follow upon the intro-

[1] P. S. Collier, "Minimum Wage Legislation in Australasia," Fourth Report of the Factory Investigation Commission, N. Y. State, 1915, page 8243.

duction of the standard wage into industries in which wages were hitherto unstandardized, resulting in the partial or complete unemployment of the least efficient members of the group. As was said above, the extent of such redistribution will depend somewhat upon the demand and supply situation at the time when the standard wage is introduced. Those whose employment is reduced or taken away will either go into some work on which they compare more favorably with the other workers engaged, (leading to a further redistribution of employment perhaps), or will remain unemployed. The other members of the group will have increased employment.

7.—Still another possible effect of the introduction of the standard wage deserving of attention, is that which it may have upon industrial organization, and upon the level of managerial ability. As will be made clearer elsewhere, the enforcement of standard wage rates in an industry is usually equivalent in practice to the enforcement of those rates that are already being paid by the better organized units of that industry.[1] This leveling process may have any or all of several consequences. It may cause enterprises which had succeeded in competing partly because they paid lower wages than more efficient enterprises for the same grade of labor either to improve their productive methods, or gradually

[1] See pages 172-5, Chapter VIII.

to cease production. It may result in a reduction of profit for certain enterprises. It may occasion an increase in the price of the commodities produced. It may result in an increase in the productive efforts of the wage earners.

In the abstract, it is impossible to balance these various possibilities with complete assurance. The only inductive studies of value which give any indication of the probable result are those which have been made upon the results of living wage legislation. These, almost without exception, make the price increase resulting from standardization, inconsiderable.[1] They are witness to the fact that improvements in the level of industrial management and a gradual elimination of the less competent employers have frequently taken place. The opinion seems warranted that unless standardization is introduced under very unfavorable circumstances or in the form of an extremely violent upward movement, it will not cause a considerable or permanent rise of prices, but will rather bring improvement in industrial organization and lead to a more intelligent use of labor in industry. Along with this, there is reason to hope that it will have a favorable reaction on the efforts of the wage earners.

[1] See for examples, the reports of the Minimum Wage Commissions of The District of Columbia, Massachusetts and Oregon. Also the studies by R. H. Tawney and M. E. Bulkely on the English experience. Those of P. S. Collier and M. B. Hammond, on the Australasian experience.

8.—The whole subject of the effect of wage standardization upon the output of the wage earners remains to be considered, however. It is an aspect of the subject which has been in the forefront of discussion. It also is a topic which cannot be satisfactorily discussed apart from a larger one—that of the effect of unionism upon production.

The most bitter opposition to trade unionism has been connected with allegations made in this regard. These have taken different forms, but they almost always express one contention. That is that if a standard wage is set for work of a given kind, and if all men engaged upon that work receive that wage irrespective of small differences in ability, there will remain no stimulus for the abler workmen to exert themselves. Or in other words, that the standard wage makes slackers of all men. Sometimes this criticism is leveled only against the standard time wage; at other times against the standard guaranteed minimum wage, such as there used to be in the English coal fields; and, at still other times, against any method of wage payment which takes full power out of the hands of the employers to make an individual wage bargain with each worker.

These contentions have some basis on occasion. More often they arise from a misconception of the place of the wage earner in industry, or from a general hostility to labor unionism. Wage standardization does not mean that all wage earners receive the same wage irrespective of differences in ability. It simply sets a minimum standard for all workers of the group who are about the average in ability. It is designed to end all differences in remuneration, save those which arise out of differences in ability. It may be worked out in systems of payment by results, as well as in systems of time payment.

In reality a deeper conflict lies behind the antagonism to the standard wage—a conflict of social philosophy. Most unionists, it will be observed, are inclined to wave away all criticisms of the standard wage which rest upon its alleged effect upon output, no matter what the situation to which it may be addressed. In their opinion, these criticisms of the standard wage are based on a misconception of the place of the wage earner in industry. Or, as it is frequently put, they regard the worker in the same way as they do a machine, since they would have each worker paid solely according to his individual value to the industrial system. There exists a conflict between two views of the nature of industrial society, and of the way of industrial progress. In one the social importance of a high level of production predominates, and the wage earner is argued about merely as part of a productive organization. In the other, the wage earner is viewed primarily as a member of an occupational group or class, whose wages should be regulated by the standard of life of his group or class, rather than by strict measurement of his own individual capacity. This conflict is revealed, as R. F. Hoxie pointed out, in the antagonism between unionism and scientific management. To quote "much of the misunderstanding and controversy between scientific management and unionism . . . results from the fact, that scientific management argues in terms of the individual worker or society as a whole, while the unions argue primarily in terms of group welfare." It is well to recognize these different philosophies. Is it possible to find common ground under the principle of standardization? Can the desire of the wage earners to be viewed primarily as members of occupational groups or classes be satisfied by the enforcement of standardization, without ignoring the need for a high level of production.

It is usual to seek the common ground in the development of some variation of a system of differential time wages, or of a system of payment by results on the basis of a standardized price list. And certainly such ways of enforcing standardization, while at the same time giving special reward to individuals, deserve encouragement, provided they safeguard the group interest in a defined minimum standard wage. Still it is not likely that the solution for the problems of output that may arise as a consequence of the enforcement of the principle of standardization, *and of the acceptance of the philosophy to which it corresponds,* is to be found in the evolution of such methods of wage payment as these.

For, as was observed above, if the philosophy of unionism is deeply implanted in the minds of the workers, the productive results under all methods of wage payment tend to be controlled in the end by the same influences. The views and motives of the wage earners and of the employers are likely to remain constant under different systems of wage payment—and thus the outcome is not likely to differ greatly. No matter what the method of wage payment, the question of output will be largely one of mutual confidence, of tact, and of fair dealing. It must be so in any arrangement, by which two or more groups mutually regulate their claims and desires.

The conclusion that may be drawn as to the effect upon production of the enforcement of wage standardization is as follows. That its results may depend to some extent upon the success with which the principle can be adopted to those methods of wage payment under which wages are varied in accordance with small differences in in-
unionism, and act accordingly, the system of wage
earners believe heartily in the ideals and aims of unionism, and act accordingly, the system of wage payment adopted will be a factor of secondary importance in determining the effectiveness with which the wage earners perform their work. The

motives and sentiments of the various organized groups will govern the action of the wage earners, and produce almost the same result under any system of wage payment. The state of industrial relations, the satisfaction the workers feel in their position, the reasonableness shown by the different groups, the intelligence or ignorance of labor leadership—these and similar other factors will, at bottom, govern the effort put forth by the wage earners. These are the matters to which all who realize the need for steady and willing effort in production will have to attend.

The problem of maintaining a high level of production will be primarily one of developing the practice of open-handed and thoroughly understood negotiation between the directors of industry and the workmen. Barring the development of the practice of successful negotiation either industrial chaos or a return to individual bargaining must result.

9.—There is one other possible result of the enforcement of wage standardization which requires brief notice, because it was displayed prominently during the war. The demand during the war for certain essentials of warfare was abnormally great, and the result was a steady bidding up of wages for the supply of labor which could assist in the production of these essentials. This led to a constant shifting about of the wage earners from plant to plant. This movement not only hindered the effective organization of production, but also caused a considerable loss of working time, and fostered a continuous pre-occupation with the question of wages and related questions. In view of these facts, the various governmental agencies of wage settlement undertook to introduce into all wage contracts the principle of standardization throughout large areas. Witness, for example, the conclusion of the Shipbuilding Adjustment Board on the matter. "One of the most serious influences retarding the progress of the shipbuilding industry according to the unanimous testimony of the yard owners, and of the district officers of the Fleet Corporation who have come before us, is the shifting of men from yard to yard. . . . The only effective way to stop it is to remove its inciting cause, the variable wage rates paid by different yards in the same competitive region. With this purpose in view, we have sought in all our hearings to determine with accuracy the limits of each competitive region, so that we might extend over it a uniform wage scale for shipyard employees. . . ." [1]

The enforcement of wage standardization may serve to prevent wasteful shifting of the labor

[1] Decision as to wages, etc., in North Atlantic & Hudson River Shipyards, Shipbuilding Adjustment Board, reported in *U. S. Monthly Labor Review,* May, 1918, page 136. See in same issue of the review, "Decision for Shipyards of San Francisco Bay and Columbia River, and Puget Sound Districts," pages 68-78. Also report of Benjamin M. Squires in the *Monthly Labor Review,* 1918, Sept., on the "New York Harbor Wage Adjustments."

supply even in normal times. Theoretically, it should serve to limit the shifting of the labor supply to movement between different industries and occupations, and to cases which represent movement of unemployed wage earners to points where work exists. There would be, of course, innumerable cases of change based upon personal motives.

CHAPTER VIII—THE STANDARD WAGE
(*Continued*)

Section 1. What variations or limitations should be introduced into the principle of standardization in view of the great area and economic diversity of the United States?—Section 2. Differences in natural or acquired advantage between different enterprises as a reason for modification and limitation of the principle.—Section 3. Differences in the character of the work performed by any large group of wage earners as a reason.—Section 4. Differences in the cost of living at different points within the area of standardization as a reason.—Section 5. The grounds for "nominal variations" in standard wage rates. The policy to be pursued in regard to payment for irregular employment.—Section 6. The possibility of maintaining standard wage rates over a large and diversified area considered.—Section 7. Up to the present, the progress of standardization has not proceeded in accordance with reasoned conclusions as to the results produced.—Section 8. Where should level of standardization be set? The doctrine of "standardization upward."—Section 9. The importance of the principle of standardization in wage settlement.

1.—We have now completed our analysis of the general effects to be expected from the enforcement of wage standardization throughout industry. That analysis was carried out on the underlying assumption that the general economic position of the industrial enterprises which would be included within any area of standardization was substantially alike. That assumption must now be given up. A further question must be faced. That is whether the principle of standardization, as put forward up to this point, should be limited or varied in any way because it would have to apply, as a matter of fact, to an area so great and so diversified in economic character as the United States, and to an industrial situation which is the product of a great number of separate impulses, and which is made up of a vast number of separate interests.

2.—We will consider in order the grounds upon which limitation or variation of the principle of standardization has been argued for in the past—limiting ourselves, as we must, to the most important. The first that may be taken up has arisen almost every time that wage standardization has been introduced into a craft or industry. It is the contention that, due to differences in natural or acquired advantage possessed by different enterprises in the same industry, certain going enterprises will be forced to cease production, if all are compelled to pay the same wage rates for the same work.[1]

[1] Thus, take the cautionary warning in the Report of Commission of Enquiry into Industrial Agreements (Great Britain) upon the proposal to make collective agreements entered into by joint industrial councils compulsory upon all enterprises engaged in the industry providing a certain majority (75 per cent was the suggestion) of work people and employers in the industry or craft in question were represented in the council. "51—Attention has been drawn to the fact that, in the establishment of a scheme for dealing with pro-

The weight of this contention must be decided in each case by the facts which support it. In some instances it may be clear that the vigorous and summary application of wage standardization would cause men to be thrown out of work, who could not easily find work elsewhere, and would make a considerable amount of fixed capital valueless or almost so. In those instances there would be reason for considering the extent to which the standardization should be carried out, and also what variations should be introduced into its application. That such cases are not infrequent is borne out by the Australasian experience of which Mr. Collier writes, "In regard to the practicability of the common rule, opinion differs. In some staple industries such as coal mining, it has been said to operate fairly. But its application to small industries and retail stores, where conditions vary more widely, is fraught with considerable risk and is proceeded with slowly. . . . While the power to enforce industrial conditions throughout a state or given territory is of unquestionable

posals for extension of agreements, it would be necessary to provide for exceptions to be made in regard to individual firms or work people whose conditions of trade or employment were such as to differentiate them from the remainder of the trade to such an extent as to make the application of the agreement to them an inequitable proceeding." CD 6953, 1913, page 14.

A bill embodying a clause providing for such a scheme for extension was proposed by the government in 1919 in return for certain concessions from the trade unions, but was withdrawn when the parliamentary labor leaders would not agree to the concessions.

value, experience shows it must be exercised with caution." [1]

The test to be applied in each instance should be the balance of interest involved, including a strong public interest in standardization as one of the elements in a policy of wage settlement. When weighing the facts for or against the limitation or variation for the reason under discussion, several distinctions should be made. Firstly, in regard to the nature of the difference in advantage possessed by the various units of the industry in question. Secondly, in regard to the way in which the differences in advantage are distributed among the various units of the industry.

The case for limitation or variation is apt to be stronger when the difference in advantage is a natural difference than when it is an acquired difference. In either case, the decision must rest upon the balance of good and harm to be anticipated from a straight-forward and unmodified application of the principle. But when the difference in advantage is a natural difference, such as exists between different mining areas, there is greater reason for deliberate procedure than otherwise. For the possibility that an abrupt suspension of certain enterprises be caused without compensating extension of other enterprises, is the more genuine. Such a situation was recognized, for example, in the case of the living wage legisla-

[1] P. S. Collier, Appendix VIII, 4th Report New York State Factory Investigating Commission, 1915, page 2113.

tion for agriculture in England; and thus instead of applying one standard wage throughout all districts, standardization was carried out by districts.[1] Even in this case, however, the various district advisory boards are under a strong and constant pressure (under the terms of the act) to bring the rates in the various districts to the same level. Such, also, to take another example was the situation recognized in the course of the attempt during the war to standardize the wages of the stevedores and longshoremen employed in the South Atlantic ports. Here straightforward and unmodified standardization would have caused, it was judged, the diversion of certain freight carrying steamship lines from ports in which they now operate.

If the differences in advantage are in the nature of acquired differences, only convincing evidence of the permanent harm likely to result from gen-

[1] Much interesting material bearing on the question of district vs. national standardization is to be found in the report of the Commission on "Wages and Conditions of Employment in Agriculture" (Great Britain), 1919. An interesting bit of evidence was given by a farmer from Devonshire who was of the opinion "that the sticky nature of the ground in Essex induced a slow habit of moving, and he thought the Essex workmen did as much as could be expected in view of the labor involved in walking on wet land, during a large part of the year." Page 73. There is also much interesting material on the subject in the report of the Court of Inquiry into the "Wages and Conditions of Employment of Dock Labor" (Great Britain), 1920. The same problem has arisen, of course, many times in the course of trade union negotiations—for example, in the coal mines and railroads of the United States.

eral standardization would justify limitation or variation. For in this case, the necessity of paying standard wage rates is itself a powerful force towards overcoming conditions that have been declared a definite competitive disadvantage. Probably no extension of wage standardization in industry has ever taken place without injuring some individuals. It is the net balance of gain or loss that is significant. In most past instances when standardization has been enforced in an industry, marked by an unequal distribution of acquired advantages, the consequences have not verified the predictions of those who believed it would cause great disturbance and unemployment. On the contrary, it has frequently resulted in the development of better organization within the industry.

Again, the case for the limitation or variation is apt to be the stronger, when the difference in advantage is between concentrated but widely separated areas, such as might exist between two ports, for example, than when the differences are between different units in the same industrial area or field. For in the second case, the possibility of causing lasting unemployment would be less. The distinction, however, is entirely one of degree.

Whatever limitations or variations are admitted should not be settled arbitrarily; they should correspond to the facts which make them advisable. The union attitude in respect to the extension of wage standardization is sometimes as cautious as that of the employers. That is because those workers employed at the points which are supposed to possess the smaller advantages, natural or acquired, are not likely to support an unmodified application of the principle of standardization, unless they believe the consequent industrial changes will be beneficial, or at least not harmful, to themselves. The advice, if not the concurrence, of all interested parties is of the greatest value in arriving at a satisfactory determination. A good example of such an arrangement is to be found in the agricultural living wage legislation in Great Britain. It is provided therein that "When a district committee has been established for any area, it shall be the duty of the Committee to recommend to the Agricultural Wages Board, minimum rates of wages fixed under this act, and no variation or cancellation of such a rate shall have effect within that area unless . . . recommended by the district wages committee." [1]

3.—Another possible ground for limitation or variation of the principle of standardization is set forth often in the contention that the character of the work performed by any large group of wage earners is not the same throughout the field of its employment. Such, for example, was the argument of the directors of the American railways, as summarized by Mr. Stockett: ". . . The railways

[1] Section 12 (4), Trades Board Act, 1909, Restated in the Corn Production Act, 1917.

oppose district standardization on the ground that rates cannot be disassociated from conditions and since conditions vary widely on different roads in such extensive territories as the railway districts they maintain that rates cannot be made uniformly applicable on all the roads. The amount of compensation, the roads hold, is governed by the labor performed, the skill and efficiency required, the responsibility and hazard involved, the discipline necessary, the rapidity of promotion, and the cost of living." [1]

It is plain that the point of view which inspires the above argument is at variance with the beliefs that are behind the movement for wage standardization. The argument accords no validity to the belief that group unity and group aims deserve recognition in the settlement of wages. The doctrine of standardization on the contrary represents this belief, and sets groups standards above the existence of minor difference in the work performed by the group. The practical consequences of any wage policy which gave full recognition to these minor differences must also be weighed. These have been vigorously stated, for the case of railway labor, by Mr. Stockett. ". . . The employees maintain that the varying physical and traffic conditions in the different roads should not constitute a basis for the payment of various rates. It may be true, they hold, that physical conditions and traffic peculiarities differ as between different

[1] J. N. Stockett, Jr., "Arbitral Determination of Railway Wages," page 23.

roads, but it would be impossible to determine a separate rate of pay for each special condition. In the course of development of the railways conditions are always changing. Grades may be leveled, additional tracks laid, curves straightened, passenger and freight densities may differ from year to year and from day to day. The attempt to determine the proper rates for each different condition and to change them as conditions change, the employees assert, is obviously absurd. The plan of fixing a standard rate governing an entire district may be illogical and its basis arbitrary, but it is deemed the best devised and does substantial justice in a broader sense than any other system." [1]

Cases may arise, indeed, where the difference in the character of the work performed really means that the same name covers two relatively distinct occupations, and two or more quite different classes of wage earners. Such cases are probably rare. In circumstances where the constant differences between the character of the work performed by workers is relatively great, it will usually be found that they are distinguished into different groups.[2] It is a question of degree, of course. And if the existing distinctions do not fit the facts, those distinctions should be changed.[3]

[1] J. N. Stockett, Jr., "The Arbitral Determination of Railway Wages," page 21.

[2] See D. A. McCabe, "The Standard Rate in American Trade Unions," pages 82-91.

[3] For example, see the recommendations of the Interstate Commission regarding classification of railroad employees. *U. S. Monthly Bulletin of Labor,* Nov., 1915.

In unorganized industries, it will sometimes be found that the classification of occupations is very defective. If wage standardization were to be introduced into those industries, it would be found necessary to standardize occupations first. Such was the task undertaken, for example, by the War Labor Board in the Worthington Pump and Machinery case.[1]

4.—A third possible ground for limitation or variation of the principle of standardization is the existence of differences in the cost of living in the various main centers or regions to which a standard rate might be applied. Such variation would be represented, for example, by a collective agreement in accordance with which the wage scale at different points was varied in accordance with the relative cost of living at these points. Up to the present there has been a tendency to disregard differences in the cost of living when wage standardization has been extended. No constant tendency, for example, can be found in the agreements made by different local branches of the same national trade union to build up a wage scale in accordance with differences in the cost of living at different points.[2]

[1] Decision in Re Employees vs. Worthington Pump and Machinery Corp., Docket No. 163, National War Labor Board; see also decision in the Corn Products Case.

[2] For a recent statistical study of the subject see an article by Ogburn and Kelley in the *Journal of the American Statistical Ass'n.* for September, 1916.

The most complete body of material on the subject is contained in the report of the Investigating Commission of the Board of Trade (Great Britain) on Working Class Rents, etc., in the United States (1911). This commission studied the wage schedules of skilled men in the building, engineering and printing trades in twenty-eight of the large cities of the United States and compared these wage schedules with the calculated cost of food and rent in these towns—weighing food three times as heavily as rent. The results are presented by single cities, by geographical groups, and by population groups—i.e., cities grouped in accordance with size of population. *Real* wages tended to be more equal as between population groups than between geographical groups. The range of the index number between geographical groups is from 85 to 104 (New York is taken as 100); between population groups from 89 to 100 (New York, 100). They reveal a tendency for money wages and living costs to be high in the largest cities, and for both money wages and living costs to decline in the cities making up the smaller population groups. No correlation can be found between living costs and money wages as between individual cities, however.

The argument for variation or limitation because of differences in the cost of living is a twofold one. Firstly, it may be argued that such a policy is calculated to maintain industrial activity in the smaller centers, where the cost of living is usually lower, in the face of the competition of the larger centers, in which the cost of living is usually higher. Secondly, it may be argued, that variations in the cost of living at different places are indications of the fact that at some places the economic essentials can be procured with a smaller expenditure of human labor and capital than at other places (since labor and capital can move between them) and, therefore, it is to the general interest to encourage industrial development at the points where the cost of living is relatively low.

As to the first argument, it seems to me that there is considerable wisdom in the wish to encourage a diffusion of industrial development, rather than concentration at a few points. The strain on the social and political structure of the nation would be less, to-day, if our industrial population were more widely distributed; and our problems of civic and economic life would be simpler. That I believe to be true, although it is probable that the wage earners in New York City are better governed, have more freedom, and enjoy a healthier and more stimulating environment than the wage earners in the smaller industrial towns of Massachusetts or Pennsylvania, for example.

As to the second argument, it is true that differences in the cost of living do indicate that the essentials of economic life can be procured with a smaller expenditure of human labor and capital at some places than at others. There is a further question, however. Does not the ability of the enterprises established at the places where the cost of living is relatively high, to compete with the others, denote a compensating advantage in another stage of production? The answer depends on two conditions. Are the enterprises in genuine competition with each other? And secondly, do wages at the several places differ in correspondence with the differences in the cost of living? To the extent that these conditions hold true, any shift of industry away from the points where the cost of living is low, as a result of wage standardization, would not be uneconomical—in the sense of this argument. For then, the ability of the enterprises established at the points where the cost of living was relatively high to compete with the others would indicate that they benefited by some compensating advantage in their location.

Still another matter to be noted is that if differences in the cost of living are recognized in the enforcement of standardization, there will be some tendency for the abler and more energetic workmen to drift to the points where money wages are higher. This movement is likely to occur even though real wages are the same at the different places.

In addition to these theoretical considerations, one practical matter should be called to mind. The relative scale of the cost of living at the different points to which a standard wage might be applied does not usually remain fixed over a considerable period. Small changes and shifts in the relative scale occur constantly, and even large changes may take place within a short time. Experience has shown that wage differences which rest upon a fluctuating basis are apt to give rise to misunderstanding, and to be provocative of unrest. At best, only the relatively permanent and great differences in the cost of living between different points could be taken into consideration. Even then a great deal of arbitrary calculation might be involved.

In view of the variety of considerations that bear upon the problem, only a tentative conclusion will be ventured. Namely, that when in any industry the wage scales prior to standardization do reflect the differences in the cost of living at the different centers in which the industry is carried on, such differences should be maintained. As has been remarked, only the relatively large and permanent differences could be taken into account. When, however, no such differences in wage scales is found prior to standardization, it will probably be inadvisable to introduce them, in order to encourage a wider geographical diffusion of industry.[1]

5.—There is yet another ground for limitation or variation of the principle of standardization.

[1] The Commonwealth Court of Australia, while setting up as an ideal "uniform rates all around Australia" (see The Case of the Federated Storemen and Packers' Union, page 150, Vol. X, Commonwealth Arbitration Reports), has frequently awarded a different basic minmum wage for different cities within the commonwealth.

It is of a somewhat different character than those already considered. It is that in order to carry out the underlying idea of standardization—equal remuneration for the same type of work despite minor differences in conditions under which it is performed—it is necessary to introduce variations into the hourly or daily time rates (or equivalent piece-work schedules) paid in various sections of the industry. Such variations have been designated as "nominal variations" in the Australian courts.

Distinctions may be drawn between different types of these so-called "nominal variations" according to the cause by which they are occasioned. The first type is that which rests on the fact that in certain trades or industries, it is extremely difficult or impossible to make the conditions of work even approximately uniform throughout the trade or industry. Agricultural work and coal mining may be cited as examples. In such trades or industries it is usually found that the principle of standardization can only be carried out satisfactorily under a system of time payment. For under a piece-work system a uniform scale of rates yields widely different earnings for labor of approximately the same type and quality. It may be, however, that a time-work system is ill suited to the trades or industries in question. In which case, the only alternative is to draw up different piece-work scales for different conditions of work. Different scales of this sort are to be found in the

American coal mines for example. Such "nominal variations" between piece-work scales would appear to be justified when the differences of conditions upon which they rest are judged to be not subject to standardization. To be really practicable the differences of conditions should also be relatively great, fixed and measureable.[1]

The second type is that which rests upon some difference in the "net advantages" of the same work carried on in different sections of the industry or occupation. For the purpose in hand, three sorts of difference in net advantage may be noted. The first sort would be represented by a claim for a higher rate than that stipulated in the general scale, because the work in question was carried on under conditions involving an *unusual* degree of disagreeableness or risk. In my opinion, "nominal variations" based on such differences as these can safely be left to voluntary bargaining rather than enforced as a matter of policy. The conduct of almost any occupation involves differences in the conditions under which it is performed. Nobody entrusted with the duty of enforcing a policy of wage settlement would find it easy to define the conditions which warranted an addition to the standard rate. It would run the risk of being involved in a process of refined definition which would probably be futile. Justice

[1] See D. A. McCabe, page 54, and 162-3 for a review of trade union policy in this matter, "The Standard Rate in American Trade Unions."

Higgins stated this view aptly in a claim for "dirt" money. "My view," he writes, "is that the minimum rate of wages is not to be made to depend upon the degree of dirtiness of the work. A man must accept the conditions of the work to which he has devoted himself; and the court cannot be expected to define degrees of dirt or to express them in terms of money wages. If the employer puts the employee to work which is unnecessarily dirty, the remedy is in prohibition or in regulation—not in increase of wages. My decision in no way prevents the employer and employee from making a voluntary stipulation for dirt money in any particular case." [1]

A second sort of difference in net advantage would be represented by a request on the part of an employer that certain payments in kind should be considered as part of the wage. An example of this would be the provision of meals. Such variations would seem to be permissible when the acceptance of the payment in kind is left optional with the workmen.

A third sort of difference in net advantage, and possibly the most important, is that represented by differences in the regularity of employment in different sections of a trade or industry. This type of difference is exemplified in the work of longshoremen and lumbermen; some men being

[1] Case of the Broken Hill Proprietary Company vs. Federated Engine Drivers' and Foremen's Association of Australia. Pages 196-7 (Vol. X, Commonwealth Arbitration Reports).

engaged on one type of work are employed regularly, while men engaged on other jobs are employed irregularly or casually. It is frequently claimed that irregular or casual work should be paid at higher rates than regular work. The justice of this claim seems apparent. Irregularity of work is undoubtedly a great handicap to the workman who seeks to maintain a well ordered life. Extra payment for irregularity of employment is a burden which can fairly be put upon an industry, or section of an industry—even if the irregularity is unavoidable. Yet the consequences of such a policy of "nominal variation" may be undesirable. It has been revealed by experience that there are some workmen who prefer irregular or casual work to regular work. And if higher wage rates are paid for irregular work this preference —an undesirable one, from the point of view of the community—is apt to be strengthened. On the other hand, it is usually true that only a small percentage of workmen prefer casual work to regular work. Most men engage in casual work because they cannot secure regular work.

As was well established in the Court of Enquiry on the work and wages of transport workers (Great Britain) held early in 1920, the only real solution of the difficulty is the reorganization of the occupation so that the irregular and casual work is reduced to a minimum. Until that is accomplished, it is probable that the most advisable policy is to grant "nominal variations" for casual and irregular employment. These variations should not be so great as to influence the run of workmen to prefer casual work. The total earnings from regular work should be higher. Another policy that may be practicable, in many cases, is to define a minimum period of employment for all workmen engaged.[1] Such a policy puts strong pressure upon the industry to cut down irregularity of employment. Against such a policy stand the practical difficulties involved in determining the basis of any scheme of "nominal variations."

The whole question is well surveyed in a decision of the Commonwealth Court of Australia which reads in part as follows: "The casual hand, I propose to define as an employee who is not employed for a fortnight continuously and who is not entitled to a week's notice before his employment is determined. A new light was thrown by the evidence in this case on the growing tendency of some men to depend on the high rates for casual work only, to enable them to work when they thought fit, and idle when they felt inclined. . . . The yearly return of so many seasonal hands for

[1] Thus in one of its opinions the Kansas Court of Industrial Relations recommended that the flour mills in the state should pay their skilled men a monthly wage whether the mill is running or not, Docket 3803, Opinion regarding "continuity of production in the flour-milling industry," 1920. In another case, however, the Court refused to order the packing industries to guarantee a minimum amount of employment each week to its employees. Docket 3926, Wolff Packing Co., Case 1921.

the wool and grain season, year after year, who look for casual work elsewhere in the meantime in shearing sheds—on the wharfs—in other industries and even in the Government temporary service—and prefer casual work is not an encouraging sign. The higher rates paid for casual work do, and will, encourage many men to rely on that class of labor. I do not think that is good for the community or for the employee. I have been asked not to encourage the tendency to prefer casual labor by granting high rates for casual labor.

"Although the rates for casual labor ought not be so high as to induce men to become casual laborers, a higher rate must in fairness be allowed, where as in this industry, men, however anxious they may be to get permanent work, are not employed for the whole season without a break, and many of them are only employed a short broken part of the season, and some are employed for a day or a few days only." [1]

6.—In the examination of the reasons for and against limitation or variation of the principle of standardization, note must be taken of still one other argument of a somewhat different nature

[1] Case of "Federated Storemen and Packers' Union of Australia vs. Skin & Hide Merchants' Association of Brisbane," page 651, Vol. X, Commonwealth Arbitration Reports. For an example of difficulties to be expected, see the attempt made to set up such a scheme of nominal variations in the Salt Case, No. 1, "South Australian Industrial Reports," Vol. I, page 16.

than those already dealt with. That argument is that it will prove impossible to maintain uniform standard wage rates throughout an industry in which the various enterprises are distributed over a wide area; in the several parts of which area the cost of living, the general conditions of labor, and the demand and supply situation for labor differ considerably.

This contention is supported by two different lines of reasoning. The first is that, because of these differences, there will tend to be a flow of labor away from the less favorable points of employment within the area of standardization towards the more favorable. This flow, it is said, will cause a reappearance of the differentials which existed before standardization. The first comment to be made on this line of reasoning is explanatory, rather than contradictory. It is true that there may be some tendency for labor to flow from the less favorable points to the more favorable. But it must be remembered that the standard wage is intended only as a minimum. If differentials over the standard wage did arise in enterprises where the conditions of labor were worse than the average, or in regions where the cost of living was higher than the average, such differentials would not be incompatible with the ends sought, when standardization is enforced. Secondly, it may be commented that the experience of the past does not, in general, support the contention. In many industries the same standard wage scale applies over an area in which there are real differences of the kind set forth above, and no differentials as between the different points within the area have arisen—as, for example, on the railroads. This is to be accounted for, firstly, by the influence of the idea of standardization over trade union activity and policy; secondly, by the fact that relative money wages tend to govern, in a great measure, the calculations and movements of the wage earners; thirdly, by the fact that the application of the principle of standardization is in itself a strong force toward bringing about a leveling in the conditions of employment throughout an industry.

The second line of reasoning with which this contention is supported is that the trade unions themselves will not long support any policy of standardization which does not make explicit allowances for such differences as are in question. It is said that the organization of the workers at the points where the cost of living was relatively high would insist upon a differential over other places for that reason.

Such, for example, was the argument of the employers' counsel before the Court of Inquiry on the wages of transport workers (Great Britain), ". . . He submitted that one of the foundations of his argument was that in fixing wages they must have regard to the class of work. Having regard to the very great diversity of conditions and of methods in the different ports, and to the class of work done, he submitted that they could not standardize. They must do in the case of the ports as they did in the case of the coal mines." [1]

There is but one pertinent comment to be made upon this opinion. If the wage earners' organizations, themselves, demand that variation be introduced into the policy of standardization, that demand should be granted. But it must be observed that these organizations must not give lip service to the application of the principle of standardization without variation, and once having secured it, make such a course impossible by demands for differentials over the uniform standard wage. In the face of such tactics, it will be impossible to maintain any definite policy of wage standardization. If the labor organizations desire the application of the principle of wage standardization without qualifications, they must be loyal to that desire, and they must not be swayed by small temporary advantages or by sectional interests. And, on the other hand, if they desire that the principle of standardization be applied with qualifications, they must not attempt to disguise demands for general wage increases as standardization movements. Such a policy is calculated to perpetuate industrial conflict. Such is the bearing of the pledge given by the representatives of the transport workers (Great Britain) incidental to their claim for a 16 shilling national minimum daily wage. "I am conscious that what-

[1] London *Times*, Feb. 12, 1920.

ever your decision may be, if the principle of the minimum be established, some people in some ports are going to get more on the first settlement than others. We have faced that, and we have discussed it with the whole of our men. It was assumed by the chairman of the employers at the previous meeting, to take a striking illustration, that if Liverpool received 12 shillings per day and Glasgow 14 shillings, if you decided on 16 shilling a day, Glasgow would say 18 shilling, 'because I was above Liverpool before.' That is not so, my Lord. That is clearly understood by every member of the federation in every port in the country." [1]

7.—It may be hardly necessary to say, that up to the present, the various questions involved in the application of the principle of standardization in industry have not been settled by a careful study of the results produced. At the present time the manner in which the principle is applied is governed in the first instance, by the economic characteristics of the industry in question, and in the second instance by the area of influence of the various labor organizations, and by the degree of centralized control within each of them.[2]

One of the circumstances which has played a part in determining the area of standardization in

[1] Court of Inquiry into Wages of Dock Labour, etc., as reported in the *Monthly Labor Review,* U. S. Dept. of Labor, May, 1920, page 57.

[2] See D. A. McCabe, "The Standard Rate in American Trade Unions," page 143.

any industry is that success in the enforcement of collective agreements has depended largely upon whether all or most of the enterprises in competition with each other have been included in the same agreement. This circumstance has been sometimes decisive of the degree of centralized authority in the various trade unions. It has also tended to govern the attitude of particular trade unions towards the application of the principle of standardization without variation or modification.[1] The history of trade unionism is full of instances of organizations which have striven in vain to maintain uniform standardized wage rates throughout imperfectly organized areas.[2] Even when wage disputes have been settled by public agency, the usual procedure in the past has been to make the area covered by the agreement entirely dependent upon the area of dispute.[3]

For all of that there has been in recent years a steady drift towards an extension of the area of standardization. In various industries careful thought has been given to the possibility of standardization on a national scale, though at present very few unions enforce such a scale.[4] On the

[1] See D. A. McCabe, "The Standard Rate in American Trade Unions," page 183.

[2] For example, see "The Standard Rate in American Trade Unions," page 159.

[3] Such now seems to be the policy of the most recent experiment in wage settlement in the United States—the Court of Industrial Relations of Kansas.

[4] For a study of the influences which have governed the area of standardization in the United States, see Chapter

railroads there are at present nation-wide wage scales. In Great Britain, to-day this is one of the most vexed of questions. Indeed Great Britain just has gone through a great coal strike in which it was one of the two great issues. The miners asked that "a levy be made upon each colliery company on every ton of coal raised to the surface to be used for ensuring the payment of wages agreed upon in a national wages settlement." The miners argue, and correctly, that district settlements would give unequal reward to men doing precisely the same work, and called upon for the same service.[1]

8.—The introduction of standardization into crafts or industries in which a variety of wage rates for substantially the same tasks exist gives rise to one other difficult problem. That is the determination of the level of standardization for each occupation.

It will be argued, at a later point, that under any economic system in which labor organization is an accepted part of the economic structure, the wage levels established in different industries or occupations will have to be brought into relation with each other.[2] If that is so, the level of

III, especially page 120, etc., "The Standard Rate in American Trade Unions," by D. A. McCabe; also article in the *Quarterly Journal of Economics* for 1912, pages 425-443.

[1] See the statement of Frank Hodges, Secretary of the Miners' Federation, in the London *Observer*, April 17, 1921.

[2] See Chapters X and XI.

standardization of any industry or occupation would be determined in accordance with these principles, after they had been in operation for some time. As a matter of fact, however, under any policy of wage settlement, the enforcement of standardization will be something of an independent and prior process—prior, that is, to the application of any other principles intended to keep the wage levels in different industries or occupations in relation to each other. Standardization will be, so to speak, an initial stage of policy to be gone through before any other stages are entered upon. In this initial stage, the principal data that should be taken into consideration when fixing the level of standardization for any occupation is the actually existing variety of wage rates for that occupation. Where in the scale of actually existing rates the level of standardization is set must be a matter of judgment and compromise. That level of standardization should be chosen, which it is believed will produce more good and less harm than any other level that might be chosen. Or in other words, the level of standardization should be determined by a balance of the interests involved—that point being chosen at which, it is judged, the most favorable balance is established.

There is current, indeed, one doctrine of standardization which holds that there is but one satisfactory level of standardization for an occupation in which wages have been hitherto unstandardized. That doctrine, crudely stated, is that the standard wage for the work in question should be the highest of the unstandardized wages.[1] That doctrine is called "standardization upward."

If the suggested test is sound, it cannot be admitted that the doctrine of standardization upward is always valid. For there is no reason to believe that the level of the highest of the hitherto unstandardized rates is, of necessity, the one at which the most favorable balance of interests is established. In many cases there may be a presumption to that effect—if the doctrine is reasonably interpreted. That is to say, if it is taken to

[1] An interesting statement of the doctrine of "standardization upward" is to be found in the evidence of Mr. J. H. Thomas (then Assistant Secretary of the Amalgamated Society of Railway Servants) before the "Commission of Inquiry into Industrial Agreements" (Great Britain), CD 6953, 1910, Q 13902. Chairman: I think there are eight railways running into Manchester. You were talking about uniformity in such a case. Supposing that five out of the eight railways had a particular rate for a particular class of labor, would you apply that rate to the other three railways? A: It may be that the five should be lower than the three, and in that case, I certainly would not apply the lower to the others. I would apply the higher rate as being the uniform rate; but think that would be got over by the suggestion that I have made whereby the rate would be determined for Manchester, for example, by one authority. Q 13903—I will assume for the moment that the three are less than the five. Would you then make the rate that the five are paying a minimum rate? A: Yes, if the three were less than the five, then the rate of the five would be the rate, but if one was higher than the seven, then the other seven would come up to the one quite naturally. For another good example, see the claim of the Unions in the Engineering and Foundry Trades (Special District Cases), Committee on Production Reports (Great Britain), Vol. II, New Series (545).

mean the higher range of wages, rather than the highest single wage. That presumption arises from the fact that, unless there is evidence to the contrary, the higher range of unstandardized wages indicates what wages may be enforced throughout the occupation without causing great disturbance and unemployment. The circumstances which would govern the correctness of this presumption are many and have already been discussed.[1] The actual range of difference between the various wage rates being paid for the same occupation in different enterprises should be given importance in the judgment as to whether standardization should take place at the level of the higher range of wages.

Furthermore, in many cases where wages are standardized at a level lower than some of the wage rates already paid for the work in question, it would usually be sound to provide that these higher wage rates should not be reduced at once. This ruling was adopted in the decisions of the War Labor Board and it has also been embodied in the so-called "saving clauses" in the American railway wage decisions.[2]

9.—The principle of standardization may be considered basic in any wage policy for industrial

[1] See pages 138-9, Chapter VII, also pages 192-5, Chapter IX.

[2] Justice Higgins of the Commonwealth Court of Australia has dissented from the saving clause idea simply on the ground that if the unions desire standardization and uniformity, they "must take the rough with the smooth," Case of the Federated Shoremen & Packers' Union, page 150, Vol. X, "Commonwealth Arbitration Reports."

peace. This is not because the existence of various wage rates for the same work is the greatest source of industrial conflict. But because the establishment of clearly known wage rates for each type of labor, extending over the field of its employment (with whatever limitations or variations are admitted to the principle) is often essential to the operation of any other principles of wage settlement. The establishment of standard wage rates makes possible a clear knowledge of the economic position of the various classes of wage earners. Likewise, it makes possible the accurate measurement of wage change; and also makes for simplicity and uniformity in the application of changes. Lastly, it tends to produce a careful classification of the different kinds of work, in which the minor and local differences in the nature of the work are gradually eliminated. These are the reasons for the "strong public interest in standardization" which was spoken of above.[1]

[1] Compare J. N. Stockett, Jr., "Arbitral Determination of Railway Wages," pages 46-47.

CHAPTER IX—THE LIVING WAGE

Section 1. The reasons for seeking separate principles for the settlement of the wages of the lowest paid groups. —Section 2. Wage statistics of these groups a matter of familiar knowledge.—Section 3. The definition of the living wage idea. An inescapable element of indefiniteness contained in it.—Section 4. The living wage principle put in the form of applied policy.—Section 5. Should the living wage principle be applied to male labor? The arguments for and against.—Section 6. The theoretical case for the living wage principle. The verdict of past experience favorable to its extension.—Section 7. The dangers which must be guarded against in applying it.—Section 8. It should be administered through machinery which makes possible careful study of facts of each industry. This machinery discussed.—Section 9. The question of the relation to be established between living wage for men and women difficult. Alternatives considered.—Section 10. A plan for the adjustment of the living wage to price changes. The basis of adjustment. —Section 11. The policy of adjustment—already discussed.—Section 12. The hope of the living wage policy.

1.—In the brief survey earlier in this book of the present industrial situation in the United States, it was concluded that the improvement of the economic position of the lowest paid groups of wage earners was one of the chief objects to be borne in mind when striving to work out a policy of wage settlement for industrial peace. In the following chapters a study was made of the causes of the formation and existence of relatively separate groups of wage earners, and of the forces which determine the level of earnings for the various groups. It was observed that the lowest paid groups of wage earners tended to be separated from the more fortunate groups; they have relatively independent economic fortunes. Two reasons exist, therefore, for giving separate treatment to the question of the principles by which the wages of these least favorably placed groups of wage earners should be settled—as part of the policy of wage settlement for industrial peace. Firstly, because their economic position is a matter of special concern; secondly, because the wage incomes of these groups are determined, in part, by forces which do not affect equally, or in the same way, the wages of the other groups.

The living wage principle as put forth in this chapter is the principle suggested for use in the settlement of wages for these least favorably placed groups of workers. It is the second of the measures, intended to form a policy of wage settlement for industrial peace.

2.—It is not necessary to give here the wage statistics for the groups of wage earners who are lowest in the industrial scale. They form the record of the fact that a considerable percentage of all female industrial wage earners, and some groups of male wage earners who perform unskilled work, are in receipt of wages insufficient to enable them to live according to those conceptions of the minimum level of satisfactory economic existence which have been formulated by public agencies from time to time.[1]

3.—The general idea of the living wage is not a new one. It has been the subject of many definitions. A comparison of a few of the best attempts to express the idea shows, on the one hand, the definite purpose which is its inspiration and, on the other hand, an inescapable element of indefiniteness which persists in all instances where the idea has been enacted into policy.

The definition given to the living wage idea by the South Australian Industrial Court (an agency which has made searching efforts to explain its underlying assumptions) is that all wage earners should receive "a wage that will meet the reasonable and normal needs of the average citizen in a particular locality."[2] In the declaration of the war labor policy of the Dominion of Canada one

[1] The best short summaries of the pre-war wage situation are—"The Standard of Living among the Industrial People of America" (1911), by F. H. Streightoff, and an article by C. E. Persons in the February, 1915, issue of *The Quarterly Journal of Economics*. For a more extensive study see the Report of the Commission of Enquiry of the Board of Trade (Great Britain) into working class rents, etc., which contains material of great value. A recent comprehensive survey of wages in the United States, undertaken by the Bureau of Labor Statistics for the War Industries Board was published in May, 1920. It is Bulletin No. 265, U. S. Bureau of Labor Statistics, "Industrial Survey in Selected Industries in the United States, 1919."

[2] South Australian Ind. Reports. Vol. 2-3—1919. Page 6—Submission by Employees in Cardboard Box Industry." Quoted from Printing Trades Case.

can read that "all workers, including common laborers shall be entitled to a wage ample to enable them with thrift to maintain themselves and families in decency and comfort, and to make reasonable provision for old age." [1] And contained among those principles laid down for the guidance of the United States War Labor Board is the following, "In fixing wages, minimum rates of pay shall be established which will insure the subsistence of the worker and his family in health and comfort." [2]

These definitions reveal clearly the aim which inspires them. They express a determination to secure for the least favorably placed members of the industrial community wages sufficient to enable them to share with the rest of the community prospects of an active and happy life, as the run of men understand that idea at any time and place. Still all these definitions—including the one just given—assert a goal sufficiently indefinite to permit, and indeed necessitate interpretation according to the circumstances under which the idea is translated into policy. The clarity of the idea arises from a simple belief. That belief is that any body of individuals of average honesty, though they disagree in many things, can reach a large measure of agreement as to the minimum income which will enable the ordinary wage

[1] *Labor Gazette of the Dominion of Canada,* August, 1918, page 617.

[2] As reported in the *Survey,* April 6, 1918.

earner to live a life which satisfies, in a minimum measure, the ideals of life current in the community. The indefiniteness of the idea arises out of the fact that it is not likely that this body of men will be in complete agreement as to this minimum income; and therefore the wage finally settled upon is likely to represent a compromise between conflicting opinions. This is well brought out in a passage contained in one of the reports of the Minimum Wage Board of the District of Columbia. ". . . Cost of living is such an unstandardized subject that a mathematically accurate determination is impossible. In each conference there are as many different opinions as there are members. In general, the employers want a wage sufficient to maintain existing standards of living in the industry, while the employees contend that the standard of living should be improved. The wage finally agreed upon is not a scientific determination based solely on facts, but rather a compromise of opinion between the two groups, modified as it may be, by the opinion of the public." [1]

The reference contained in practically all definitions of the living wage principle to the standards of a particular time and place assists greatly in interpreting the principle into policy.[2] For this

[1] Second Annual Report of the Minimum Wage Board, District of Columbia (1919), page 18.

[2] An excellent study of the technique of measurement of the cost of living is that by W. F. Ogburn, "Measurement of the Cost of Living and Wages." No. 170, *Annals of the*

reference is tantamount to saying that the standard of economic life which shall be deemed to satisfy the principle, should be fixed primarily by comparison with the standard of life of the wage earning and middle classes in the community at the given time. This comparison tends to govern the content of the living wage idea. It brings the living wage determination into direct relation with—or makes it relative to—the productive capacity of the industrial system at the time and place in question. For a study of the standard of life of the wage earners and the middle classes of the community is of great assistance in indicating the standard of life to which it may be possible to raise even the worst paid industrial groups, by those adjustments in production and distribution which it is the object of a living wage policy to produce. This essential relativity of the living wage idea is well pointed out in a decision of Justice Brown of the South Australian Industrial Court. ". . . . The statutory definition of the living wage is a wage adequate to meet the normal and reasonable needs of the worker. In other words, the conception is ethical rather than economic. The Court has not to determine the value of the services rendered, but to determine what is necessary to meet normal and relative needs.

American Academy of Political and Social Science (1919). The article helps to put much firm ground under the feet of those engaged in cost of living investigations for the United States. For a description of the methods pursued in official cost of living investigations in Great Britain, see the account by F. H. McLeod in the June, 1919, issue of the *U. S. Monthly Labor Bulletin,* page 119.

It should be obvious that in the interpretation of reasonable needs the court cannot be wholly indifferent to the national income. The reasonable needs of the worker in a community where national income is high are greater than the reasonable needs of the worker in a community where the national income is low."[1]

The living wage has ordinarily been assessed on different bases for men and women. The basis of assessment for each has been the subject for much controversy. The most generally upheld basis of assessment is, in the case of the male wage earner, to assess his needs on the supposition that he is the supporter of a family consisting of himself, wife, and two or three small children; and in the case of the female wage earner, to assess her needs on the supposition that she is living alone, and is dependent upon her own earnings for her support, and that she has no other obligations. These bases of assessment do not meet all of the demands of logic—applied to the living wage idea—nor, as will be seen, is the choice of different bases of assessment for men and women entirely free of difficulty.[2]

The reasoning, which has been used ordinarily in support of the suggested basis of assessment for men is well set forth in another decision of Justice Brown, "I look upon the maintenance of home life as of supreme importance to the com-

[1] The Plumber's Case, South Australian Industrial Reports (Volume I, 1916-18), page 122.

[2] See pages 199-202, this chapter, for further discussion of this question.

munity. I regard the wage paid to the adult male as essentially and in substance a family wage. True, so far as single men are concerned, it has long been settled that the minimum (living) wage should not be less than that of the married man. In other words, in discussing the needs of the male worker, a man with a family to support has been taken as a basis of assessment. Any other conclusion would prejudice the married man in search of employment and would tend to produce sterility of the population, and would place the industrial court in the invidious position of fixing wages at a rate which would make it difficult, if not impossible, for single men to save something for the time when they may have the felicity to become supporters of a family."[1] The argument in support of the suggested basis of assessment for women rests upon a sentiment to the effect that every worker should earn, at least, enough to enable her to support herself, even though the actual necessity does not exist in many cases, and though in many other cases the female wage earner has obligations beyond self-support.

4.—After these preliminaries, it is possible to make more definite recommendations concerning living wage policy—with a view towards the adoption of the living wage principle as part of a policy of wage settlement.

[1] The Printing Trades Case, South Australian Industrial Reports, Vol. II, 1918-19, page 35.

Firstly, as to scope. It should apply to all groups of workers whose average annual earnings fall below the sum settled upon by the constituted agency as the minimum necessary for the fulfillment of the living wage idea. The statistical definition of the term "average" as just used should also be left to the constituted agency. Allowance should be made in each occupation for a small percentage of sub-ordinary workers.

Secondly, as to the basis of assessment of the living wage, and the procedure by which it should be fixed. There should be an extensive and (so far as it is possible) impartial investigation of the cost of that minimum standard of economic life which it is the intention of living wage policy to secure for all industrial wage earners. In the determination of what should be included in the minimum standard, attention should be paid to the income levels of the wage earners in general, and of the middle classes. The wages now received by the lowest paid groups would also be an important consideration.

The living wage settled upon by this process of investigation should be in the form of a weekly standard wage. It should be considered as a minimum only for any occupation to which it is applied. Like other standard wage rates, it should be subject to limitation or variation in accordance with the conclusions reached on that subject in the preceding chapters.[1] The questions which arise out of the fact that it would have to be en-

[1] See Chapters VII-VIII.

forced in a number of different industries, and under widely different conditions will be considered at a later point.[1] The bases of assessment for men and women should be those discussed and approved in the preceding section. The living wage that is fixed should be subject to reconsideration and revision at definite periods; aside from the revisions which may be called for as the result of price movement,[2] or under the profits test which is suggested later in the book.[3]

5.—So much then for the central features of the living wage proposals. We have now to consider the probable result of their enforcement; and any criticisms to which they may be fairly subject in their proposed form. Thus we will be enabled to discover what modifications, large or small, are advisable.

Objection may be taken, first of all, against the scope of these proposals. So far living wage legislation in the United States has been applied to female industrial workers only. The argument against the extension of the principle to male wage earners is put on two grounds—the constitutional and the economic. On the constitutional argument, only the briefest comment will be attempted; and that without any intention to dogmatize upon a most complicated subject. That is that the test of the constitutionality of these

[1] See pages 192-6, this chapter.
[2] See pages 202-7, this chapter.
[3] See Chapter XII.

proposals should be the balance of good or harm they promise. The constitution is at bottom but a very wise guide as to what public good and harm consists of. But as the conditions and facts which determine good and harm change, these changes should be reflected in the interpretation of the constitution. These living wage proposals do not, it seems to me, offend against any of the fundamental ideas which the constitution contains.

The economic argument against the extension of the living wage policy to male wage earners is usually based on the contention that it is unnecessary, or that it has a bad effect upon the spirit and character of the male wage earners concerned, or upon both these contentions. As to its necessity, the statistics of wages for the least favorably placed groups of male wage earners, and observation of their economic handicaps offer sufficient evidence. As to the belief that the extension would be destructive of the spirit or character of the male wage earners concerned, there is little or no factual support for that view, and much to refute it. A minimum level of economic existence is requisite to the growth and development of personal initiative and of a spirit of self-confidence. Vigor and independence of temper and action is not bred in a position of extreme economic dependence. One does not have to be blind to the dangers of paternalistic legislation to believe that living wage policy for male wage earners is justified, under modern industrial conditions.

All the more so, since experience with living wage legislation proves that it encourages voluntary organization among the wage earners. And this fact, indeed, is also a fair answer to the tough dislike of the American labor unions for all other methods of settling the wages of male workers than that of collective bargaining.

6.—We may now pass from the possible objections to the scope of these proposals, to those which may be fairly leveled against their substance. Although the living wage principle has been used in wage settlement throughout the Australian Dominions, in many English industries, and in a limited number of industries in some of the American states, the controversy which arose over it, when first it was introduced, is far from quieted. This is explained, in part, by the extreme difficulty of getting evidence as to its results which is beyond the shadow of doubt. That is due, in part, to the great variety of conditions under which it has operated. Its results are always complicated by circumstances which differ from place to place. Again, there is the fact that such experiments as that of the living wage are apt to be judged from a rapidly changing viewpoint.

The very conscientious efforts which have been made, however, to measure the effect of the various experiments with living wage legislation furnish us with much valuable material on most of the debated matters. No attempt can be made here to reproduce the various sides of the controversy, or to summarize the evidence which has been collected upon the disputed aspects of the subject.[1] Much of it covers the same matters which were treated in our analysis of the principle of wage standardization. In my opinion, the existing evidence warrants the advocacy of an extension of the living wage policy in the United States. It furnishes us also with valuable instruction as to the form in which the policy is likely to work out most satisfactorily.

[1] A valuable collection of evidence in support of living wage legislation is contained in the briefs presented in the cases of Stettler v. O'Hara (The Oregon Minimum Wage Case) published by the National Consumers' League. This collection of evidence is brought up to date in the new brief just published in defense of the Minimum Wage Commission—District of Columbia (Children's Hospital vs. Minimum Wage Board), 1921. For a collection of theoretical opinions on various aspects of the subject, see the symposium on the Manimum Wage Problem, which is printed as Appendix III, Vol. I, 4th Report of the New York State Factory Investigating Commission (1915), pages 592-827. An excellent bibliography on the subject by Miss Irene Osgood Andrews is to be found in Appendix III, 3rd Report of the same Commission (1913). The best studies of the Australasian experience are those of M. B. Hammond (especially the articles in the *Quarterly Journal of Economics* for Nov., 1914, and May, 1915), and P. S. Collier, Appendix VII, 4th Report of the N. Y. State Factory Investigating Commission. The bulletins of the Massachusetts, Oregon, and Washington (D. C.), Minimum Wage Commissions are the best studies of the effects of American legislation. Upon the results of the British Trades Boards see the studies of R. H. Tawney on the Chainmaking and Tailoring Trades and that of M. E. Bulkeley on the Box Making Industry. The Parliamentary Debates 5th Series (Vols. 96-97, 107-108, Hansard), cover every aspect of the English experience.

The value of the living wage principle as an instrument for bringing about an improvement in the economic condition of the lowest grades of industrial workers, without producing equivalent harm in any other direction, is also supported by general theoretical reasoning; that is, by a study of the forces which govern wages in general, and the wages of these lowest groups in particular. In the study of these forces, earlier in the book, it was pointed out that the outcome of distribution may be affected by just such assertions of purpose as that represented by the living wage policy. If labor organization has been able to increase the wages of certain groups of wage earners without doing equivalent harm in any other direction, there is reason for believing that a living wage policy can accomplish something of the same result for the lowest grades of industrial labor, which have been up to the present practically without organization. And, indeed, in England, the Trades Boards, which are the machinery of the living wage policy, are ordinarily regarded as fulfilling practically the same functions as organization does for the more favorably placed groups.[1]

Furthermore, the nature of certain of the forces which account for the low wage levels of the groups that would be affected by the living wage

[1] The best theoretical statement of the dangers and difficulties presented is the article by F. W. Taussig, "Minimum Wages for Women," in the *Quarterly Journal of Economics*, June, 1916. The evidence, however, seems to me to stand against the skepticism expressed therein.

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In my opinion, the chances that any of these things will result from the enforcement of a living wage policy in the United States to-day are small. Yet to put the matter summarily,—these are the dangers which those entrusted with the administration of a living wage policy would have to be alive to; and if they become real, seek to overcome, by shaping their policy according to the facts that confront them. The factors which will determine whether any or all of these undesirable results will ensue are many. They cannot be balanced in the abstract. Yet general reasoning enables us to discern those which will make that likelihood greater or smaller in any occupation or industry.

We may start by enumerating those factors which enter into the likelihood that a reduction of employment will result from the enforcement of a living wage policy. They are: Firstly, the amount of wage increase undertaken; secondly, the importance of the wages received by the groups in question in the total expenses of production; thirdly, the shape of the demand curve for the products of the groups; fourthly, the chances for improvements in the methods of production; fifthly, the chances of encouraging better business management by enforcing living wage standards; sixthly, the effect of the wage increases upon the efficiency of the groups affected, and their fitness for advancement to more skilled work; seventhly, upon the opportunities for substitution of machinery; and lastly upon the ultimate effects of the introduction of machinery on the employment of these groups.

Turning now to the second possibility, that the enforcement of living wage standards will cause a concentration of employment upon the more efficient workmen, thus throwing out of employment those most in need of help, here, too, a great number of factors have to be reckoned with. They, however, have already been dealt with in the previous discussion of the effect of standardization upon the distribution of employment. There is no need of enumerating them again in this place. One point of difference should be observed, however. The differences of individual efficiency among the workers that would be affected by the living wage policy are more substantial than the differences of individual efficiency among the members of the more skilled wage earners. And, therefore, while it would be unnecessary to make any special provision for the least efficient members of the more skilled groups upon the introduction of standardization, it might at the start be decidedly good policy to make special provision for the least efficient members of the unskilled groups. Under practically all living wage legislation special provision is made for them.

It should also be remarked in this connection, that the probable greater range of individual efficiency among the unskilled as compared with the skilled is in some measure to be attributed to their present low wage levels. Inefficiency is likely to grow upon itself. Mr. Aves has remarked pertinently in this regard, "As with the 'unemployed' or the 'unfair employer' so with the 'incompetent' and the 'slow,' none of these represent well defined classes. All are elastic. Some can be created and all merge by imperceptible degrees into the classes above."[1] The enforcement of a living wage policy, it may be hoped, would in itself reduce the range of individual efficiency among the unskilled. For it would keep from the ranks of the "incompetent" and "slow" some who might have found place elsewhere had their chances been somewhat better.

We turn to the third possibility—that as a result of enforcement of a living wage policy there will be an increase in numbers in those groups who fall within its scope. Here the pertinent factors are: Firstly, the movement out of the lowest paid groups into those more favorably placed, owing to the effect of increased wages upon individual capacity and the use of individual opportunity; secondly, upon the movement from other groups into the groups affected by the living wage policy, due to the wage increases brought about by the policy, and thirdly, upon the effect of these wage increases upon the frequency of family labor, and

[1] Report on Wage Boards and Industrial and Condition Acts of Australia and New Zealand (1908).

upon the age of entry into and retirement from industry.

8.—So much, then, for the possible undesirable consequences of the application of the living wage principle. It is evident that the policy must be put in such a form as will make possible a careful study of the facts of each industry or occupation and adaptation to these facts. The following proposals are made primarily with the view that they will permit this flexibility. They are also designed, however, to fit into the other requirements of the general policy of wage settlement for industrial peace, which is under study.

It is proposed that there should be in every industry which is included within the general scheme of wage settlement a joint council or board. There might also be occupational boards or councils. These councils or boards should consist of representatives of the workers and of the employers. Representatives of the public might act upon these boards or councils in advisory capacity. There might be both a central board or council, and various district boards or councils in each industry. These joint boards could be given other duties outside of the administration of the living wage policy. That matter will be taken up at a later point. Here, note will be taken only of the part they could play in the administration of the living wage policy.

The joint boards or councils should be advisory to the central authority which is constituted to administer the policy of wage settlement as a whole. The functions of this central authority in regard to the formulation and declaration of the living wage for men and women have already been discussed. It should be provided, however, that the central authority should make no living wage declaration or hand down any order until it has received the report of the joint boards or councils in the industries or occupations in question upon the subject of such decisions or orders. The report of the joint boards or councils should be given great weight by the central authority in arriving at decisions. The joint boards or councils should be permitted to submit both majority and minority reports to the central authority.

Among the matters arising in the course of the administration of the living wage policy, upon which the joint boards or councils should be called upon to advise the central authority, are the following: Firstly, upon the wage to be prescribed in that industry or occupation. Each joint council should be free to recommend a wage less than the wage declared to be a living wage by the central authority, giving its reasons for the same. It should also be free to recommend a wage more than the declared living wage, giving its reasons in this case also. The conclusions reached in regard to "nominal variations" as between different sections of an industry are equally valid as between industries or occupations.[1] Secondly, upon questions connected with the form of wage payment, and the arrangement of piecework lists designed to yield the prescribed living wage. Thirdly, upon the question of sub-ordinary workers in an occupation or industry, and upon the issuance of permits for the same to work for less than the prescribed wage. Fourthly, as to whether the wage fixed for any industry or occupation should be varied or limited. Fifthly, upon any difficulties that may present themselves because of the fact that the living wages for men and women are assessed on different bases. Lastly, upon these boards or councils should rest the duty of observing how well the declarations or orders of the central authority are observed; and of studying the effect of the prescribed wages upon these classes of wage earners that the living wage policy is designed to help, and upon the industry in general; and of reporting periodically to the central authority upon the same.

It is true that the procedure of these councils would consist largely of the compromise of conflicting opinions. It will be the duty of the central authority, however, to prevent them from settling down to that régime—nor should the central authority consider itself bound to accept the advice of these joint councils or boards.

[1] See pages 160-6, Chapter VIII.

9.—The determination of the relation between the living wage for men and women is one of the difficult questions that will have to be met in the course of the enforcement of any living wage policy. The position of women, both in industry and in society is at present undergoing change. The limit and direction of this change cannot be marked out with certainty. Therefore, the presuppositions upon which present policy may be constructed may become invalid in a comparatively short time. The unsatisfactoriness of leaving the question to be settled by the decision of the market has become increasingly plain. That policy produces, on the one hand, a constant effort on the part of the employers to so modify their processes of production as to take advantage of the low range of women's wages, irrespective of the effect on men's wages and of the suitability of the occupation in question for women; and, on the other hand, a constant effort on the part of the men to keep the women out of all new employments.

The best advised foundation for present policy, in my opinion, is the two separate bases of assessment, suggested above.[1] In its favor, it may be pointed out that it corresponds to a certain extent to the existing relation between the wages of men and women in industry, and it would not, therefore, produce any violent change. Its unsatisfactoriness lies in the possibility that it may

[1] See pages 183-4, this chapter.

gradually lead to a displacement of men by women in many employments. On the question of whether such displacement is to be desired, there is room for the very deepest differences of opinion. It seems to me, however, that the industrial history of the nineteenth century proves the supreme importance of the wage of the head of the family to the general welfare of the family. For that reason, it is, in my opinion, wise to protect the wage of the male head of the family; and thus to provide that when men and women are employed upon the same work or when women are introduced into employments hitherto filled by men, the wage rates for men should be enforced throughout the employment. This ruling could be interpreted in some cases in terms of the relative efficiency of men and women, if there was a clear difference of efficiency. Of course, if the term "relative efficiency" is construed to include the difference in the indirect or overhead expense involved in the employment of male or female labor in any occupation, such a policy would amount to throwing open every field of employment to women.

There are a number of alternative policies that might be pursued in order to ensure that the use of different bases of assessment for the living wage for men and women should not lead to haphazard displacement of men by women. Justice Brown in the Printing Trades Case has called attention to the most important of them. " . . . I suggest," he writes, "that with respect to any industry or grade, where the prima facie formula above (that is, a different living wage for men and women) is challenged, evidence should be given to show that it is desirable, having in view the interests of all parties and of the community, that men should be retained in that industry or grade even though such retention might involve some departure from the formula in question. Where such evidence is satisfactory there are several alternatives open to an industrial court. (1) To fix the same wage for women as for men. (2) To fix a ratio wage where it is proved to the satisfaction of the Court that the average woman is not of equal value to the employer. (3) To exclude women. (4) To accept the prima facie mode of assessment, but to limit the proportion of women who may be employed by any particular employer in any particular industry or grade . . . The task of choosing may often be one of extreme difficulty and delicacy."[1] The task of fixing the relation between men's wages and women's wages will be even more delicate when the introduction of women into a field of employment follows upon a modification of the processes of production involved.[2]

[1] The Printing Trades Case, South Australian Industrial Reports, Vol. II (1918-19), page 252.

[2] The suggestion put forward in the "Report of the War Cabinet Committee on Women and Industry" (Great Britain), 1918, is as follows: "In such cases," the report reads, "the time rates for the simplified process or simplified machine should be determined as if this was to be allocated to male labor less skilled than the male labor employed before

As was said above, to give advice upon the question of the relation between men's wages and women's wages, should be one of the duties of the joint boards or councils in the various industries. The course to be pursued should be decided upon by balancing all of the interests involved. It is to be desired that the same policy be pursued throughout all industries or occupations rather than divergent ones, and the central authority should strive to attain unity of policy.

10.—The complications introduced into the administration of the living wage principle by changes in the general price level have yet to be dealt with. It has been seen that changes in the general price level affect the outcome of distribution and, for that reason, any policy of wage settlement must include provision for the adjustment of wages to price changes. We have now to consider how this adjustment can best be carried out.

The central authority is obviously the most suitable body to supervise the process of adjustment. The adjustment to price change should be expressed as a percentage addition to or subtraction from the existing wage. The central authority

simplification. Only where it was definitely shown by employers that the value of the woman's work on the simplified process or machine was less than the value of the unskilled man, should the woman, if her introduction is agreed to, receive less than the unskilled man's rate in proportion to the value of her work." Page 192.

should be charged with the collection of all necessary price data. This body should then proceed upon the advice of the joint boards or councils in the industries concerned. Unless some strong reason to the contrary exists, however, a uniform policy of adjustment should be pursued—resting upon the following principles.

11.—The conclusions reached in Chapter V in regard to the policy to be pursued in the adjustment of wages to changes in the price level fall into two groups. Firstly, those which have to do with the choice of the basis of calculation of wage adjustments. Secondly, those which have to do with the choice of the actual policy of adjustment during times of rising and falling prices. The same division and order is maintained in the following attempt to sketch out a good plan of adjustment of living wage rates.

First, then, these wage rates should be varied in accordance with the movement of a price index number. This index number should represent the prices of all the important commodities produced within the country, but so weighted as to give a defined importance (50 per cent. was suggested) to the prices of those classes of foodstuffs, clothing, housing accommodations, and other commodities upon which the wage earners tend to spend the bulk of their income. It was sufficiently emphasized in the earlier discussion of this subject that this basis of calculation was in the nature of a compromise, and was not beyond criticism. Adjustments should not be undertaken unless the index number of prices has moved at least 5 per cent. (the figure is meant to be merely a suggestion) and adjustment should not be more frequent than twice a year (again a suggestion, only).

Secondly, as to the policy of adjustment to be pursued in times of rising and falling price levels, respectively. The policy for a period of rising prices can be very briefly stated. All wage rates prescribed under the living wage policy should be increased by the same percentage as the index number of prices moves upward. There is one case in which this policy cannot be justified theoretically. That is when the increase of prices can be wholly or mainly accounted for by a falling off in the general level of industrial productivity. However, in my opinion, it will be hardly practicable to attempt to distinguish this case from other cases of price increase,—save in an entirely exceptional circumstance, such as a period of war invasion.

The policy to be pursued during a period of falling prices cannot be stated so briefly. The difficulties involved have already been discussed at length.[1] The following policy based upon that analysis is tentatively suggested. The complexities of the subject are too great to permit of dogmatism. Firstly, the occasion for the price decline may be such as was termed "natural," as

[1] See pages 114-20, Chapter VI.

or example when it is brought about by a general dvance in the arts of production, or by the deelopment of the means of transport. In this ase, it will be satisfactory to keep wage rates unhanged, though prices decline. It is in these eriods that chance is afforded of bringing about enuine improvement in the economic position of he least favorably placed groups of wage earners.

Secondly, the price decline may be a sign of eaction from a previous period of rapid price inrease, and of a general tendency on the part of ntrepreneurs to keep down production costs and o proceed with circumspection throughout. Nevertheless if little forced liquidation occurs; if here has been no serious overextension of credit luring the previous period; if the maintenance of he existing price level, or of a slightly lowered ne, would not impose too great a strain upon the anking system—there would be no good cause o reduce wages. This judgment rests on the supposition that the facts of the industrial situation ive promise that industrial recovery will take lace even if prices do not drop greatly, and drop radually rather than sharply.

Thirdly, the price decline may be caused—at the eginning at all events—by much forced liquidaion of a character that is disastrous to the enterrises compelled to liquidate. It may have been eceded by a great over-expansion of credit; and maintenance of the existing price level might n a steady source of danger to the banking and commercial system. Then the soundest policy is to reduce wages as prices fall. To the extent that the trouble may be due to special causes such as over-investment in particular directions, this reduction of wages may be unnecessary. But it will probably be found that the recovery from a genuine industrial crisis will be facilitated if a heavy price decline is stimulated by wage reduction.

No wage reductions should be undertaken unless conditions making the case are clearly present. The central authority could avail itself of the advice of the Federal Reserve Board. The lowering of wage rates might be put off until the price decline has reached, say, eight or ten per cent. And the percentage of the reduction of wages might be smaller than the percentage of price decline; say, a three per cent. reduction of wages for every four per cent. reduction in prices. Lastly, when it is judged that the pressure on the financial system is definitely at an end, no further reduction in wages should be ordered even though the price decline continues.[1]

[1] A number of collective agreements in which the arrangements for wage adjustment to price decline are similar to those suggested here, have recently been negotiated in England. The wage scales established in 1919 for many grades of railroad workers are an example. So also, the agreement of the Wool Textile Industrial Council, in October, 1919. The following agreement made for the Yorkshire Dyeing and Finishing Industry in March, 1919, may be given as an example.

"(7) When the index figure as defined in classes 4 and 5 hereof exceeds 107 per cent the War Wages shall be:—

In concluding this discussion one general reflection may be permitted. That is to the effect that no policy of wage settlement will, in itself, suffice to protect the standard of life of the lowest industrial classes during critical industrial times; whether such a time be one of rapidly rising prices of foodstuffs due to poor harvests, or to war, or whether it be a period of industrial panic and precipitate price decline. Much can be done to protect the standard of life of these classes by measures outside of the scope of any policy of wage settlement. The suggestion made by Professor Taussig that it may be possible to regularize the supplies of the principal agricultural products from year to year deserves careful consideration.[1] The best policy, undoubtedly, is one which would enable and encourage the lowest paid industrial classes to accumulate something for hard times.

"To male and female timeworkers—107.90 per cent of the basis wage.

"To male and female pressworkers—85.672 per cent of the basis wage.

"To hand pressers—64.254 per cent of the basis wage, and when the index figure is 107 or less, but not less than 100, the percentage war wages of timeworkers shall be equal to the index figures; for every 1 per cent decrease in the index figure below 100 the war wages of timeworkers shall be decreased ¾ of 1 per cent. The ratio of percentage war wages of timeworkers, pieceworkers and pressers respectively, shall for all index figures, be the same as that shown for index figures exceeding 107."

[1] "Cost of Living and Wages," F. W. Taussig, *Collier's Weekly*, Sept. 27, 1919.

12.—The design of the living wage policy is to procure for all members of the industrial community the economic essentials of a hopeful and active life. Ultimate success in the maintenance of any conceived standard of life, will, in the long run, depend upon those general relationships which were examined in the earlier chapters. The more productive the industrial organization as a whole is, the better are the chances for the least favored industrial groups to improve their economic condition. The less the economic waste, due to maldistribution and to other causes, the greater the product of industry will be. The greater the economic capacity of the lowest grades of wage earners, the more general their intelligence and the steadier their spirit, the more determined their organization, the better will be their chances of increasing their share of the total product. And lastly, the smaller in numbers these are compared with the need of the economic system for them, the stronger their economic position will be.

This is but to restate some of the important influences governing the wages of the lowest groups of industrial workers. But to restate them is to emphasize the fact that the living wage policy must be looked upon merely as one agency among many, directed to the same end. In economic affairs, as in political affairs, to bring about a change in one place it is necessary to bring about a change in many places.

CHAPTER X—THE REGULATION OF WAGE LEVELS

Section 1. Why there must be in industry an ordered scheme of wage relationship between each and every group of wage earners. The limits of collective bargaining as a factor in industrial peace.—Section 2. In the beginning, the scheme must probably be based on an acceptance of existing wage "differentials." The reasons for this are of a practical kind.—Section 3. Any policy which planned to develop a scheme of wage relationships merely by maintaining existing differentials would be bound to fall to pieces in the end. The difficulties that would arise.—Section 4. Two principles proposed as the basis of the desired scheme of wage relationship. Their meaning as applied doctrines.—Section 5. These principles open to criticism both on practical and theoretical grounds. The chief criticisms examined and taken into account.—Section 6. Some notes on the best method of administering these principles. The necessity of avoiding political interference, if possible.

1.—We have now completed that part of this inquiry which was concerned with the formulation of principles suitable for the regulation of the wages of the lowest paid industrial groups. The task remains of working out principles which could be used satisfactorily in the settlement of wages for all other groups of wage earners.

The subject may be introduced by recalling certain matters, set forth in the preceding analysis of wage principles. It was seen that while the wages of each and every group of wage earners were governed, in a great measure, by forces which acted upon them all in common, yet the wages of each group were settled somewhat independently of all the rest. Again, it was seen that one of the leading characteristics of the present distributive situation is the use of the group will and group power to serve group purposes. Wage movements in different industries or occupations begin independently of each other; yet because of the firm determination on the part of most groups of wage earners to maintain their position in the industrial scale, a wage movement in one part of the field of industry tends frequently to give rise to similar movements throughout the field.

This tendency for the actions of one group to give rise to action on the part of other groups arises from the existence of some "power of interchange or close connection" as Mr. Aves has said. Before the use of group power becomes common and the sense of group interest becomes highly developed, that interchange or interconnection tends to exist only between classes or groups of workmen who can easily move into each other's field of employment. But with the extension and encouragement of unionism, with a constantly growing volume of public discussion of wage questions, there has arisen an interconnection between wage movements in groups very far apart in the industrial scale.[1]

As long as wave movements in different industries and occupations are considered independently of each other, and the claims of each group are judged with only incidental reference to the claims of the other groups, the use of group strength will continue to be a conspicuous characteristic of distribution. The constant assertion of group power will cease only if all groups are brought within some acceptable plan of wage settlement, under which group wages are settled by principles recognized as fair. The problem is to establish an ordered scheme of wage relationship *between* each and every group of wage earners—which scheme of relationship will do justice *between* them, and which will also effect such a distribution of the product of industry between *all* the wage earners and the other claimants to a

[1] See for examination of this question, "Report of Wage Boards and Industrial and Conciliation Acts of Australia and New Zealand." E. Aves (1908), page 38. Mr. Henry Clay in a review of the wage position before the National Council of the Pottery Industry (Great Britain), made an interesting statement in this regard. He said ". . . the one great lesson which the war taught everybody (including Government Departments) was that it was dangerous to make a change in the wages or basis of earnings of one section of workers or of one industry unless they considered what would be the effect on all related classes and grades of workers." Printed in the Staffordshire *Sentinel,* Oct. 8, 1920. See also Chapter 39, Lord Askwith's "Industrial Problems and Disputes" for a narrative account of the trouble caused by sectional wage advances during the war.

share in the product, as will justify it to the wage earners and to the community in general.

If the objection be raised that the establishment of such a scheme of wage relationship is not practicable, doubt must be admitted. Yet it is probably essential to industrial peace,—under our present industrial system, or under an alternative one. It would seem to be the only substitute for the continued reliance of each group upon group power. There has been a strong tendency, both in the United States and England, to believe that industrial peace could be secured by the development of joint industrial or occupational councils throughout industry—which councils would assure fair and complete consideration of all wage questions which arise. It would be a serious error to underestimate the possible value of such joint councils to the cause of industrial peace. Indeed, throughout this study of the means of industrial peace great reliance will be placed upon them. Yet I do not believe that their creation will suffice to bring industrial peace.

Such joint councils are among the most satisfactory instruments yet devised for the conduct of collective bargaining. But will collective bargaining keep such an interdependent industrial society as our own at work peacefully? Can the philosophy of compromise be developed to that extent? Joint industrial councils can produce understanding between employers and wage earners; they can foster a spirit of coöperation between all groups engaged in a productive industry; they can stand in the way of the creation of such intolerable conditions of labor as have, on occasion in the past, led to a spontaneous revolt in an industry; they can foster reasonableness and compromise. But it is difficult to see how they can work out principles of wage settlement for any industry which will have sufficient authority over the actions of those engaged in it in times of stress.

Before industrial peace can be obtained, particular groups of wage earners must forbear from pressing to the utmost the bargaining advantages they possess. This forbearance will come only from a knowledge of an interest larger than their own. There will have to be a recognition by all sides of principles which represent aims to which all subscribe, and which do justice to the interests of each.

2.—What then is required, to repeat, is a policy by which wages in various industries and occupations are brought into relation with each other. This policy should be calculated to result in such a distribution of the product of industry as would justify it to the wage earners and community in general. The scheme of wage relationship would have to rest upon expressed principles.

In the beginning any policy which has as its aim the establishment of a scheme of wage relationship must accept and protect the existing wage levels of each group of wage earners. That would mean, of course, accepting the wage relationships existing between them. The reasons for this are practical, rather than theoretical. They are: Firstly, because it will be impossible to win general consent for any policy of wage settlement which does not guarantee to all wage earners at least their existing rates of wages. Secondly, because the existing relationships between the wage levels of the different groups of workers represent, though only vaguely and roughly, customary relationships, and they therefore have, on occasion, meaning to the wage earners. Thirdly, the mere fact that they exist makes them the most convenient basis for the very careful process of comparison and calculation involved in any attempt to establish gradually a scheme of wage relationships based upon principles. It should be kept in mind, however, that the reasons for their acceptance are of a practical nature, and that no theoretical considerations compel an unquestioning acceptance of them, as is sometimes urged.

3.—Since, on practical grounds, it is held that any attempt to create an ordered scheme of wage relationship must begin by accepting existing wage levels, it may be judged by some that the scheme that is sought could be developed merely by maintaining these relationships. That would mean that existing differentials would be maintained as customary differentials. That policy, it is true, would have the advantages of simplicity and continuity. But it would be found impossible to maintain. For the scheme of wage relationship to which it would give rise would lack the authority of principle—without which no scheme of wage relationship will receive voluntary and steady support from the various groups of wage earners. The wage earners will not voluntarily accept a place in the industrial scale, unless it is felt that the scale is the result of the application of rules of acknowledged fairness. The existing scale of wage relationship, however, has not been determined either by considerations of justice or of the general interest. Nor has it, as is sometimes claimed, the authority of being altogether necessary. It is the product of a multitude of forces, some of which may be given different importance in the future than they had in the past.

It is easy to foresee the difficulties with which a policy which planned to create an ordered scheme of wage relationships by maintaining existing differentials would be confronted. Claims will constantly be presented by particular groups for some improvement in their economic position. These claims could not be disregarded merely on the score that they contravened the scheme of established differentials. The issue that would arise is clearly exemplified by statements made in the course of two of the most important industrial conflicts that occurred in England of recent years. "We claim," the Secretary of one of the Shop Committees of the Molders' Union wrote in defense of the demand of his union for differential treatment under an award made for the whole of Engineering Trades—which demand provoked the molders' strike, "we claim that our work is totally different in many ways from the other departments in the engineering industry. It is arduous, dirty, dangerous, hot, unhealthy, and highly skilled, and we claim separate treatment on these grounds. There is no other department in the engineering industry with so high a percentage of sickness or accidents. . . . You mention the employers' attitude towards the molders' application—a refusal to grant to molders any separate consideration because other classes of workers would also expect it. To me such an attitude is both unfair and untenable. If the molder can prove that his conditions of working are vile, dangerous and unhealthy, it is surely fair to ask for a proper recompense for such work. . . ."[1] And consider this extract from one of the reports of the Coal Industry Commission, signed by six members of the Commission. "It will, however, be said that desirable as may be an improvement in the miners' conditions, the industry will not bear the cost of a reduction in hours, even if the aggregate output is, by an increase in numbers and, therefore, in the wages bill restored to its pre-war level, without involving a considerable

[1] Letter printed in London *Times,* January 13, 1920.

advance in the price of coal, with possible adverse effects on our export trade, on manufacturing industry generally, and on the domestic consumer. We have to observe that if the improvement in the miner's standard of life is really required for the greater efficiency of the industry itself, or in the national interest, the fact that it might involve a temporary increase in the price of coal would not be conclusive against it. Moreover, if hours of labor have been reduced in other industries, and if the standard of life has been advanced among other sections of the community, it would be unsuitable to withhold a similar advance from the miners, merely because the others have got in first." [1]

In short, under any scheme of wage relationship based on the preservation of existing differentials, it could not be established in the face of any claim that the relative position of a group was determined either by consideration of justice, or by implacable necessity. Therefore, that scheme would not receive the constant and widespread support requisite to its successful operation.[2]

[1] Report of the Coal Industry Commission (1919), Majority Report, pages 15-16. For another interesting case, see that of Various Toronto Firms vs. Pattern Makers under the Canadian Industrial Disputes Act, in which case the pattern makers claimed differential treatment over machinists and molders. Reported in Jan., 1919, *Canadian Labor Gazette.*

[2] The various courts in the Australian dominions tended on the whole to confirm existing differentials, occasionally changing the relative position of particular groups, when it has seemed clear to the court that the wages of these groups as compared to other groups is "unreasonable" considering all

So far then, in this chapter, two conclusions have been reached. Firstly, that the course of wage settlement in each industry or occupation cannot be a process entirely independent from the course of wage settlement in every other industry and occupation. Secondly, that although the first step in the establishment of any scheme of wage relationship is the acceptance of existing wage levels and differentials, the policy must provide for the reconsideration of these diffierentials in the light of affirmed principles; with the aim of gradually evolving in industry an ordered scheme of wage relationship, upheld by common consent to the principles on which it rests.

4.—Thus we are put under the necessity of attempting to formulate principles or standards by which all claims made by groups of wage earners for reconsideration of existing wage differentials could be judged. This is not a task to be lightly undertaken. Nor is it to be expected that such

those factors which are considered to form the ground of "reasonableness" in the matter of differentials. Thus Justice Brown of the Industrial Court of South Australia has expressed himself on this very subject. "In the matter of such perplexity some guidance is afforded to the court by custom. It seems to me I cannot do better than proceed on this basis. I shall state the preëxisting wage, consider whether it is prima facie unreasonable applied to preëxisting conditions, and then if I find it not prima facie unreasonable, I shall consider whether any variations of the wage should be made in view of conditions now existing." (Hook Boys' Case—South Australia Industrial Reports, Vol. I, 1916-7, page 29.)

clear principles of wage relationship can be elaborated as to escape the necessity of deciding many claims by an appeal to compromise and by taking refuge in a general sense of equity. All that it is hoped to do is to suggest certain lines along which a satisfactory formulation of the required principles of wage relationship may be sought.

It might be possible gradually to construct such an ordered scheme of wage relationship as has been declared essential to industrial peace by applying to successive wage controversies, as they arose, two central doctrines. These doctrines are: Firstly, the doctrine of the unity of the wage income and of the wage earners—by which is meant that the wages of all groups should be regarded as part of one general wage income, to be shared out among all wage earners in as nearly equal proportions, as is practicable, without special favor to any one. And, secondly, what may be called for a lack of a better name, the doctrine of special reward—by which is meant, that the wage differentials between the standard wage levels of different types of labor should be regarded as special rewards, given in order to make it reasonably certain that industry will be provided with at least the existing proportion of the more skilled grades of labor, and to make it reasonably certain also that the more arduous, irregular, dangerous and disagreeable work will command the service of as much labor as at present.

It should be observed, first of all, that neither of these two doctrines upholds the rights of particular groups of wage earners. They aim to bring all wage earning groups to perceive that they are part of a larger whole; they emphasize the fact that the wages of each group are what they are, more because the total wage income is what it is, than because of the special type of work performed by the group. They, however, recognize the necessity of giving extra reward for the training and skill or natural ability required for particular kinds of work, for more than common danger or disagreeableness incurred in the performance of particular kinds of work, and the like —in short, for all those factors which elevate a job above what is called common labor.

As an applied doctrine, the doctrine of the unity of wage income and of the wage earners means that the same wage should be paid throughout industry for work which requires approximately the same human qualities, and which makes approximately the same demands upon the individual. The common effort involved in production is emphasized, rather than the differences between the work performed by workers in different parts of the field of production. As an applied doctrine, the doctrine of extra reward means that certain groups of wage earners should receive higher wages than other groups, because the work they perform is deemed to require considerably higher individual qualities or talents, or to make considerably greater demands upon the individuals engaged upon it.[1] The extra reward should not be regarded primarily as an ethical right; but rather as a payment to ensure the development and exercise of those higher qualities and talents required in the performance of the more skilled industrial tasks, and to ensure also the performance of the more arduous, irregular, disagreeable, and less desirable industrial tasks. It is a recognition of the fact that the spirit of serving without direct reward is not a sufficiently strong and constant motive to persuade men to make the special efforts, or to undergo the special disadvantages required for some kinds of work. It is an incentive to the development of those abilities and talents which are relatively scarce in industry; it is also an incentive to the undertaking of those tasks which the run of men, at any given time and place, regard as unusually difficult or undesirable. The extra reward for different kinds of work which are judged to require for their performance qualities equally difficult to secure, and which subject individuals to the same hardships should be the same. The test of the special reward must be in any particular case, the amount necessary to secure the performance of the work in question.

[1] It is in this light that the Commonwealth Court of Australia looks upon its secondary wage. "The secondary wage is remuneration for any exceptional gifts or qualifications not of the individual employee, but gifts or qualifications necessary for the performance of the functions." H. B. Higgins, "A New Province for Law and Order," *Harvard Law Review*, March, 1915.

The conscientious and consistent application of these two doctrines in settlement of wage controversies which involve the reconsideration of established differentials should result in the gradual building up of an ordered scheme of wage relationship, such as is sought. This scheme would rest upon fairly widely held ideas as to the most suitable basis for wage differences. It would not make greater call upon the human sense of fairness than must be made by any plan which hopes to secure industrial peace by getting all parties to industrial conflict to agree upon rules or principles for the settlement of the claims of each. Whether that aim, itself, is a fanciful one, need not be again debated here.

5.—Lest it appear that the above proposals have been put forward without giving due weight to their defects, it is now well to consider certain criticisms to which they may be fairly open. Two objections, in particular, are likely to be made. One is of practical nature, the other of a theoretical nature. They may be considered in that order.

The objection of a practical nature is that it will not be possible to apply the suggested principles either accurately or consistently, and this for two reasons. Firstly, it may be asserted that the application of the proposed doctrines would require a scientific comparison of the characteristics of different kinds of work, which comparison is declared to be unobtainable. Secondly, it may be said that in order to fix such wage differentials as are reasonably certain to accomplish the ends for which they are set, it will be necessary to have a precise knowledge of many facts and forces. This knowledge may be declared to be unobtainable.

No simple or very final answer can be returned to these doubts. It must be admitted that it will always remain difficult to compare occupations except in general descriptive terms. The relative training and talents required for different kinds of work, and the relative demands made upon the individual by different kinds of work will always remain, to a great extent, a matter of opinion. It is also true that only a general knowledge can be obtained of the factors governing the supply of any particular sort of labor at a given time, and the probable effect of any wage change upon that supply. The differentials which would be established from a consideration of such material could not claim to be more than a practical approximation to the differentials which would carry out the intention of the policy.

Still, scientific method could be pushed further than it has been in the comparison of occupations. The statements of the various interested parties would be a valuable guide in the estimate of occupations. Furthermore, only the major relationships between occupations would have to be taken into consideration. For example, if the question at issue was whether the wages of miners were too low as compared with wages in other industries—that is to say, whether a demand on the part of the miners for an improvement in their relative economic position was justified—only the most important of mining occupations would have to be taken into account in reaching a decision. There would be small risk of error in applying a decision, based upon a study of the work performed and of the income received in the most important mining occupations, to the less important mining occupations also. And indeed such would prove probably the only practicable policy. Furthermore, revision of the existing differentials would be undertaken only when the case for revision seemed definite and clear. As for example, it was clear in England before the war, that railroad labor was underpaid; or, as was clear to the whole of the recent President's commission on the wages of coal miners, that the wages of the miners were too low, relative to wages in other industries—though the commission differed on the amount of wage increase to be awarded.

But perhaps the most significant answer to those objections which rest on practical grounds is the fact that any wage level that might be set for any occupation under the proposed principles would be but the minimum standard wage for that occupation. And no element in the whole policy of wage settlement should stand in the way of the payment of a higher wage than that fixed by the central authority for any type of work.

Thus no fear would have to be entertained that any industry would be faced with a shortage of labor due to the difficulty of getting precise knowledge on which to base wage differentials.

Here, indeed, we approach very close to that other objection which may be put forward on theoretical grounds. Which objection is that all attempts at revision of existing wage differentials would involve a risk of producing, on the one hand, a shortage of certain kinds of labor, and, on the other hand, an oversupply of other kinds. It is reasoned that in spite of every effort of careful calculation of wage differentials, some danger of over or undersupply of certain kinds of labor will always be present.

These fears would be based upon a misconception of the nature of the policy of wage settlement that is proposed. As has already been emphasized, the wage level that would be fixed for any kind of labor would be but a minimum standard wage. There is no part of the proposed policy of wage settlement which would interfere with the payment of higher wages than the standard minimum. Therefore, no industry would find itself unable to secure the labor it required merely because of the differentials established by the central authority. Each industry would still retain all its powers of bargaining for the labor it needs. Nor, on the other hand, would there be any serious danger that the wage rates set for any industry or occupation would be so high as to add to any already existing possibilities of oversupply of certain types of labor. For, after all, the central authority would consider the question of the revision of existing wage differentials only when the question is pressed upon it by the failure of the workers and employers to agree. The central authority would not be likely to declare wage rates higher than those contended for by the wage earners or lower than those contended for by the employers. And it is not too much to presume that in practically all cases neither of the two sides presses claims from which they do not expect to benefit. The employers are not likely to seek such wage rates as will not procure the needed labor supply; and only in rare cases are the wage earners likely to press for increases of wages that would bring about an increased measure of unemployment.[1] When those rare cases arise, indeed,

[1] Mr. and Mrs. Webb have described aptly the usual trade union calculations in the formulation of their claims. "The Trade Unionist has a rough and ready barometer to guide him in this difficult navigation. It is impossible, even for the most learned economist or the most accomplished business men, to predict what will be the result of any particular advance of the Common Rule. So long, however, as a Trade Union without in any way restricting the numbers entering its occupation, finds that its members are fully employed, it can scarcely be wrong in maintaining its Common Rules at the existing level, and even, after a reasonable interval, in attempting gradually to raise them. . . To put it concretely, whenever the percentage of the unemployed in any particular industry begins to rise from the 3 or 5 per cent characteristic of 'good trade' to the 10, 15 or even 25 per cent experienced in 'bad trade' there must be a pause in the operatives' advance movement." "Industrial Democracy," pages 738-9.

it will be the duty of the central authority to protect the interested parties against their own bad judgment.

Thus it cannot be admitted that the application of the proposed principles would produce an intensification of the already existing possibilities that particular industries or occupations would be short of the kind of labor they need, or that they would be overcrowded. This conclusion is greatly strengthened by the thought that under our present practices, wage settlements are constantly being reached without any reward whatsoever for the disturbance of customary differentials; and serious maladjustments in the supply of labor do not often result because of that.

6.—A note upon the procedure by which it is expected that the proposed principles would be brought into operation may help to explain away remaining doubts. First of all, it may be emphasized that nothing in these proposals contemplates the discontinuance of collective bargaining throughout industry. Rather the creation of joint industrial or occupational boards or councils (those suggested in the course of the living wage discussion) is advised. Only when any wage question cannot be settled peacefully by collective bargaining is it proposed that the central authority should enter into the dispute.

It is to be expected that as the principles followed by the central authority in its decisions become known and understood—that is, as the probable result of disagreement, and of reference to the central authority become predictable—the agreements reached by collective bargaining would tend to approximate those which would result from reference to the central authority. For example, if a series of decisions expounded the doctrine that the existing relationships between the wages of the miners, railway conductors, and bricklayers are in accordance with the principles recognized by the central authority, the course of negotiation in these occupations will be governed, to some extent, by that knowledge. Such an outcome is to be expected, no matter what the principles upheld by the central authority—provided they are consistently upheld. Thus Judge Higgins records of the Australasian experience that "It is quite common now for the parties to ask the decision or guidance of the Court on a few main subjects in dispute and then to agree as to all the other items—even hundreds of items —in the light of the Court's findings; anticipating the application of the Court's principles." [1]

Since we are on the subject of the method and machinery of application of the policy of wage settlement, one other aspect of the matter may be briefly noted. That is, that if any policy of wage settlement is to succeed, the course of wage

[1] H. B. Higgins, "A New Province for Law and Order," *Harvard Law Review*, Dec., 1920, page 114

decision must be kept as free from all political interference as possible.[1] Spending departments should not be given powers of decision which clash with those of the central authority. Appeals to the higher executive officers of the state must be avoided to the utmost possible extent. Conjecture as to the measure in which these conditions can be realized in the United States at the present time may be withheld. But unless they are realized in a high degree, wage settlement will continue to be a matter of force and opportunism. Freedom from political interference can be ob-

[1] Justice Higgins, the head of the Commonwealth Court of Australia, has recently resigned because of the action of the legislature in providing that the executive may set up special and independent tribunals of appeal above the Court of Arbitration. His letter giving the reasons for his resignation (printed in the Melbourne *Argus*, Oct. 26, 1920), gives most convincingly the case for freedom from political interference. One passage of explanation in it is as follows:

"On the other hand, a permanent court of a judicial character tends to reduce conditions to system, to standardize them, to prevent irritating contrasts. It knows that a reckless concession made in one case will multiply future troubles. A union that knows that a certain claim is likely to be contested by the court will bring pressure to bear for a special tribunal; and the special tribunal appointed by the government will be apt to yield to demands for the sake of continuity in the one industry before it, regardless of the consequences in other industries. The objectives of the permanent court and of the temporary tribunals are, in truth, quite different—one seeks to provide a just and balanced system which will tend to continuity of work in industries generally, whereas the other seeks to prevent or to end a present strike in its own industry." See also Lord Askwith's "Industrial Problems and Disputes" for another expression of the same view.

tained, and the elimination of the necessity for frequent appeal to the higher executive officers of the state will be possible, only if the policy of wage settlement which is adopted has the vigorous support of all groups immediately concerned in wage settlement.

CHAPTER XI—THE REGULATION OF WAGE LEVELS—(*Continued*)—

WAGES AND PRICES

Section 1. The scheme of wage relationship must recommend itself as just to the wage earners and the community in general. The ultimate distributive question to be met is the division of the product between profit and wages.—Section 2. Provision for the adjustment of wages to price movements would aid, however, towards reaching distributive goal. A policy of adjustment suggested. —Section 3. The difficulty of maintaining scheme of wage relationship of wages adjusted to price movements. The best method of adjustment a compromise.

1.—In the last chapter the reasons for seeking an ordered scheme of wage relationship in industry were discussed, and some suggestions were made in regard to such a scheme. One essential to its success was pointed out. That is, that under it the distribution of the product of industry should recommend itself as just to the wage earners and the community in general. The possibility of satisfying this requirement remains to be considered.

The ultimate distributive question to be met in any attempt to formulate a policy of wage settlement is the distribution of the product of industry between wages and profits (rent incomes, in the Ricardian sense, being left out of the question). It is entirely conceivable that a policy of wage settlement should be put into practice which would take note only of the facts of this relation. However, there are distinct advantages to be obtained by taking note of an intermediate relation. That is the relation between wages and changes in the price level.

The relation between wages and general price movements has been discussed. It has been seen that movements in the general level of prices affect the outcome of distribution. They occasion changes in the distributive situation; and these changes may be desirable or undesirable—having reference to the distributive result that is sought. Any plan by which such changes as are undesirable are prevented from taking place would contribute, therefore, to the attainment of the aims of the proposed policy; and would be a valuable adjunct to the policy. The conclusions reached in the previous discussion on this subject make up a plan suitable for the purpose. They may now be fitted into the body of these proposals. Then in the following chapter that most difficult problem of wage settlement can be considered—the problem of governing the distribution of the product between profit and wages in order that a just distribution may result.

2.—The results of the discussion in Chapter V concerning a plan for the adjustment of wages to price change may be applied at this point without further comment.

The central authority in its decisions should take note of all changes in the approved price index number since the time when the wage rates which are up for reconsideration were fixed. It should then in its awards adjust these wage rates to price changes in accordance with the following policy. It need hardly be explained that other considerations besides the fact of price change may enter into the award, as the adjustment of wages to price change is merely one part of a larger policy.

The measure of price change by which the central authority should be guided—that is, the approved index number,—should be the movements of the index number of the prices of all important commodities produced within the country; this index number to be so weighted as to give a defined importance (50 per cent. suggested) to the prices of those classes of foodstuffs, clothing, housing accommodations and other commodities, upon which the wage earners spend the larger part of their income. It will be noted that this measure of price change is the same as that used in the adjustment of wages prescribed under the living wage policy. And, as was recommended in the discussion of living wage policy, so it is recommended here, that adjustments should not be undertaken unless the index number of prices has moved at least 5 per cent., and that adjustment should not be more frequent than twice a year.

In regard to the actual policy of adjustment to be pursued in periods of rising and falling prices, here also, save in one important respect, the same policy that was sketched out for living wage adjustments should be followed.

3.—The one point in which it may be advisable to depart from the policy laid down for living wage adjustments is in regard to the *amount* of wage change that should be undertaken for movements in the price level.

In the earlier discussion it was suggested that wherever wages were adjusted to price changes, the adjustments should be on the basis of equal percentages. If this basis were to be used in adjusting the wages of all other groups of workers it is evident that during periods of changing prices there would be a different set of wage differentials for every position of the price level. And, furthermore, during periods of rising prices, the lowest paid classes of workers—those who could do least to meet the rise in the cost of living by changing their consumption habits—would receive the smallest wage increases.

A great diversity of practice characterized the attempts at adjustment which were made during the period of rapid price increase inaugurated by the war. No two agencies of adjustment used the same basis. Possibly the most widespread practice has been to increase all wage levels by the same *absolute* amount—which amount has been ordinarily calculated as a percentage of some basic wage (frequently the living wage). The advantages of that method are firstly, its simplicity, and secondly, the fact that if it favors any groups, it favors those whose needs are greatest. Justice Higgins has justified it as follows: "When the Court has increased the basic wage because of abnormal increase of prices due to the war it has not usually increased the secondary wage. It has merely added the old secondary wage, the old margin, to the new basic wage. It is true that the extra commodities which the skilled man usually purchases with his extra wages become almost as indispensable in his social habits, as the commodities purchased by the unskilled man, and have no less increased in price; but the Court has not seen fit to push its principles to the extreme in the abnormal circumstances of the war, and the moderate course taken has been accepted without demur." [1]

[1] H. B. Higgins, "A New Province for Law and Order," *Harvard Law Review,* Jan., 1919. The Commission acting under the Canadian Industrial Disputes Act, carried this line of reasoning to its further logical consequences by awarding in some cases higher *absolute* increases to the lowest paid men, and so on up the scale to the highest paid men who received the smallest increase. The large increases granted to the lowest paid men were justified by the Commission as necessary to bring their wages up to a living wage level. See, for example, the Report of the Commission on Disputes in Coal Mining and Other Industries in Nova Scotia. *Canadian Labor Gazette,* July, 1918. For a similar policy based on the same grounds, see the "Arbitration Award in Certain Packing Industries in the United States." *U. S. Monthly Labor Review,* May, 1918.

Still as a permanent policy, the suitability of this method is not beyond question. The problem to be faced in the choice of method is, after all, this. Given a scheme of wage differentials, which are in accord with certain defined principles, at a given position of the price level, what method of adjustment is best calculated to produce such differentials as will be in accord with these principles, at all positions of the price levels? That sounds like a problem in astronomy. But it is not. It can be more understandably, but less accurately, put by asking, what system of adjustment is best calculated to maintain the same *relative* position of the various groups of wage earners throughout all price movements?

Under either of the two methods touched upon —that of change by equal percentages, and that of change by the same absolute amount for all groups—the differentials cannot be held in close accord with any such original principles of wage relationship as have been suggested. It cannot be helped. We have come to another point at which the aims of policy can only be imperfectly realized.

It seems to me that the best method would be some sort of compromise between the two alternatives that have been presented. A compromise would make allowance, firstly; for the fact that in times of rising prices, those groups whose wages are lowest cannot meet the rise in the cost of living by changing their consumption habits as easily as can the more fortunately placed groups, and secondly; in times of rising prices, the movements of the wage earners from industry, or from occupation to occupation are governed, within limits, by calculations of the absolute change in the wages paid for different kinds of labor, rather than by calculations of relative change. It nevertheless would prevent the relative position of different grades of labor from changing so radically as to lead to great discontent and possibly to derangements in the distribution of the labor supply.

It can be claimed, in addition, for this compromise method that its results would be in accord with the general trend of changes in the differentials that have occurred in the past in periods of rapid price movement. An inspection of the available material seems to show that in times of rapidly rising prices the *relative* differentials between the lower grades of wage earners and the upper grades decrease, while the *absolute* differentials increase—and the reverse in times of rapidly declining prices. They are in accord, for example, with the results obtained by analyzing the course of differentials during the war (1914-1919) in the industries for which wage data was gathered by the National Industrial Conference Board—"Report Wartime Changes in Wages." The data extends over the Metal, Cotton, Wool, Silk, Boot and Shoe, Paper, Rubber and Chemical Manufacturing Industries. If the wage earners are classified into five groups according to their pre-war wages, it is found that the relative wages of the least paid groups (pre-war standards) increased most, and so on in order to the best paid groups, the relative wages of which increased least; the absolute increases, however, are in exactly the opposite order.[1] They are borne out also by Mitchell's studies of price movements in the United States.[2]

In conclusion, it may be said, that no matter which of the above methods is adopted, it should be applied with as much consistency as can be attained. The process of wage adjustment to movements of the price level cannot be left in the field of guess work, where it now rests, without giving rise to much quarreling and discontent.

[1] The figures are:

(Wage groups) 1914, wages earnings per hour	Relative increase of wages	(Group average) Absolute increase, earnings per hour
.15-.20	208%	.193
.20-.25	187%	.188
.25-.30	185%	.230
.30-.35	184%	.266
.35-.40	174%	.268

Such figures as these are not, of course, sufficient ground for confident generalization, but they support an imputation that the compromise method does furnish the best solution of the difficulties the problem presents.

[2] See W. C. Mitchell, "Business Cycles," page 134. Also W. C. Mitchell, "History of the Greenbacks," pages 33-37, 123-145.

CHAPTER XII — THE REGULATION OF WAGE LEVELS—(*Continued*)

WAGES AND PROFITS

1.

Section 1. The profits return in industry, under any policy of wage settlement, will be closely scrutinized.—Section 2. The possibility of measuring a "fair" profits return for all industry discussed. A method suggested.—Section 3. Would the principles of wage settlement worked out so far, produce a fair profits return? An open question.—Section 4. The scope and form of any measure designed to assure the desired distributive outcome can be discerned.—Section 5. The various steps in the formulation of such a measure reviewed. A measure tentatively suggested.—Section 6. The difficulties of calculating wage changes called for under the suggested measure.—Section 7. The chief practical weaknesses of the suggested measure examined.—Section 8. It would be open to theoretical criticism also. The alternatives even less satisfactory.

1.—We can now enter upon the further question of whether the principles so far formulated, if used in wage settlement, would produce such distributive results as would justify them to the wage earners and the community in general. It need hardly be said that the criterion of justice which will be applied by public opinion to any policy of wage settlement will not be a simple and clearly defined rule, but will be, rather, one joint in a loosely articulated social philosophy.

The distributive justice of any set of wage principles will be judged by the shares of the product of industry which take the form of wages and profits, respectively. It is true that general satisfaction with them will be largely governed by the course of real wages after they have been in force a while. If real wages tended to increase in the period following their adoption, they would receive far greater approval and much sturdier defense than if real wages fall during that period. Most witnesses of the Australian experiments in wage settlement make that point clear.[1] But in either case, if the organizations of the wage earners in the United States become as powerful as they are in England to-day, and if the class-consciousness of the wage earners becomes as acute, any policy of wage settlement will be severely scrutinized in regard to the profits return prevailing throughout industry also. If, with the principles in force, the general level of profits throughout the field of industry consistently and considerably exceeded what was deemed to approximate a fair return, it will be held that they give the wage earners too small a share in the product of the industry. If the general level of profits throughout the field of industry tended to approximate a re-

[1] M. B. Hammond, "Wage Boards in Australia," *Quarterly Journal of Economics,* November, 1914, February, March, 1915. E. Aves, "Report on Wage Boards and Industrial and Conciliation Acts of Australia and New Zealand" (1908).

turn thought to be fair, the principles will recommend themselves to the wage earners and to the community in general, as just. It may be added that the opinion held in regard to the justice of the principles of wage settlement may also be influenced, in some degree, by the distribution of the profits return in industry. If a comparatively few great industrial corporations earn very great profits, it is likely to arouse greater dissatisfaction than if the same amount of profits are earned by a larger number of enterprises. It is beyond the scope of any policy of wage settlement, however, to control the distribution of profits among the enterprises engaged in an industry.

There are some groups who would argue that no division of the product of industry is fair unless it gives to the wage earners the whole of the product. Such a view, of course, amounts to a desire to revise the whole of the present economic system fundamentally. No policy of wage settlement akin to that put forward in this book could win favor in their eyes. And if their opinion should become dominant, industrial peace would have to be sought by arrangements far different form those under discussion. For those arrangements rest on the supposition that the country will continue to desire to depend, in the main, upon private accumulation for capital, and individual ambition for business leadership.

2.—It is possible by bringing into balance a numerous set of factors, to give a reasonably definite meaning to the idea of a fair profits return. That is to say, by weighing all relevant considerations, it is possible to define a general level of profits for industry as a whole, which would represent a just and sound division of the product of industry between wages and profits. The relevant considerations are those which will be likely to hold an important place in the better informed sections of public opinion during the period for which these proposals are intended; and which are admissible as sound and pertinent, on the supposition that the industrial system is to continue to depend mainly upon private initiative and private accumulation.

The most important of these considerations are, in my opinion, as follows: First: that the ethical ideas of reward according to need, or reward according to sacrifice, would call for the elimination of the greatest present inequalities of reward; and that these ethical ideas must be given rank among the factors which deserve real consideration when arrangements affecting the distribution of the product are being made. Secondly: the service of capital in effective production, the sacrifice involved in much accumulation, and the risk involved in much investment; the great need of assuring continued capital accumulation and investment. Likewise, the importance to industry of active and enterprising leadership. Thirdly: the social and economic evil effects of great inequality of wealth. Fourthly: the fact that the health, energy, spirit, and intelligence of the wage earners are factors of high importance in the creation of a stable and effective industrial régime, and that the development and display of these qualities by individuals are affected by their economic conditions and surroundings, here and now. Likewise, the importance of giving the best possible opportunity to all to develop their natural ability.

The general level of profits that would be settled upon by comparing and weighing these considerations could be defended as just and sound. The figure (which would be expressed in the form of a percentage, e.g. 12 per cent.) derived from the balance of these factors could be put forward as the mark of just distribution. The distributive goal for the policy of wage settlement would be to achieve a division of the product between wages and profits, such that the general level of profits throughout the field of industry (the basis of calculation of which will be considered at a later point) would approximate the figure defined as just.

It is plain that if the suggested method is used to define a just level of profits, differences of opinion will manifest themselves in the process. The facts and circumstances that would have to be studied cannot be subjected to exact measurement. For example, the possible bad social and economic effects which may be produced by various degrees of inequality of distribution can only be guessed at in a general way. Or, to take another example, the motives and conditions which govern the bulk of private accumulation and the sacrifices involved therein are questions about which controversy continues to range. The profits return that one man may judge ample to assure an adequate flow of accumulation and investment will not appear to be so, in another man's judgment. Indeed, even differences in the general philosophy with which all men parade through life will lead to differences of opinion. For example, one man may believe a community to be better off if every man's income is increased somewhat, though the inequality of wealth within the community be thereby increased; while another man may believe that the poorer community, with the lesser inequality of wealth is likely to be more happy, and perhaps, in the end more prosperous.

In spite, however, of the existence of such extensive ground for differences of opinion, it seems to me that an agreement may be expected which will be fair and sound enough to be accepted as a serviceable criterion of the distributive consequences of the policy of wage settlement.

3.—What grounds, if any, are there for the belief that the principles of wage settlement so far proposed would bring about a division of the product between wages and profits that would meet the test of just and sound distribution suggested above?

The principles, so far proposed, leave the determination of the profits return predominantly to the action of industrial competition, reënforced by the action of public opinion in the direction of preventing the return from mounting to an obviously excessive point. They offer no safeguard against the reduction of the profit return below that point set as the mark of just and sound distribution, save the public will to continue the present system and a general knowledge of the motives and conditions upon which it rests. Nor could they very well.

It is true that the enactment of the principles suggested up to this point would mean the imposition of certain genuine restrictions upon the actions of those who direct industry, as for example, in connection with the living wage program. It would give all wage earners the benefits of organization. It would make for rapid and certain compensation for price movements. It would prevent wage reductions merely because of the poverty of any group. Nevertheless, if the analysis of distribution made earlier in the book is substantially correct, the answer to the question at the head of this section must be that there would be no very compelling tendency for distribution to result justly, under the enforcement of the wage principles so far proposed. The distributive result would still depend largely upon the reality and intensity of industrial competition, upon the strength, activity, and foresightedness of the wage earners' organizations, upon the will and spirit of the directors of industry, and upon the quality and liveness of public opinion. That admission can be made, even though it is believed that under the suggested principles the outcome of distribution would be nearer the desired outcome than it is at present; and that there would be a clearer perception of the public interest in the outcome of distribution than at present.

4.—If a measure could be devised which would help to bring about the desired distributive outcome, without greatly weakening in some other direction the policy as already conceived, such a measure would be a most worth-while addition to the policy. It is possible to discern clearly what the scope and form of such a measure must be.

Firstly: Such a measure should not single out the profits of particular enterprises for division or transfer to the wage earners, if the profits of these particular enterprises are in excess of what is conceived to be a just profit level for industry as a whole. For, in the first place, if the principle of standardization is enforced throughout industry, the excess profits of particular enterprises may frequently be the result of superior business ability, and to take them away would be to discourage the development and use of that ability. And, in the second place, even if it is acknowledged that this is not the true explanation of the great profits of very many enterprises, but that these are accounted for rather by the possession of special privileges or the weakness of competition, nevertheless, to adopt a policy under which these profits are transferred to the wage earners would lead to wastefulness and extravagance in business operation. And lastly, there is the fact that to make wages in any enterprise contingent upon the profit returns of that enterprise is contrary to the ordinary trade union policy.

Nothing in this conclusion is meant to imply that the wage earners should not be free to enter into wage agreements calling for more than the standard wage. Or that profit sharing arrangements should not be permitted—on the contrary, such arrangements should be encouraged, provided the standard wage and the right of the wage earners' organization to be fully represented in such arrangements are not brought into question.

The conclusion just reached is meant to apply also in the opposite case—that is, in the case of the profits of particular enterprises falling below the level defined as just and sound industry as a whole. The wages of the workers engaged in these enterprises should not, for that reason, be reduced. This conclusion, it is believed, is amply explained by what has been written in various other connections.

Secondly: Even if almost all or all of the enterprises engaged in a particular industry should be in receipt of profits considerably in excess of what is conceived to be a fair profit return for industry as a whole, no attempt should be made to transfer the extra profits to the wage earners engaged in it by increasing their wages. Or to state the matter so as to include both this case and its opposite, the wages in any particular industry should not be adjusted by reference to the profits in that industry. It is clear that here we are upon difficult and very hotly disputed ground.

At present, wages in different industries or occupations are not settled in accordance with any principle which includes them all and which is the basis of an ordered scheme of wage relationship. The existence of a very high profits return throughout a particular industry is an almost prima facie justification for a wage demand on the part of the wage earners employed in it. So too in the opposite case. And as long as wages are settled, as at present, it must be so; for the wage earners in each industry or occupation are dependent upon their own activity to make good their claims as against the other participants in distribution.

It is this very state of affairs, however, that it is sought to supersede. In an earlier chapter it was argued that in order to maintain industrial peace, wages in different industries and occupations will have to be brought into relation with each other, which relation should rest upon defined principle. It is plain that, if any other principle were also to be adopted, under which wages in particular industries were adjusted by reference to the profits return in these industries, that scheme of relationship would be constantly disturbed. If wages in particular industries were adjusted with reference to the profits return in those industries, the result would be a series of uncoördinated wage movements in different parts of the industrial field, and the re-creation of a state of affairs not much different from the present.

Then, too, if wages were to be adjusted with reference to the profits return in particular industries, the method that has been advocated of settling upon a criterion of just profits would not be suitable. A separate mark of fair profits would have to be set up for each industry; for different industries involve different degrees of risk and have different initial periods of little or no profits. What might correctly be considered an excessive profit for one industry might be but a fair profit for another. The task of setting up different criteria for the different industries would be extremely delicate, if it were possible at all.

The same conclusion holds true in the opposite case—wherein the profits in most all or all of the enterprises engaged in a particular industry are considerably below what is conceived as a fair profits return for industry as a whole. Cases will arise in which it may be to the interest of the wage earners in particular industries to accept wage reductions, because the industry is doing poorly. In such cases, however, the wage earners may be expected to agree—perhaps, only after a while—to wage reduction, in the course of wage bargaining. If, however, the wage earners will not agree that their interests are served by reduction, it will probably be sound policy to back them up.

It must be admitted that this conclusion as to the inadvisability of adjusting wages by reference to the profits return of particular industries is not set down without hesitation. It is plain that if that idea is to be rejected, the policy of wage settlement as a whole must give some other guarantee of distributive justice to the wage earners. And, indeed, if after a certain period of operation and education it was found that very large profits were accruing steadily in certain industries, and if it did not seem likely that these profits would be reduced to what is conceived to be a fair level either by the forces of competition or public opinion, it might be found wiser to pursue the opposite course—that is, grant wage increases in those industries even at the risk of breaking down the scheme of wage relationship. Much will depend upon the way in which the employers respond to the purposes embodied in the policy of wage settlement. And upon the success of the wage earners and employers in reaching, by collective bargaining, agreements satisfactory to both.

Justice W. Jethro Brown of the Industrial Court of South Australia has stated the problem with great clearness. He writes, "With respect to such an issue, one is on the horns of a dilemma. (1) If unusually high profits are being made in an industry, ought not the employees to have a right to share therein? (2) If one does award high rates of wages, is not one inviting discontent amongst other classes of workers in allied industries or industries generally? Employees are so apt to judge themselves well or ill treated by a comparison of nominal wages without any reference to conditions of industry. In various judgments I have held that it would be quite permissible, if not appropriate, for the Court to take into consideration the fact that an industry is prosperous. On the other hand, as a matter of practice I have tried to work towards an ordered scheme of wages throughout the industry of the community as a whole." [1]

If the above conclusions are accepted, it must be agreed that the scope of any measure designed to help in the attainment of the desired distributive outcome must be the whole field of industrial enterprise to which the policy of wage settlement applies. The question that remains is, whether it is possible to devise a principle of wage settlement by which wages as a whole can be adjusted by reference to the profit situation in industry as a whole. That is to say, whether any measure can be elaborated by which all wages could be adjusted, according as profits in industry as a whole exceeded, approximated, or fell below the profits level that is taken to mark just and sound distribution of the product of industry.

[1] Letter dated March 16, 1920.

5.—It is plain that if the measure is of such a character that no great harm can result from the possible error involved in the process of calculation, it can be adopted with less hesitation than if the opposite were the case. That is one of the considerations prompting the following proposals.

Let us presume, in order that the proposals may be put in definite form, that the profits return for industry as a whole which is agreed upon as just is a 12 per cent. return. The next step would be the invention of some method by which the profits return of industry as a whole at any given time can be measured. This would be a matter of considerable difficulty; yet it is, in my opinion, not beyond the range of practical attainment.[1] The following method, for example, might not be too unsatisfactory. Let a certain number of enterprises be selected in each industry which comes within the field of wage regulation. The selections should be representative of the industry. If there is a variety of types of enterprises within the industry viewed from the standpoint of productive efficiency, the selected enterprises should tend to represent the more efficient sections of the industry. Then a valuation of these enterprises should be made. A standardized method should then be devised for keeping account of the profits of these selected enterprises. That might necessitate the inauguration of standard methods

[1] See pages 256-60, this chapter, for a further consideration of this question.

of accounting throughout all industry—which is a result to be favored. The profits return from the selected enterprises in all industries should be combined into an index number of profits. Possibly, in making up the index number, the figures for each industry should be weighted according to the number of wage earners employed in the industry. The resulting weighted average would be a reliable record of the profits return throughout industry at the particular time. The statistical method just described, however, is meant rather in the nature of a suggestion than as a declaration that it is the best method.

Suppose the index number of profits so calculated for a given period of time proves to be, for example, 18 per cent.—6 per cent. higher than the approved level of profits. On the basis of this profit showing, the wages of all classes of wage earners could be increased for the subsequent period, with some hope of effecting a transfer to the wage earners of at least part of the product of industry represented by the 6 per cent. extra profit. That is to say, that whenever the index of profits showed a profits return in excess of this conceived just return, wages throughout industry should be increased to such an extent as is calculated to bring the profits return down to the approved level.

Whenever the index of profits showed a profits return approximately equal to or less than the approved level, no wage change should be undertaken. For if the profits return was approximately equal to the approved level, it can be concluded that the distributive result is approximately that which is desired. And if the profits return is under the approved level, it would probably be both impracticable and inadvisable to reduce wages throughout the industry. For since no direct control is exercised over profits, the falling of the profits return to a point below the appointed mark of just and sound distribution, would be but the outcome of industrial competition. While it is conceivable, in particular cases, that the community would be better off if the profits return was greater than the return thereby produced, the contrary presumption is more likely to be correct under present conditions. For it is both desirable and likely that the figure that would be set as the mark of just and sound distribution will err on the side of being higher than the profits return required to assure adequate accumulation and investment.

6.—So much for the basis of the proposed measure. It is desirable to examine briefly its chief advantages and disadvantages. But first note must be taken of another problem that would arise in the attempt to enforce it. If the wages of all classes or groups of wage earners are to be increased when the profits return in industry as a whole is above the approved level, the question arises as to the best way to calculate the wage increases, and the most satisfactory basis for distributing them among the different groups of wage earners. If both of these calculations can be kept simple, it will be a distinct advantage. Possibly the most simple and satisfactory way is to determine the absolute amount of the extra profits, and of the total wages bill for the representative enterprises—putting one in terms of a percentage of the other. For example, if it be calculated that the profits of these enterprises in excess of the approved level be one hundred million dollars, and the total wages bill of the same enterprises two billion dollars, the amount of wage increase to be awarded should be stated as 5 per cent. That is, the wage increase to be awarded should total 5 per cent. of the total wages bill.

And here the second problem arises. How should this wage increase be distributed among the various groups or classes of labor? It is probable that the most satisfactory method would be to raise the wages of all groups or classes of labor, including those groups whose wages were determined under the living wage policy, by the same absolute amount. This method does not meet all the demands of our previous reasoning regarding wage differentials. It would, however, be the only way to avoid too much complication in the determination of wages for different groups or classes of labor.

7.—What would be the chief difficulties and disadvantages attendant upon the application of the measure just sketched out? And what are the chief advantages which it gives promise of? These are the questions which now present themselves. First of all, certain difficulties of a practical nature must be faced. For example, there would be difficulty of settling upon a satisfactory method of calculating the profits return of industry. The most satisfactory method of calculation would probably be in the form of a percentage earned upon capital. If that basis of calculation is chosen, however, some method must be decided upon for the measurement of the capital value of all those enterprises, the profits return of which is combined to form the index number of profits. Probably the best way of meeting the difficulties would be to have such a capital valuation of these enterprises as has just been completed for the United States railways. And thereafter standard methods of recording new capital investment should be enforced.

Such an evaluation would appear to be an unwelcome but inevitable preliminary to any attempt to measure and record business earnings. Experience has shown the vast labor and large margin of error involved in formal evaluations. Under the proposals made in this chapter, however, errors made in the evaluation of particular enterprises would be of no great consequence to these enterprises. Only the combined or general profits figure would be used in the course of wage adjustment.

Second among the difficulties of a practical nature is that which comes from the necessity of defining clearly what is to be considered profits.[1] Clearly the earnings put back into the depreciation account should not be counted as profits. Loss or gain from the change in the value of the stock held should not be taken into account. Nor should taxes paid before the distribution of dividends be so counted. Bonus stock dividends, representing reinvestment out of current earnings should be counted as profits, as well as being recorded as additions to invested capital. Capital borrowed from banks should not be considered as capital—and the interest paid on such borrowings should be considered as a business expense. The question of the treatment to be accorded salaries of direction could be settled by reference to arbitrary rules drawn up upon the subject—some

[1] W. J. Ashley, in an article in the *Economic Journal,* December, 1910, entitled "The Statistical Measurement of Profit," reveals the many serious problems involved in the measurement of profit—when no prior preparation (such as the compulsory standardization of methods of accountancy) has been undertaken. The question of profit measurement he aptly states as that of finding out "what the suppliers of capital to business concerns get in the long run over and above the capital they actually put in them" (page 549). Unless prior preparation is undertaken for the purpose in hand, it is probable that his conclusion does not overstate the difficulties much, if at all. He writes, "Modern 'trust finance' —the finance of great new industrial combinations, creates difficulties in the way of gain statistics that will tax the highest skill of the economist and accountant—if, indeed, they are not insuperable" (page 549). There would appear to be no good reason, however, why prior preparation, such as is suggested, could not be undertaken; nor would that task be one of extreme difficulty.

allowance being made in the case of partnerships or of businesses operating under private direction to compensate for the salaries of direction that are paid in large incorporated enterprises.

Thirdly, provision would have to be made for the reconsideration, at stated intervals, of the profits return that is set as the mark of just and sound distribution. Thus heed could be taken of any significant changes in the price level, in the conditions of supply and demand for capital, or in any of the other relevant considerations. Likewise, provision would have to be made for the periodical revision of the list of enterprises and industries used in the computation of the profits return for industry as a whole. These matters, though vital, must be left without detailed consideration.

Nevertheless, it is idle to overlook the amount of labor that would be involved in any attempt to keep a record of the profits return in industry. It would be dreary, and of a type demanding specialized knowledge and disinterestedness. Furthermore, any such plan would probably have to be put through in the face of the resentment of most business men. That resentment, however, is likely to flash out against any proposals that look forward to securing industrial peace by giving the wage earners a more assured position in industry, and ready access to the facts of business operation. The standpat temper of those business men who argue that their business is entirely their own private concern would make impossible any policy of wage settlement that did not throw the balance of industrial power in their hands. Unless they visualize their position in different terms than these, little hope can be entertained that any proposals calling for a record of profits will be supported by them. But then it is the normal rôle of the peace-maker to seek concessions that contestants are not ready to make; to plead general necessity where contestants see only their own; to represent each side to the other in its best light.

8.—Besides these difficulties of a precise and practical kind, certain weaknesses of a more theoretical nature may be urged against the measure. First, it may be argued that since the policy exerts no direct control over profits, there is little reason to believe that profits will be kept down to an approved level. This criticism would or would not be justified by the event, according as industrial competition were effective; according as employers acted up to the purposes and spirit of the policy of wage settlement, and gave the general interest a place alongside of their particular interests; according as government regulation of industry was competently carried out; and lastly, according to the measure in which public opinion made itself felt on the subject. Any such plan as the proposed, by clarifying ideas on the subject, would do much in the way of making public opinion more decisive than at present. It would serve to inform the community that wages can be increased without equivalent price increase, whenever the possibility exists. It would provide employers with a code of honor in industrial relations. And lastly, it must be remembered that the alternative to some such policy of wage increase is a system of direct profits control (leaving out of consideration the possibility of more general and fundamental change).

It is conceivable that a policy of direct profits control for all industry can be worked out, which would not penalize and discourage productive capacity. But it would be an extraordinarily hard job and would necessitate a detailed study of the facts of each particular industry. No doubt a policy of direct profits control is to be strongly advised in particular cases. As, for example, on the American railways at present, where the rate-making power is in the hands of a public body; or in the case of the English coal mines, where the question of control is comparatively simple, and the occasion for control plain. But as a policy for all industries it would involve, in my opinion, an entirely impracticable amount of regulation, and it would be likely to lessen the effectiveness of production and to lead to the wasteful conduct of industry. Therefore, it must be concluded that some such attempt to control profits indirectly as has been proposed—depending upon the forces of competition, trade union activity, public opinion and government regulation—is to be preferred.

There is another possible criticism of a theoretical sort. It may be pointed out that it is proposed to increase wages on the basis of data derived from the whole field of industry. And it may be argued, therefore, that the increases undertaken by the reason of the showing of that data may be considerably greater than particular industries could stand, without an increase in the price of their products. On the other hand, they may be considerably less than the increase required in other industries to reduce the profits return to approximately the approved level.

As to the first possibility, it is entirely conceivable. A wage movement based upon the profits return from all industries and applied equally to all groups of wage earners might cause price increases in particular industries and possibly temporary dislocation and even some unemployment. Such price changes and dislocations, however, are constantly occurring in industry in the absence of any policy of wage settlement, due to the effect of wage increases in one industry on wage movements in other industries. There is little reason to believe that the measure advocated will add considerably to the frequency of their occurrence. It might in one respect serve to lessen the extent of such disturbances. It might make less frequent the recurrence of wage demands, originating in particular industries because of high profits in these industries, and spreading over a large part of the field of industry. For, as has been emphasized, organized groups of wage earners will not accept passively a change for the worse in their position in the economic scale. Finally, there is a safeguard in the fact that no wage increase need occur in any industry except upon the demand of the wage earners in that industry. Joint discussion might make it clear that wage increases could not be well afforded in particular industries, and joint agreement reached upon that fact. The self-interest of the wage earners, here as elsewhere, would prove to be some sort of a check upon unwise wage increases.

As to the second possibility—that wage increases undertaken on the showing of data derived from all industries may be considerably less than the increases required in particular industries to bring down the profits return in those industries to the approved level—that, too, is entirely conceivable. But against this disadvantage must be weighed those which would be attendant upon any measure by which wages in particular industries are adjusted by reference to the profits return in those industries,—which subject has already been considered. The fact must be accepted. In any plan such as the one proposed, faith would have to be put in the power of indirect influences to keep the profits return in particular industries from greatly and consistently exceeding the approved level.

By way of conclusion, it may be made clear that any such plan as the proposed would call for the assent of the wage earners to the doctrine that, when the profits return in particular industries is greatly in excess of the approved level for industry as a whole, the community in general have the leading claim to those profits. It is plain that union assent to that doctrine would be forthcoming only if the community made effective its claims. The attainment of a just distributive outcome—one based upon considerations of the general interest—will be essential to the success of any policy of wage settlement for industrial peace.

CHAPTER XIII—A CONCEPT OF INDUSTRIAL PEACE

Section 1. The hope for industrial peace in the United States.—Section 2. A policy of wage settlement composed out of the principles already set forth.—Section 3. What results might be expected from the adoption of these principles as a policy?—Section 4. The matter of economic security for the wage earners likely to be important for industrial peace. Hardly considered in this book. The question has been presented to the Kansas Court of Industrial Relations.—Section 5. Certain new ideas concerning industrial relationship have come to stay. They indicate the probable current of future change.

1.—The hope that a policy of wage settlement for industrial peace may be adopted by consent, rests upon the supposition that there exists in the United States to-day a considerable measure of agreement upon a practicable ideal of industrial society. To put the matter more expressly, if half of the community sincerely believed in a policy of the greatest possible freedom of individual enterprise, and the other half were ardent believers in the desirability of a socialist state, the hope of the adoption of a policy of wage settlement would be fatuous.

It may seem to many that this necessary measure of agreement upon a practicable ideal of industrial society does not exist in the United States to-day. And, therefore, that the process of debate and conflict in industrial affairs—as we know it to-day—must continue for a much longer time before the country will be ready to agree upon any policy of wage settlement for industrial peace. In short, that more heads must be broken in order that reasonableness and light may enter into them.

Still, various reflections should encourage us to go ahead in the search for some policy of wage adjustment for which the necessary general consent can be won. First of all, there is the fact that there is urgent need for industrial peace; that great suffering, and the constant disruption of industry, will be an accompaniment of a continuation of industrial conflict. And it is essential to the settlement of most economic issues, as well as political, that the members of a society do take heed of the needs of the society. It is the origin and justification of the habit of political compromise.

Secondly, it is not easy after all to be cocksure as to what men will or will not agree to until they are directly faced with the task of decision. It is not easy to tell at what point in the conflict of "opposite convictions" an end may be made of the conflict.[1] It is usual that doubt be present in

[1] "As law embodies beliefs that have triumphed in the battle of ideas, and have then translated themselves into action, while there is still doubt, while opposite convictions still keep a battle front against each other, the time for law has not yet come; the notion destined to prevail is not yet entitled to the field," "Law and the Court," address by Justice Oliver Wendell Holmes, Jr., before the Harvard Law School Association.

many men's minds when a grave decision is made by society. The constitution of the United States was adopted in the midst of a struggle of ideas, so violent that all agreement seemed to be precluded. The chances of agreement can rarely be certainly known until all possible grounds of agreement are explored.

Thirdly, the belief that the continued battle of ideas will ultimately lead to agreement, and eventuate into policy is an optimistic belief which is not always supported by the facts. Sometimes, indeed, it does, as in the case of woman suffrage. Sometimes, however, it ends in the resort to force. And frequently not even the resort to force produces a solution of the difficulty. The conflict goes on even after the use of open force is surrendered.

Lastly, it is possible, and indeed necessary so to frame policy, that even while it maintains peace and produces coöperation between conflicting interests and ideas, it does not stereotype forever the terms of peace and coöperation. Agreement is often obtained for an economic or political policy in the knowledge that it can be changed if different ideas come to prevail. A policy of wage adjustment, like any other measure, would have to be always subject to reconsideration and amendment. Indeed, it might carry provision in itself for such reconsideration; it might be adopted as an experiment for a definite period of years.

2.—In the preceding chapters the main problems that must arise in the course of any attempt to settle wages by official authority have been discussed. These problems were considered with reference to the possible formulation of a satisfactory policy of wage settlement for industrial peace. That policy may now be presented as a whole. Only in that way, indeed, can the significance of any particular principle of settlement be understood.

It is presumed that whatever policy is put into force will be administered by a government agency, with and by the consent and support of both the wage earners and the employers. It is also presumed that the method of collective bargaining is accepted throughout industry. Indeed, the existence of organized joint boards or councils of wage earners and employers would be almost essential to the success of any policy.

The central constituted agency for the administration of the policy should be a commission or court. The policy should then provide that whenever a dispute arises incidental to the settlement of wages in any industry included within the scope of the policy, which dispute is not settled by the ordinary course of collective bargaining, it should be referred to this commission or court. All sides should be permitted to submit evidence bearing upon the case. The court or commission should have its own expert staff, and its own record and statistical office; and it should be its duty to know the wage situation throughout industry.[1] Every possible effort should be made by the commission or court to render judgment without litigation. The commission or court should give in full the principles and the data upon which it bases its decisions.

The wage policy of the commission or court should rest upon the following principles:

First—The principle of standardization should be applied throughout industry. Wages should be standardized by occupations, despite minor differences in the character of the work performed by the same occupational group, or in the conditions under which the work is performed. Standard rates should be understood to be merely minimum rates; and the principle of standardization should be construed so as to permit of all methods of wage payment.

When the introduction of standardization into a hitherto unstandardized industry or occupation is deemed to involve the possibility of doing more injury to certain sections of the wage earners and employers affected than it promises definite good, the application of the principle should be limited or varied so as to avoid producing such injury. Differences in the natural advantages possessed by various enterprises in the same industry, and

[1] In this matter the Kansas Industrial Court law sets a good example by authorizing the Court to build up a staff of accountants, engineers and such other experts as it may need for the proper conduct of its operations.

relatively great and permanent differences in the cost of living in different localities—these are likely to be the chief grounds for limitation or variation in the application of the principle. The exceptions or variations admitted on these grounds would vary greatly in character and extent no doubt. It is to be expected that they would be numerous. Under certain conditions it might also prove advisable to grant "nominal variations" of the standard wage. Such "nominal variations" would ordinarily be established to compensate for differences of conditions of work governing output in piece-working trades, when such differences of conditions must be accepted as permanent, as in coal mining; or to cover payment in kind or to make up for irregularity of employment.

The process of wage standardization should be regarded as an independent process, as a process logically prior to the other principles of wage settlement (though they may all be applied at the same time). That is to say, the determination of the level of standardization should be fixed upon independently of all other principles of wage settlement. The principal data to be taken into consideration when fixing the level of standardization should be the actual variety of wage rates in the industry or occupation in question. Wherein the scale of actually existing wage rates, the level of standardization is set will be a matter of judgment and compromise. Usually the correct level will be at the higher range of the wage rates already being paid. If any of the existing wage rates in an industry or occupation are higher than the level of standardization which is fixed, the higher rates should ordinarily not be lowered to the level of standardization.

Secondly—The wages of those groups of wage earners who are at the bottom of the industrial scale should be regulated upon the living wage principle. That is to say, the policy of wage settlement for these groups should represent a consistent effort to secure to them a wage at least sufficient to permit them to satisfy their "normal and reasonable needs." These needs must be interpreted in the light of and by direct comparison with the standard of life of the wage earners in general, and of the middle classes in the community. In the determination of the living wage, the existing level of wages for the groups in question will also be an important consideration. The declared living wage—that wage which it is sought to secure for all industrial workers—should be assessed upon a different basis for male and female workers; but if, in particular cases, it is deemed best to safeguard the interests of male workers, or to keep women out of particular industries, this rule could be departed from in any one of a number of suggested ways. The most important of these possible departures from the ordinary basis of assessment is the enforcement of the same wage rates for men and women when they are employed upon the same work. The living wage in any industry should be a standard wage, subject to all the qualifications and limitations of other standard wage rates.

The success of the living wage policy will depend in a great degree upon the good judgment with which it is adapted to the conditions obtaining in each individual industry or occupation in which it is enforced. Therefore, the court or commission should proceed upon the advice of the joint boards or councils concerned. It should be the function of each joint council to give definite advice to the central authority upon every feature of the policy to be pursued in its field—particularly upon the subject of the wages to be prescribed. The central authority should give no ruling in any industry until after the report of the joint council of that industry. Each joint council should have the further duty of observing and reporting upon the effect of the living wage policy in its industry or occupation.

The living wage policy should be administered in such a way as to spread among the wage earners, the employers, and the public an understanding of the hope and purpose it embodies and a clear knowledge of the factors which will govern its success. Not the least of which factors will be the determination of all grades of wage earners to make good use of whatever new measure of participation in industry they may secure; and the recognition by the employers that the standard of life of their workers is one of their important concerns.

Thirdly—The wages of all groups of wage earners not included in the scope of the living wage policy should be settled by reference to principles which apply equally to them all. The wage decisions, at the inauguration of the policy, must rest upon the acceptance and protection of existing wage levels, and of existing wage relationships. However, as cases arise, which bring up the question of the relative positions on the wage scale of the workers engaged in different industries and occupations (and such cases will arise constantly), they should be settled as part of a general process of building up in industry an ordered scheme of wage relationship. This scheme should rest upon defined principles.

These principles should be two in number. They were set forth, both as theoretical and applied doctrines under the titles of the "principle of the unity of the wage income and of the wage earners," and the "principle of extra reward." Wage awards for different industries and occupations should be constantly related to each other. The underlying emphasis in the whole series of awards for different industries and occupations, should be that the wages of each group are what they are, more because the total wage income is what it is than because of the special type of work performed by any group. The same wage should be paid throughout industry for different kinds of work which require approximately the same human qualities and which make approximately the same demands upon the individual. The wage differentials that are established should be such as will make it reasonably certain that industry will be provided with at least the existing proportion of the more skilled grades of labor, and to make it reasonably certain also that the more arduous, dangerous, irregular, and disagreeable work will command the service of as much labor as at present. The hopes for the establishment of any scheme of wage relationship will be realized or not, according as particular groups of wage earners are willing to accept a wage that may be less than that which they might secure by the continued use of their own group strength. This last remark applies in particular to those groups of wage earners, whose economic position, as organized groups, is very strong by virtue of the fact that the work they perform is essential to the economic existence of the whole community—such, for example, as the railway men, the bank clerks, the printers, and the miners.

Fourthly—With a view to preventing those changes in the distributive situation which may result from price movements, and which are undesirable—judged by reference to the distributive outcome that is sought—all wages including those prescribed under the living wage policy should be promptly adjusted to movements in the general price level. The measure of price change should be the movement of the index number of prices of all the important commodities produced within the country—the index number to be so weighted as to give a defined importance (50 per cent. was suggested) to the prices of those classes of foodstuffs, clothing, housing accommodation, and other commodities upon which the wage earners spend a very great part of their income. The policy of adjustment to be pursued in times of rising and falling prices and the amount of wage adjustment to be undertaken in response to price movements of different degrees and character—in short, all the rules by which the adjustment of wages to price movements should be carried out—were considered, at some length, in several of the earlier chapters, and can hardly be produced satisfactorily in summary form. Special care should be taken to protect the standard of life of the least favorably placed groups of wage earners during periods of a rising price level.

Fifthly—In order to bring about such a distributive outcome as will recommend the policy of wage settlement to the wage earners and to the community in general, some profits test should be devised. This profits test should be used to mark and measure the distributive situation in industry as a whole, indicating, as it will, the share in the product of industry that is taking the form of profits. Whenever the general range of profits in industry exceeds that profits return which is conceived to be just and sound, the wages of all groups of workers should be increased in an attempt to transfer the extra profits to the wage earners. The calculation of the wage increase to be awarded, when the profits test shows that the profits return in industry as a whole is greater than that conceived to be a fair return, and the basis of distribution of this wage increase among the various groups of wage earners, were dealt with at some length and cannot be described more summarily. In order to apply any profits test, such as the suggested one, it would probably be necessary to enforce standardized accounting methods throughout industry.

The most satisfactory policy would not attempt any direct control of profits. Nor would it make provision for the transfer of the extra profits that may be earned by particular enterprises or industries to the wage earners of those particular enterprises or industries. The forces of industrial competition, trade union activity, public opinion, and government regulation would have to be depended upon to keep the profits return of industry at approximately the level which may be set as the mark of just and sound distribution. A policy of direct control of profits may, however, be advisable in particular industries or on special occasions. The continued assent of the wage earners to any policy of wage settlement will be largely governed by the success of the community in making good its claim to a large part of the extra profits which may accrue to particular enterprises or industries.

Sixthly—Any policy of wage settlement of the type considered above should give encouragement to the organization of labor throughout industry. It would have to make use of joint councils or boards in many ways (there may be some craft joint councils also). The English and Australian experience seems to prove that. To quote Justice Higgins of the Commonwealth Court of Australia, "The system of arbitrations adopted by the act is based on unionism. Indeed, without unions, it is hard to conceive how arbitration could be worked." [1] Still, once a dispute has come up before the central authority, the final power to render decisions should rest intact in its hands.

All organizations of wage earners or employers should be compelled (if necessary) to agree to a policy of open membership. Such a policy of open membership should suffice to prevent monopolistic action on the part of the union in any industry or trade.[2] It would also be well if shop rules could be brought within the field of public supervision, but that may prove impracticable. Finally, it may be said that no part of the policy should interfere with the development of profit-sharing plans—provided such plans are the product of joint agreement between the employers and the workers engaging in them; and if the workers im-

[1] H. B. Higgins, "A New Province for Law and Order," *Harvard Law Review,* March, 1915, page 23.

[2] "Where the union admits all qualified workers to membership, under reasonable conditions, such a rule cannot become the basis of monopoly." U. S. Ind. Comm'n. Report (1915), Vol. I, page 116. Report signed by Commissioners Manly, Walsh, Lennon O'Connell and Garretson.

mediately concerned so desire, the labor organizations should be given full representation in the arrangements. Nor, indeed, should it discourage any movement towards the participation of the workers in the control of industry, whatever the scope of such participation. On the contrary, by creating mutual confidence between the wage earners and the directors of industry, and by giving both the wage earners and the employers training in the art of mutual agreement, it should prepare the way for the growth of such participation.

These principles of wage settlement would, it is believed, form a sound and forward looking policy of wage settlement for industrial peace. Nevertheless, they are not put forward with the idea that they, or any similar set of principles for the settlement of wages, would be workable in practice without many hitches, and without the need for constant adaptation to the facts encountered. Nor without a suspicion of the hard blows and unexpected eventualities which fate usually has in store for fine proposals.

3.—Ultimately, of course, behind any proposals for industrial peace there is a striving to catch sight of a future industrial society more content, more generous and creative than that of the present time. To the ordinary observer no such ultimate question appears to be involved in an ordinary wages dispute. Yet it is there. The trade union leader fighting for a wage increase does not always see his demand as a plain group claim for greater reward; it frequently appears as an act of justice to his class, a step towards improving their position and power in industrial society. To the employer more often the struggle is merely to protect his profits. But beyond that in many cases there is a fear lest industrial growth and extension be obstructed. Any policy of wage settlement that is more than a weakly supported truce must throw some rays of hope into the future. What type of future industrial society may be envisaged if any principles of wage settlement similar in substance to those discussed in this book should be adopted? What suggestions for the future are contained in them? It is not easy to see. Only a few features of the future can be discerned and those sketchily.

Industry would still be carried on in the main by private enterprise and competitive activity. Particular industries, as for example, the railroads, may become government owned or government operated enterprises. But even so, wages in those industries would be, in all probability, determined by the same principle as wages in other industries, and by the same agency. The function of capital accumulation would still be a private function. The tasks of industrial direction would still be carried out by the will of those who owned industry; although, in many industries the power and duty of deciding some of the important questions of direction, especially those which affect the wage earners most directly, might be in the hands of a council or board on which the wage earners are strongly represented.

It may be hoped that all wage earners, except those judged sub-ordinary, would be in receipt of a wage at least sufficient to enable them to maintain themselves (and in the case of men, their family) at a standard of life which did not compare too unfavorably with the standard of life of the rest of the community. By virtue of this, the way would be opened for even the lowest grades of the wage earners to take advantage of the opportunities that are provided for physical and mental life and education. The ideal would be to ensure that the whole of the industrial population had that original grant of health, security, and hope which is required to give reality to the idea of equality of opportunity.

It is vain, perhaps, to attempt to predict whether the level of production throughout industry would rise or fall; for that will be affected in a decisive measure by influences over which the policy of wage settlement will have little or no control. The proposals made would give adequate encouragement to the accumulation of capital, and to the carrying out of business ventures. It would succeed also, it may be hoped, in securing the active interest of the wage earners in a high level of production, by bringing about such a distributive outcome as appears just to the wage earners, and by giving adequate expression to the aspirations of the wage earners. In an industrial system, largely dominated by the single motive of personal gain, it is not likely that any one group or class will respond to a general need for high production unless its interests are thereby directly served. If the policy adopted brought about a broadening of the motives on which the system rests and operates, there is much ground for the belief that the level of production would be favorably affected. However, as was said above, the possibility of such a result will be largely governed by influences outside of the present field of study.

There remain the questions of the distribution of wealth and of opportunity. Here, also, any conclusions that are ventured must rest upon an insufficient knowledge of the events which will govern the future. One of the chief requirements that proposals made were designed to satisfy is the attainment of such a distributive outcome as may be judged to be both just and sound—weighing all relevant considerations. Yet it would probably be over-optimistic to believe that the result would satisfy the intention. For all that, the general desire for a high level of production will largely depend upon the fulfillment of that intention. The wage earners will only continue to subscribe to a doctrine of high production if they trust to the action of the distributive mechanism to bring them a fair share of the resulting product. Here we are at the very storm center of socialist economics. The question is, to what extent, as a matter of fact, do the wage earners share in the result of increased productive efficiency? To that question, the policy of wage settlement must furnish a satisfactory answer—though, of course, no answer will be satisfactory to all men.

The question of the prospective distribution of wealth, however, can hardly be considered apart from the question of the future course of growth in population. Even if the wage earners do receive that share of the product of industry which represents a just and sound distributive outcome, will that mean a gradual evolution of higher permanent standards of living among the poor, and give them a fair start in the struggle for opportunity? Or will it mean but a greater rate of increase in population, such as will more than keep pace with the ability of our natural resources and the advances in production and invention to provide the basis of a rising standard of life for all the population? In the latter case, groups will remain at the bottom of the industrial scale whose economic position will be so unfavorable under any social arrangements as to prevent the individual members of these groups to fairly develop and test their natural ability. In which case the handicap of inequality would be very real. The nineteenth century has left us with a hopeful outlook in regard to the possibility of maintaining a progressive standard of living throughout the community; but the events, purposes, and habits which will determine the outcome are too many, and their relative influence is too indeterminate to warrant any certain predictions.

However, even if the menace of population is avoided, even if the general level of production is raised, and if, besides, the distributive outcome laid down as a goal for the policy of wage settlement is attained, nevertheless, there would remain a considerable measure of inequality of wealth. For, it is to be anticipated, that in the course of the development of our industrial organization, the amount of invested capital relative to the number of wage earners will grow. This means that the absolute amount of the product of industry which takes the form of profits will increase, even if the relative share does not. As Professor Taussig has written, "In general, the very forces which make the total income of society high and the general rate of wages high cause the proportion of income which forms return on capital to be large."[1] And any continued increase in the absolute amount of the product of industry taking the form of profits will be likely to lead to a considerable measure of inequality of wealth; unless the amount of accumulation and investment on the part of the wage earners is largely increased.

So much for the question of the distribution of wealth. Is it possible to venture any definite con-

[1] F. W. Taussig, "Principles of Economics," Vol. II, page 205. Revised Ed.

clusions, at all, regarding the distribution of opportunity? The idea of equality of opportunity is not an easy one to define in terms of facts. It can be said that it would be realized, in the economic sphere, if such economic conditions prevail, as gave all individuals an approximately equal chance to follow their inclinations, and to make whatever use of their natural abilities they desire. If that definition is near the heart of the matter, it is evident that in a society in which there is considerable inequality of wealth it will not be possible to secure equality of opportunity. As Mr. Tawney has remarked, "Talent and energy can create opportunity. But property need only wait for it." Under almost all circumstances there is a tendency for the distribution of opportunity to conform to the distribution of wealth. Still it is not to be concluded that this tendency is unconditional. If it proves possible to secure to every industrial family (except perhaps the most incapable) such a minimum standard of economic life, and such a degree of economic security as will bring it about that these families are not gravely handicapped in their efforts to utilize the existing opportunities for education and for economic advancement, an important step towards equality of opportunity will have been accomplished. It is true that a small section of the population will be strongly favored from the start. But, in an environment which encourages individual effort, the most important step in the process of securing equality of opportunity is to get rid of the serious obstacles to the development and active use of the natural ability of those born low in the industrial order.

4.—One important factor in industrial peace, which might well be given consideration in the formulation of a policy of wage settlement for industrial peace, has received but scant mention in this effort to formulate the terms of policy. It is the question of economic security for the wage earners. It is argued by some students of our industrial troubles that the fundamental desire of most workers is not for advancement, or even for high wages, but rather for secure and steady employment at customary rates. That this desire is often uppermost in the struggles of individuals and organizations is undoubtedly true; though the relative ease with which work was to be found in normal times in the United States has prevented the question of insecurity from being as acute a problem as in Great Britain, for example.

The principles of wage settlement that have been put forward contain but one measure which might prove useful in an attempt to modify the insecurity of the wage earner in a modern industrial community. They provide for the establishment of joint boards or councils in each industry which are intended to have those phases of industrial activity which effect the welfare of the wage earners under constant observation. These councils might conceivably work out plans in different industries intended to steady the employment of the wage earners, and methods of insurance against the worst vicissitudes of their employment. In the pottery trade of England, for example, the industrial council has been giving consideration to the question of an Unemployment Insurance Fund for the industry. The possibilities of coöperation between employers and employed in that direction are genuine. The realization of any such plans will depend, of course, upon the growth of mutual trust, and upon the ability of all parties to work for a common end. They require that every important business man and labor leader be a statesman in the sphere of business.

In the act establishing the Kansas Court of Industrial Relations, and governing its operations, there is a provision which gives the Court a power which might enable it to deal with the question of irregularity of industrial activity. It is new in the history of industrial regulation in this country. It provides that the establishments covered by the act "shall be operated with reasonable continuity and efficiency in order that the people of this state may live in peace and security and be supplied with the necessaries of life"; it makes it unlawful for any establishment "wilfully to limit or cease operations for the purpose of limiting production or transportation or to affect prices for the purpose of avoiding any of the provisions of the act.[1] It further provides that such industries

[1] Sections 6 and 16 Act Creating Court of Industrial Relations, Kansas, 1920.

as are affected by changes in seasons, market conditions or other conditions inherent in the business may apply to the Court for an order fixing rules and practices to govern its operations.

This provision may mean a great deal or very little, according as the Court and the higher courts interpret the idea of "reasonable continuity." If it is taken to mean simply that the enterprises covered by the act should not limit production in accordance with some agreement with each other in order to increase profits, or to fight the unions, it will have little or no importance as regards the question of security of employment. And that is probably the interpretation that will be given to it. It will be hardly possible to work out a plan for regularity of operation by mandate of a court, and under penalty. Such rules and practices as the Court may lay down will probably take cognizance of the laws of the market which ordinarily govern business operations. To rule otherwise would mean embarking upon a comprehensive reform of business operations; it would necessitate the development of some other gauge of business operation than business profits.

Only one case which has come before the Court has brought up this question of continuity of operation. The Court investigated a complaint that the flour mills at Topeka were reducing production. It found that the mills were running at sixty per cent. capacity; and that the cause of this reduced operation was a falling off in the flour market, due to world-wide economic changes beyond the control of the industry and the Court. The Court found this limitation of production not unreasonable. It gave no sign of making any radical use of its powers to control the regularity of production, nor of interfering with the ordinary processes of business operation. This policy it tempered with concern for the workers—suggesting to the millers that they put their "skilled and faithful" employees on a monthly pay system. It appointed a committee to draw up rules and regulations to be observed in the operation of the industry, and to keep it informed.

5.—In the coming years there will take place in the United States much controversy and a great variety of experiments in wage settlement. To the realists of all parties, this course of controversy and experimentation will appear to be only a struggle for power. To the rest, it may appear that there are ideas at work; ideas springing partly from the example of political change, and partly from the fact that the industrial world has undergone such a rapid revolution. It is impossible to predict the ideas which will have the most abiding force. It is impossible even to assert that society will make a satisfactory choice among them.

In the present confusion of counsel, two relatively new ideas, in particular, appear to me to be likely to endure and be accepted by society. The first is the idea that the welfare of the wage earners in each particular industry is one of the major questions in the conduct of that industry; and that the wage earners should participate effectively in those activities of direction by which the conditions of labor are determined. The second idea is that the whole body of wage earners in industry should possess the means of checking the action of private enterprise, when they can prove clearly that the methods of production that are being pursued are wasteful either of human or of material resources. An example of such a protest is that of the English coal miners against the organization of their industry—which was one of the grounds for the appointment of the Coal Commission. It would not appear to be impossible to reconcile the action of private investment and private enterprise with this concept of the right of the wage earners to exert control over the policy of production, in so far as they can establish the fact that human or material resources are not being well applied—the general interest being the test.

The main current of industrial change will be, in my opinion, in the direction indicated by these two ideas. And change in that general direction is, it seems to me, essential to the peaceful conduct of industry, for only in some such way will a sense of common interest be established—which sense alone can hold together an undertaking so dependent upon a division of function as is modern industry. Through all changes, it will remain true that effective production depends upon the willingness to work hard for the sake of working well, and upon the existence of strong habits of self-dependence.