

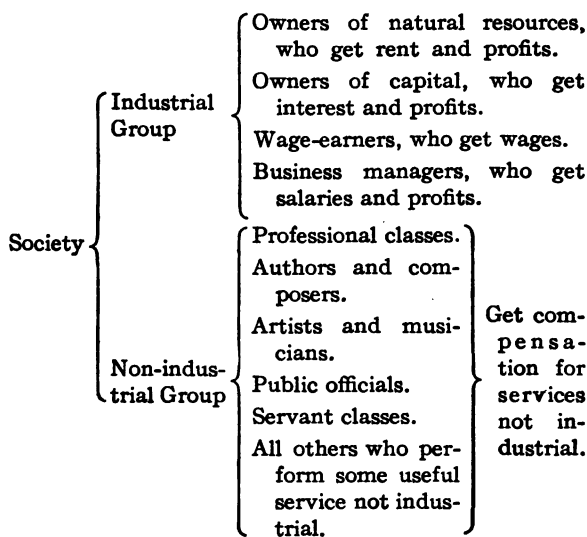
CHAPTER IX

THE SECOND DISTRIBUTION

IF rent, interest, wages, and profits, which have been discussed in the last four chapters, are the only means of distribution, whence comes the share of the man who owns no land from which to get rent, and no capital on which to get interest, who does not work for wages, and who has no interest in business enterprises from which he might receive profits? There is evidently some other agency, or other means of distribution. The particular part of distribution performed by rent, interest, wages, and profits is seen by dividing society into two great groups, the industrial and the non-industrial. By the industrial are meant all those who are in any way employed in connection with industrial undertakings, or who are financially interested in such undertakings. Capitalists and landlords belong to the industrial group

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and for our purpose are so classed. All other classes of society constitute the non-industrial group. The classes composing this latter group are differentiated from each other by the nature of the work they perform. Hence, we have lawyers, doctors, teachers, preachers, authors, artists, actors, musicians, public officials, domestic servants, etc. The classification will appear as follows:



Rent, interest, wages, and profits are the agencies which perform what may be called

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the first distribution, the distribution among the industrial classes, whose energies are devoted entirely to goods, to material things in which values inhere, either producing or transporting these valuable things. But the agencies, rent, interest, wages, and profits, do not determine any portion of these values which find their way into the possession of the non-industrial classes, unless perchance members of these latter classes are also members of some industrial class. The first distribution leaves social income in the hands of those who compose the industrial group. The transfer of a portion of social income from their hands to the hands of the non-industrial group, and its diffusion among the latter, we shall call the second distribution. The non-industrial group would be without income were it not for some relation between the two groups which allows a part of social wealth to pass into the hands of the non-industrial group. This relation is that of service. The non-industrial classes are compensated for services performed for the industrial classes. This is the initial step, which is continually being taken, in what has been designated as the

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second distribution. Because of this relation of service, all non-industrial classes may appropriately be called "the serving classes," and the agency employed in making the distribution, "service." This is the agency not only for the transfer of wealth from the industrial to the non-industrial group, but also for the continued distribution among the different classes of this latter group. This continued distribution results from compensation for services performed by a member of one non-industrial class for a member of another. For example, doctors serve lawyers, teachers, authors, etc.; lawyers serve doctors, artists, etc. So through this inter-service among the non-industrial classes distribution continues among them of the wealth which has been transferred from the industrial classes. This makes it possible for many who belong to some non-industrial class to secure an ample share of social income even without serving any who belong to the industrial group.

These different kinds of services are so numerous and the ways of performing them so various and so interwoven with each other that any attempt to describe them would

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be futile. In the first distribution the case is different. There the agencies are normally three in number, rent, interest, and wages including salaries, although in practice there are four, profits being included. It is comparatively easy to trace the work of these four agencies, but in the second distribution the channels through which the distribution is made throughout society are innumerable.

For the sake of illustrating more clearly what is meant we name a concrete case. The physician is not engaged in the production of wealth, although his influence and that of all other social servants tends to increase values. His work is a necessity. Among those whom he serves are those who are engaged in the production of wealth. By these he is compensated for his services. In this instance, wealth since its production has passed through the hands of one person only when it comes into the possession of the physician. Among those whom he serves are others who like himself are not engaged directly in production, who receive whatever wealth they possess through the performance of some service to others. These also pay the physician for his services.

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In such cases, the values he receives have passed through the hands of at least two persons since they left the mills of production. They may have passed through the hands of half a dozen, ten, twenty, before they come into his possession.

This is the part the physician plays as a receiver of wealth, but he plays no part in distribution until he begins to pay others for services they render him. If he is the head of a family, the larger part of what he receives will most likely be paid out to those who serve him and his family. So his "income" becomes "outgo," which in turn is "income" to the tailor, the grocer, the merchant, the butcher, the dress-maker, the milliner, etc. Exactly so it is with all professional and business men, with every man and every woman who are responsible for their own living or that of others. All who have incomes large or small have corresponding outgoes, and in that degree they are distributors of wealth. A man with large income engages services of others more freely and compensates them more liberally than he would if his income were smaller, so he buys more goods and

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pays more for his purchases. To the man with small income a dollar means more. It has greater value to him, hence he engages the services of others only after consideration, or only when he is obliged to do so. For the same reason he buys fewer goods than he would if his income were larger, and pays less for his purchases. He is a distributor of wealth, but not on so large a scale as the man whose income is larger. So in general men are distributors according to the size of their incomes. This is true up to a certain point. There comes a time in the expenditures of any man whose income is constantly and rapidly growing larger when he is surfeited and further expenditure brings no satisfaction. He then accumulates from necessity if from no other motive. From this point his influence as a distributor does not increase in proportion to his increase of income. He may accumulate until his personal influence as a whole will result in concentration of wealth rather than in its diffusion.

It is evident that the character of the first distribution will determine in a large degree the character of the second. If the results of the first are a diffusion of wealth

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among the parties to it, the result of the second will be a still more general diffusion among all classes. This was quite true of the American people before and up to the time of the Civil War. Up to that time we had few if any millionaires and no serious poverty problem. On the other hand, if the first distribution results in a concentration of wealth in the hands of a comparatively few men, the second can never produce that general diffusion which is absolutely essential for a healthy and happy condition of society. No better illustration of the truthfulness of this statement could be expected than the condition that exists in this country to-day. Every student of industrial problems knows that, side by side with the unprecedented development of the industrial side of American life since the Civil War, there has been a growing and rapidly increasing concentration of wealth in the hands of the proprietors of large industrial operations, and, on the other hand, an increasingly difficult poverty problem to solve even among the wage-earning classes employed by these same proprietors. This is the result of the first distribution among

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the producing classes. The further distribution among the non-industrial or serving classes has not counteracted the concentration among the producing classes, so has not produced such a diffusion as would render all active classes comfortable.

Let us suppose that the first distribution results in a concentration of the proceeds of industry in the hands of a few thousand capitalists, while others—millions in number—who contribute directly to production each gets an average daily wage amounting in the year to \$500. The man who gets only \$500 can distribute only \$500, while the man who gets \$50,000 can distribute \$50,000. The natural wants of these two men are the same, and under like circumstances their developed wants will be substantially the same, so that with like opportunities and with like incomes they would distribute like amounts among others. Their effect upon the second distribution would be practically the same. But with the difference of income assumed above, their effect on the second distribution will be very different. The man with the smaller income, together with his family, will live with fewer services from others and

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poorer services simply because he cannot pay for more or better services, so that he will distribute his income to a smaller number of people, and what he gives to each will be in smaller amounts. But the man with larger income will secure services from a larger number and a better grade of service, so that he will be a distributor to a larger number of people, and will distribute in larger amounts.

There is a limit, however, in payment for services performed by others for every man and every family beyond which expenditure is extravagance and a form of social waste. When one with large income stops expenditure at a reasonable limit he accumulates. Because he secures a higher grade of services and pays more for them than the man of small income, and because he accumulates for himself, the effect of his disposal of his income upon the second distribution is rather to maintain the concentration produced by the first. At least he does not contribute so much towards diffusion as would result if the same large income were divided among several. On the other hand, because the man with the small income

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secures a lower grade of services and pays less for them than the man with a large income, and because he is not able to accumulate anything for himself, it is evident that the effect of his disposal of his income is to diffuse wealth in as large a degree as is possible under the circumstances. There is absolutely no influence in his life under his control which tends to maintain the concentration which results from the first distribution. His voluntary influence is entirely to break up such concentration. So it will be with every man who receives only so much income as he can spend advantageously in fair compensation for services secured for himself and his family. Beyond this the effect is concentration rather than diffusion.

If instead of a few thousand men receiving through the first distribution hundreds of thousands or even millions of dollars as incomes, while millions of men receive a few hundred dollars only; if instead of this, all the millions of men composing the industrial group should receive such incomes and such only as would allow them to secure and pay fairly but not extravagantly for all such services as would contribute to their

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greatest satisfaction and highest development, this, in the first place, would be a far more equitable division in the first process and would be the initial step in the general diffusion that would follow in the second process. It would prevent the vast accumulations on the part of the few which must be accompanied with poverty of the many, would prevent the social waste which always results from extravagance in expenditure, and would make of those who now are diffusers of wealth among the serving classes in no true sense, diffusers in a much larger degree. This would follow from their inability to pay extravagant fees for services and extravagant prices for goods. It would compel them to diffuse their income by paying moderate and reasonable fees and prices, and would turn into the hands of those who are now receiving small and insufficient incomes that which is now being accumulated into vast fortunes, and hence would be an influence to make vast fortunes impossible.

On the other hand, such a division among the producing classes as we have supposed would make of the millions whose incomes now are a few hundred dollars only, dif-

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fusers of wealth in a much higher degree than they now are. We have already said that the effect of the manner in which they are now compelled to spend their income is to diffuse wealth among the serving classes in about as large a degree as it is possible for it to be under the circumstances. If by some means the incomes of these millions of the industrial classes could be increased to a few thousand dollars, they would still spend their incomes in such manner as would make them real diffusers of wealth, and that in a much higher degree than they possibly can be with the incomes of a few hundred dollars only. But so long as the irrational process of making the first division of social income through land-rent, interest, wages, and profits continues, the second distribution will be an ineffectual adjunct of the first. If society shall rationalize the first process by a rational control of the present agencies, or by adopting some new agencies, the second process with service as its agency will supplement the work of the first and assist in accomplishing such a diffusion of wealth as will contribute to highest social welfare.