CHAPTER XXXVI

THE THEORY OF WAGES

I. Nature of wages
  1. Meaning of wages:
    a. Money wages
    b. Real wages
  2. Importance of money wages
  3. What the term includes

II. Groups of laborers
  1. Four main classes:
    a. The leaders
    b. The business and professional men
    c. The skilled laborers
    d. The unskilled workers

III. What determines group wages
  1. Productive power:
    a. Meaning of productivity
    b. Importance of this principle
  2. Monopoly power:
    a. Its meaning and use
    b. How wages vary with it
  3. Why group wages are stable:
    a. The progressive advance
    b. Children move up
  4. The conclusion.

Nature of Wages. — In the discussion of the distribution of wealth, the term " wages " is used to represent the share that labor receives for its part in production. The word is so universally employed to designate this reward of labor that it is seldom one stops to consider the significance of the modern method of wage payment. Money, of course, is to-day the most usual form in which wages is paid. However, we have seen that money wages is not the same as real wages, which represents the purchasing power of the money. And, if there were no money, there would still be wages because labor would still produce and be entitled to a reward for its part in production. In this case, wages would be received in the form of actual products.

Meaning of wages.

But labor, to-day, is not paid in the form of actual products. Everywhere we find labor not receiving what it actually produces, but being paid in the form of money. Why, then, has it become necessary for society to adopt this uniform wage system for the payment of labor? The productive processes of modern society are highly complicated. There is no longer a simple, direct relation between labor and the materials of production; and, consequently, the laborer no longer receives the actual goods he creates. A great intermediate class, known as employers, has grown up in industrial society. This class owns the tools of production, offers the laborer employment, takes what he produces, and, in exchange, gives him, through a uniform wage system, a certain sum of money called wages. The payment of money wages, however, should not obscure the real relation between labor and the product it creates.

Importance of money wages.

Another important consideration to bear in mind in a discussion of the nature of wages is the inclusive character of the term. Not merely physical laborers receive wages. Since wages is the return for industrial effort, the term applies to the rewards of all forms of industrial activity, whether mental or physical. We have seen that even profits, the return for managing ability, is a form of wages because the manager is essentially a laborer. At the same time, the office boy receives wages in return for his labor. In fact, in the United States, practically all of those gainfully employed are working for wages, so that the population of the United States may well be described as a "wage-earning" group.

What the term includes.

Groups of Laborers. — Since wages include the incomes of so many different laborers, it is necessary to classify these laborers in order to understand the reasons for the differences in the wages they receive. In the first class are the leaders, — those men of such phenomenal power that they attract attention everywhere. While they are not necessarily confined to the class of industrial entrepreneurs, it is here that they are chiefly found. Next to these, come the large body of successful business and professional men who stand out prominently in every community. Physicians, lawyers, and educators, as well as merchants and engineers, may be included in this group. The next class of laborers is made up of the great mass of skilled workers that have received some form of special training. Not only mechanics but also trained clerks and bookkeepers are members of this class. Finally, there is the horde of unskilled workers that range all the way from the house-to-house canvasser to the immigrant street cleaner. These last two classes merge imperceptibly into each other, and the laborers forming the connecting link are often spoken of as semi-skilled workers.

Four main classes.

These different classes of laborers naturally increase in number, but decrease in importance, as they go downward from one group to another.

What determines Group Wages. — At the outset, it will be noticed that the wages of group (1), the leaders, will be as great as their number is small, and that the wages of group (4), the unskilled workers, will be as small as their number is great. Consequently, many writers have taken the position that wages depend upon the relation between the supply of labor and the demand for it. But this explanation of wages does not reach the heart of the problem. Why should the supply of certain kinds of labor be small, and why should the demand for them be great? The answer to this question will give the fundamental reason why wages vary.

Depends on productive power:

In the first place, it is evident that men of high productive capacity can command high wages. This kind of labor is in demand because its productive power is great and its supply is limited. The principle of productivity in this case plays the dominant part in determining the wages that such a group of men receives. By productivity is meant the creative power which individuals possess in varying degrees and whereby they are able, either directly or indirectly, to produce material wealth. On all sides there are evidences of this kind of capacity.

Meaning of productivity.

Throughout the whole theory of wages, this principle of productivity must be constantly kept in mind. In fact, it forms the foundation of the general theory of distribution. Not only labor, but also capital, depends upon productive power as a basis upon which each may claim a share in the distribution of wealth. As Professor H. R. Seager points out, "the law which determines the division of the product between labor and capital in competitive industries for a society in a state of

Importance of this principle.

normal equilibrium is that each receives the share that it produces." If labor did not produce anything, it would not be entitled to anything. The principle of productivity thus gives rise to the idea of merit, and man feels that he is receiving what he deserves. Labor is entitled to wages because it has played a vital part in producing wealth. But to-day, in the absence of a purely competitive régime, does labor receive exactly what it produces? Does the principle of productivity, and this principle alone, determine under present conditions the wages of a group of laborers? While, for example, it is true that men of great productive power command large wages, yet it seems equally obvious that men sometimes receive more or less wages than their capacities warrant.

Depends on monopoly power: *Its meaning and use.*

The wages of any class of labor seems to depend not only upon its productive power but also upon its monopoly power. The more monopoly power a group has the higher will be its wages. Monopoly power has already been defined as some unusual power that enables the holder to fix a price above the competitive figure. It is frequently exercised by the entrepreneur when he controls prices without regard to the laws of competition. This unusual power may also be exercised in behalf of labor either individually or collectively. Either by acquiring some special ability, or by securing power through organization, a laboring class may regulate the price of its labor and command its wages without any absolute regard to the actual value of the product. In both cases, through an unusual control over labor resources, monopoly power, in addition to productive power, determines the wages paid to labor.

This dependence of wages on labor's monopoly power is seen when we examine the monopoly power of each class of laborers. Enough has been said of the great monopoly power of the leaders in industry and of its effect on their income through the control of prices. At the other extreme we have the class of unskilled labor with minimum wages and practically no monopoly power, that is, no unusual power to control wages. Because of this absence of monopoly power, the cost of subsistence is practically the only determinant of wages for this group of laborers. Above them, the skilled laborers are much better off, because their monopoly power is increased both by individual skill and by group organization. The group of successful business and professional men have still greater monopoly power (secured largely through individual effort) and therefore command still higher wages. Thus it may be seen that in all these cases group wages vary not only with productive power, but also with monopoly power. This principle determining group wages applies likewise to individual wages.

How wages vary with monopoly power.

In a discussion of group wages there is another question that naturally arises. Why are group wages more or less stable? That is, why does the wage of the unskilled laborer remain approximately at ten dollars per week and that of the skilled worker at twenty dollars per week? The answer to this question is clear. The progressive members of one group advance to the next higher, thus relieving an undue pressure of numbers in the group below. For example, the great influx of immigrants, who have joined the ranks of unskilled labor in this country, has forced the American unskilled worker to seek some special training fitting him for more skilled labor. His standard of living will not submit to the low wage that for-

Why group wages are stable.

eign labor accepts. Thus the progressive who move up make way for the newer ones who come in. At the same time, the children of skilled and unskilled laborers, who are dissatisfied with the economic position of their parents, frequently move up to the class of business or professional men. This general advance, therefore, from one group to another, brought about by the movement of the more progressive and younger elements, results in a general mobility of labor whereby overcrowding in one group is minimized and the wages of the various groups remain more or less stationary.

The conclusion.

From this presentation of the theory of wages, it will be observed that two factors — productivity and monopoly power — are of prime importance in determining the wages of a given group or of a particular individual. If it were not for productivity, there would be no wages, and if it were not for monopoly power, wages would not be what they actually are. Under ideal conditions of pure competition the productivity principle would be sufficient to explain wages in any given case. Each individual would receive as wages that which, in competition with others, he produced. But when competition is checked, as to-day it actually is, the amount of wages that a group or an individual can command depends almost as much upon his monopoly power, that is, his unusual power to control the price of labor, as upon his productive power, that is, the wealth he actually produces.