capital can not find employment at all? Will the rate have any effect on the demand for capital?

10. If a farm, always yielding $100 rent, sold for $1,000, when the general rate of interest was ten per cent, show that its selling price will be $2,000, if the general rate of interest falls to five per cent.

CHAPTER XX.

WAGES.

208. Before going further, it will be well to define the various meanings associated with the word *wages*. The distinction between *money wages* and *real wages* is highly important. By **Real Wages** is meant **the amount of commodities of value received by a laborer for his exertion,*** either physical or mental. It is in this sense that wages vitally concern the laborer. Adam Smith says: "The real wages of labor may be said to consist in the quantity of the necessaries and conveniences of life that are given for it; its nominal wages in the quantity of money. . . . The laborer is rich or poor, is well or ill rewarded, in proportion to the real, not to the nominal, wages of his labor." By nominal, or **Money, Wages** is meant **the amount of money a laborer receives for his exertion.** People who think only of the money they receive forget that the money buys sometimes more, sometimes less; they overlook the fact that an increase of Money Wages, when prices have risen, does not increase real wages. During our civil war prices in depreciated paper rose enormously, and wages in paper money were higher than in the days of a gold currency; and many persons were ignorant enough to think they were better off simply because

* Real Wages do not comprise merely the necessaries of life, as some erroneously think. Real Wages may include comforts and even luxuries, if wages are high enough.

they received more dollars per week, no matter whether or not those dollars bought as much as their former gold wages. The question of real importance to the working-man is the quantity of commodities he gets for his work.*

209. Closely connected with Real Wages is the idea expressed by the term **standard of living** of a class of laborers. Having become habituated to a certain kind of living, a certain quality and quantity of food, clothing, and comforts, laborers may be so strongly desirous of keeping this standard that rather than forego any of their satisfactions they will limit the increase of their numbers. This may be done through fewer births, or by emigration. Persons who want a higher standard of living than they can get in Germany, Italy, and Scandinavia, are constantly emigrating to the United States, where they can secure a greater remuneration for their labor and a higher standard. In France, rather than submit to a lower standard of living, the small farmers limit the size of their families.

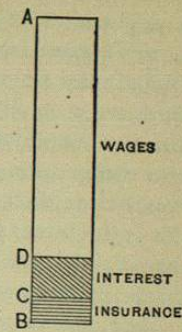
It can not be said, however, that the standard of living is a fixed and invariable thing. It is much more easily lowered than raised, although there can be no question that in Europe and the United States during the last fifty years it has been slowly raised. Workingmen have more commodities which yield satisfactions now than at the beginning of the century. Machinery has cheapened many articles of common use so that they are within the reach even of the poor. The humblest cottage now contains articles which a few hundred years ago were beyond the reach of nobles in their princely castles.

210. It is now necessary to state the principle governing **the general sum paid as wages.** Although this

* In case a man is paid by the piece, his wages are high or low according to his dexterity and skill. But the total payment for his day's work, although estimated as so much money, is still to be really tested by the quantity of desirable things which he can command as the result of his work, not merely by the money he gets.

has already been given (section 200) in discussing interest, or the share of capital, a further statement is desirable.

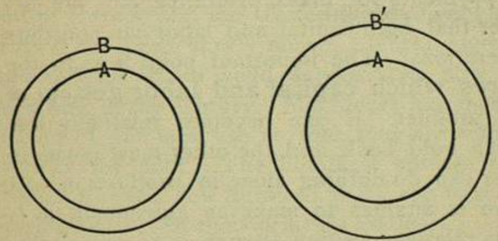
After setting aside from the total product to be divided the sums paid for taxes and rent, the problem was to ascertain the point of division of the remainder of the product, expressed by A B in the accompanying diagram, into wages and interest. This point of division is fixed by the **relative abundance or scarcity of labor and capital.** This is the principle of which we were in search. It is to be observed, however, that this does not tell us what governs the rate of wages for a class of laborers, or for any individual laborer; it tells us only how **the total sum which goes to labor** is fixed, regardless of the different kinds and conditions of labor. We shall defer to the next chapter the explanation of the principles by which the total sum, A D, is distributed among the various classes of laborers.



211. The payments for taxes, insurance, etc., are necessary in order that both capital and labor can continue their joint operations. The important point is as to the **relative shares which capital and labor get** out of the remaining product. If one becomes relatively less abundant, it can hold back, and the other must come to it, for the other can do nothing alone in production. If one of the two is anxious to make an agreement, it is only because its relative position is such as to create this anxiety for its employment. To illustrate this, suppose the number of workmen competing for employment in the United States were greatly increased by the arrival of Hungarians and Italians (who work for very low wages), and, also, let us suppose that capital is no greater than it was before the arrival of these laborers—it will be evident

that capital has the relative advantage, and labor the relative disadvantage, when they begin to enter into an agreement to work together. Each of the increased number of laborers will not now receive the same amount as was before given to each of a smaller number. There are no more shops or factories than before, no more employment offered; for no more capital exists than before, though there are more laborers competing for the same opportunities of employment. In such a case, laborers, by their own competition, will agree to work for a less sum per day than before their numbers were increased. The result of this is to increase the share of capital, D C, relatively to that of labor, A D, if all the laborers are to be employed by the existing capital.

212. Some one may say, by way of objection, that if there are more laborers ready to work they will bring with them more hands, and they will thus produce more wealth in direct proportion to their increased numbers. This, however, can not be true; and it brings us to understand how intimately production and consequently wages depend upon capital. Suppose that the area of circle A represents a given capital, employing a given number of laborers, resulting in a certain amount of



wealth, represented by the area of circle B. Now suppose that there is a considerable increase of laborers competing for work, but that there is no increase of capital. If there is no more capital than before, there are no more factories, railways, docks, no more tools, machinery, no more materials and food to be used productively by the additional la-

borers. The increased number of workmen will therefore have only the same instruments and materials of production as before. Two carpenters with one hammer can not drive as many nails as they could if each had a hammer. Since capital is necessary to production, we **can not increase the production of wealth simply by increasing laborers.** It is conceivable that more laborers *might* use the existing capital more effectively, and thus perceptibly increase the wealth from B to B′. That is, two men with one hammer, by relieving each other, might drive more nails in a day than one man alone with one hammer. But to suppose that doubling the laborers without increasing the capital will double the wealth produced is seen to be absurd as soon as we realize what capital means. The production of wealth, not having been increased in proportion to the increase of the laborers, the sum to be divided among them can not be increased in the same proportion, and there can not be enough to give the former wages to each of the new-comers.*

213. If, on the other hand (taking a supposition the reverse of that in section 212), saving is going on rapidly, if business is prosperous and "profits" are high, then capital will be accumulated with great rapidity. Or, if the Government is paying off its public debt rapidly, that will add to the capital seeking investment. Should the growth of capital exceed the increase of the population seeking work, there would be an increased number of opportunities offered to men for employment. There would be more men wanted in already-established mills; new factories, new mines, new railways, and new enterprises would start up, because the increased capital would be seeking

* I have taken the case of ordinary manufactured goods as most favorable to objectors; but, had I considered commodities affected by the law of diminishing returns, it would need no explanation to show that additional labor would not insure a proportional increase of product, even if capital had increased.

investment, and thus more superintendents, more laborers, and more artisans of every kind would be wanted. The demand for labor would be stronger than before. Labor would be at a relative advantage and capital at a relative disadvantage if all of both are to be employed, and labor could drive a better bargain than before. In such a case the share of labor (A D) relatively to that of capital (D C) would be increased.

214. We can now make some modification of our general statement as to wages. **The productiveness of a country's industries determines whether the general level of the wages shall be high or low. But about this general level** (see the movement of the curved lines in the figure of section 192) **the amount of wages will fluctuate; since the demand for labor, compared with its supply, will determine in fact what the employers will promise to pay, and what the employed will agree to receive.** To illustrate: The industries of the United States are at present more productive than those of France, and consequently the general level of wages is higher in the United States than in France. But a variation in the demand for labor, relatively to its supply, is constantly going on; and so the general rate of wages may rise or fall above or below the high level fixed merely by the productiveness of our industries. If capital increases more rapidly in the United States than the number of our workmen, the capitalist, in order to invest, will necessarily promise to pay out of the total value of his product a relatively greater share to labor in wages. If, on the other hand, capitalists lose confidence, if they are timid and shrink from investment (as in times of depression in trade), and laborers continue to increase as in prosperous times, the latter, of course, in order to get employment, will agree to work for less wages than before. Both capital and labor are essential to production; each requires the other. No matter what the conditions of productiveness are, if either is eager for the other, because of stress of competition (on one side or the other, either of laborers against laborers or of capital against capital), that one will get the poorer bargain.

215. Labor unions have grasped this principle whenever they have limited their membership, and then by various means made it impossible for any other than one of their own members to get work. They thus shorten the supply of labor in their trade relatively to the demand for it, thereby raising wages at the expense of other laborers who are kept from competing with them. So far as such restrictions on numbers affect only one trade, it is at the expense of some other workmen; but, were the idea generally followed out, and had the poorest class of workmen smaller families, making fewer additions to the ranks of competitors in that poorest class, they could better their condition as a whole. **Labor organizations** of the present day try to collect all workmen into one association, and from this coigne of vantage to better their position as receivers of wages relatively to the capitalists. Theoretically, this may work well for laborers; but, when they strike to enforce their demands for higher wages, the employers have so far seldom failed to find a sufficient number of other laborers ("scabs," so called) ready to take the place of the strikers. Usually the efforts of the strikers have been directed against the "scabs," who, by intimidation and riots, are sometimes driven from work. Here, again, unless numbers in general are lessened relatively to the demand for them, the strikers **gain at the expense of other workmen.**

216. The same principle that we have been discussing affects the **wages of one trade relatively to the wages of other trades.** In the United States, for example, we often see the iron industry stimulated by a good demand for iron; and the trade is then said to be

prosperous. Under the new demand the price rises; or, in other words, the producers of other things who want iron are obliged to give more of their wealth than before for the same amount of iron. The producers of iron receive a larger share than before of the wealth of the country, and have more to divide as wages and interest. In this way the wages of one industry may become higher than the wages of other industries. Whether they will remain higher depends on whether workmen from other trades are competent to come in and compete with those already employed (that is, if there is "free competition").

We have before noticed (section 107) that the proper adjustment of production in a community is exceedingly intricate. Each industry is seeking a **market**; that is, each industry depends on the demand of other producers for its own goods, and what every merchant or "business man" is doing is to discover practically the mere facts as to the desires of other producers for his goods. Hence it is natural that in the complexity of exchanges between all trades, producers should sometimes make miscalculations as to the facts; and so there are periods when more of one class of goods is produced than is wanted, and other periods, again, when there are not enough of certain products to satisfy the demand. In the first case, prices fall, and wages are lowered; in the second case, prices rise, and wages can be raised. So we see that the **varying movements of demand and supply between different trades will affect the relative rates of wages.*** We shall have occasion to refer to this again in considering the wages of particular employments.

* "The recent advance in England's wealth has caused a great demand for building; and those who produce other things have had to give more of them than before for the purchase or hire of a house. There has been an increased competition for the aid of the building trades, which has raised their wages and enabled them to obtain a larger share of the wealth of the country than before. Now suppose that during such a rise in the price of houses there is a sudden check to the supply of (say) house-carpenters. The rest of the building trades will then find it difficult to obtain the aid of carpenters to supply roofs, floors, etc. And since the work of masons, plasterers, and master-builders will be of little use without such aid from the carpenters, the competition of the other building trades for the aid of carpenters will force up the wages of carpenters, and enable them to obtain an exceptionally large share of the earnings-and-interest fund."—Marshall, "Economics of Industry," pp. 128 and 129.

217. It should be clearly understood here that, in speaking of the shares which go to labor and capital respectively, we consider the share of capital solely as interest (together with insurance for risk), and that we do not include as the reward for the possession of capital the wages which a capitalist or manager receives for his time and ability, and which is usually included under the term "profits." With this understanding, the "conflict between labor and capital" assumes a different phase. As we have seen (section 205), **interest, the share of capital, is decreasing.** The whole tendency of civilization works to strengthen the providence of mankind, to create greater security for life and property, and so to increase the desire to save. The growth of capital is now going on in the United States at a rate which far outstrips the growth of numbers; and the rate of interest, or the sum which any employer need pay for the use of capital in his business, is steadily diminishing. The rate of Money Wages, on the other hand, is rising, and also many articles of common consumption have been lowered in price, so that Real Wages have risen still more. So long as these facts exist, it can hardly be said that the "conflict" between the laborer and the capitalist is going against the laborer. In fact, the real difficulty with the labor question is not at this point. Later we shall see that in reality it is a **contest between different classes of laborers** (considering all managers as laborers who receive large wages for conducting their business).

218. Exercises.—1. M received as Money Wages \$2 a day in gold. Prices then rose 100 per cent, or were exactly doubled. M's wages then rose to \$3 a day. How much had his Real Wages changed?

2. Would you say that the Chinese had a different standard of living from that of native American laborers? Do they expect the same quantity and quality of food, clothing, shelter, amusements, and comforts?

3. Can laborers, by strikes and combinations, raise their wages to a point where nothing is left for capital as interest? Why not?

4. If, in a small town where one blacksmith had done the work, nine more blacksmiths set up forges, would that affect the wages of blacksmiths? Why? They could do more work than one, and why could they not all get good wages provided they were industrious?

5. Why is it that, when "times are good," and business is profitable, we see few laborers out of employment?

6. In our western territories both the land is highly productive and laborers are scarce. What would you conclude as to the rate of wages there? Would they be high or low? Why?

7. How can you account for the fact that wages are higher in England than in Germany and France? Why are wages higher in the United States than in England? Is our land more productive than in England for the same application of labor and capital?

8. When labor unions shoot and pelt other laborers who are working in the place of strikers, do they injure their employers? If they burn the buildings and property of employers, will there be as much as before with which to employ labor?

9. When our civil war broke out, there was a great demand for woolen blankets and clothing for the army. How could that have affected wages in the woolen industry relatively to industries which did not feel such a stimulus?

10. Why is the rate of interest decreasing? Does that mean that employers who superintend their own business are getting decreasing shares? If interest falls, does that imply a fall of the manager's *wages?*

CHAPTER XXI.

WAGES OF DIFFERENT CLASSES OF LABORERS.

219. Having discussed the principles which govern the general share of labor in the product, and in one trade relatively to another, we now continue this discussion by trying to find how the total share of labor is divided among the various classes of laborers. If, for example, the general level of wages is high in the United States, we want to know why some laborers have higher or lower wages on this general level than others. We shall thus carry the question from the point of its application to laborers as a whole to that of classes of individual laborers. Referring to our figure (in section 210), it is our purpose to decide **how the sum** represented by A D, or wages, is **divided among the various classes of laborers.** So far as the individual laborer is concerned in bettering his position, this is to him really the important question in the distribution of the product; for we shall soon see why, out of this sum, A D, one laborer receives a higher share than another.

220. The members of the industrial world resolve themselves into groups, or different layers, one above another, with more or less defined limits. Mr. Mill spoke of the grades of labor in England as divided into about four* classes, with a line of demarkation so strongly drawn as to be almost equivalent to a hereditary distinction of caste—the liberal professions, the more highly skilled artisans and tradesmen, the lower classes of skilled laborers, and, lastly, unskilled laborers. In the United States the lines of demarkation are far less distinct, and, from the common unskilled day-laborer who works with pick and shovel to the most highly successful "captain of industry," the **various industrial groups shade into one another imperceptibly.** Yet there is a marked separation into the unskilled laborer; the little skilled and slightly educated (these two classes are largely composed of foreigners); the skilled mechanic, the overseer and accountant; the chemists, engineers, and members of the liberal professions; and the successful managers, or *entrepreneurs*. As we look into a great factory of the present day, we shall find men engaged in carting and lifting, which requires no skill or training; others stand by feeding machines in a purely mechanical manner, without the least knowledge of the machine; others perform marvelous feats of dexterity; others are pointed out as most skillful molders, or glass-blowers, or furnace-men; or there is the superintendent of the carding-room, or the weaving-room, or the bleaching and dyeing; others in a laboratory are testing metals, experimenting scientifically on materials, oils, and machinery, working out better processes for the industry; and, finally, at the head of all, the cause of its existence, the director of the whole establishment, a finançier as well as a practical manager, watching all details, and yet keeping an eye on the broad extent of his market, buying materials and selling his product to the best advantage, the most skillful laborer, and the worker most necessary of all to the permanence of the establishment.

221. There is a great difference, however, as to the

* "The divisions between the various grades of English society are not so clearly marked in this generation as they were in the last. Each of Mill's four grades is subdivided into a number of lesser grades, rising one above the other like the steps of a long staircase that is arranged in four flights, with a short landing at the end of each of them." —Marshall, *ibid.*, p. 108.