CHAPTER XXXVII

The Outlook for Distribution

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In concluding a discussion of the theory of distribution, it is important to understand the probability of the different shares of wealth increasing or diminishing. From the standpoint of individual welfare, the future of labor is especially significant because the great mass of people depend altogether upon wages for their support and material happiness. In determining what chance labor has of increasing its share in the general distribution of wealth, it will be found that much will depend (1) upon the growth of labor's monopoly power, (2) upon the exercise of its power of substitution, and (3) upon its rate of increase as compared with that of the other factors in production.

Labor's Monopoly Power. — In the lowest group of laborers we have seen that there is practically no monopoly power and that competition fixes the wage almost at the minimum of subsistence. In all the other groups, however, monopoly power plays a great part in determining the upper limit of wages and is manifesting itself in an increasing number of directions. The monopoly power of the laborer may be exercised either individually or collectively. The individual may possess this unusual control over labor either as a result of special training, or by reason of some inherited tendency that has been developed and cultivated. For example, the man who has made a particular study of the textile business at home and abroad, and who has also made a close study of business detail and knows how to manage large numbers of men, possesses by reason of his training a great monopoly power. This power enables him to command a salary of perhaps ten thousand dollars a year. In a similar manner the man who, through inherited ability and some special training, is able to draw striking cartoons and caricatures enjoys such a

Individual monopoly power.

great monopoly power that he may be able to command a salary of twenty thousand dollars a year. The monopoly power of the cartoonist was inherited, while that of the manager was acquired; in both cases, however, it was individual.

Group monopoly power.

Group monopoly power, on the other hand, is of quite a different character. In this case labor relies for its control over wages not on great individual power, but on collective action. Group monopoly is the power whereby a group, through organization, is able to control the price of labor and to regulate its own wages. For example, suppose thirty hodcarriers are working for one dollar and seventy-five cents a day; and suppose further that there are no other hodcarriers near by, and that there is plenty of construction work in the neighborhood. It occurs to these men that if they unite together and demand two dollars a day, they will be able to increase their wages. This they do and, by their organization, create a monopoly power which enables them to secure the additional wage demanded. Among skilled laborers the monopoly power of organization is everywhere in evidence and competition plays a secondary part in determining wages. This monopoly power may be exercised not only through the union and strike method, but also through minimum wage laws such as exist in Australia and New Zealand.

The outlook in United States.

In America there are many evidences of the monopoly power of labor. From the standpoint of individual monopoly, the emphasis on education and special training is a most hopeful indication for the future of labor. Everywhere the necessity for increased efficiency is being pointed out and the means of securing it provided. At the same time, the monopoly of organization is becoming more and more powerful. Men are beginning to realize how much more can be accomplished by collective than by individual action. Thus, through the increase both of individual and group monopoly, labor possesses a means of enlarging its share of wages.

Labor's Power of Substitution. — Another advantage that labor enjoys is found in the exercise of its power of substitution. This power is simply the ability of labor to substitute one good for another, or one employer for another. For example, when the price of oil becomes too high, gas or electricity may be substituted. If the price of soap is raised, a washing powder may be used. When meat rises to a prohibitive figure, some other form of proteid diet will take its place. In this manner, by substituting one product for another, the consumer escapes the extortion of the monopolist, and labor, by forcing prices down, gets the benefit of income that would otherwise go to the monopolist in the form of monopoly prices. Labor's real wages is increased.

From standpoint of consumption.

Again, by reason of its mobility and monopoly power, labor may substitute one employer for another. By mobility of labor is meant the freedom with which labor moves from one place to another and from one employer to another. In the days of feudalism, the serf was attached to the soil and was prevented from moving from place to place. The peasant was born an agricultural worker on a great estate and there he was obliged to live and die. To-day, however, in the United States, a laborer moves easily from place to place, and frequently from one occupation to another. If he is dissatisfied with conditions in one city or in one occupation, he seeks employment in another offering him a larger return.

From standpoint of production.

An advancing standard of living always impels labor to seek that industry or locality where it will receive its greatest reward. The labor union, through its monopoly of organization, makes secure this higher standard of living when it is once attained. This mobility of labor naturally results in more or less uniformity of wages within the same general group of laborers; but, nevertheless, there is just enough difference in wages to cause labor to substitute one employer for another. This power of substitution may be used against the employer and in favor of labor because, by reason of the growth of labor organization, the employer himself cannot substitute, as freely as in former days, one laborer for another. As a producer, therefore, labor may use the power of substitution, in conjunction with its monopoly power, to regulate its own wages; while, as a consumer, labor may use this same power to increase its income by preventing the entrepreneur from fixing prices at the monopoly point in order to swell his own profits.

Double effect of this power on labor.

Relative Rates of Increase of the Factors in Production. — Still another element favorable to the increase of wages is found in the relatively slow rate at which labor increases when compared with the other factors in production. In order that the wages of labor may increase, the value of its share in the general distribution of wealth must, of course, become greater. Now, as Professor S. N. Patten has shown, the value of the share of any factor in production, — whether land, labor, or capital, — depends, so far as these factors alone are concerned, upon its rate of increase as compared with that of the other factors in production. Scarcity plays an important part in determining the value of labor just as it does in determining

Importance of rate of increase.

the value of gold or silver. If gold, for example, is scarce, its value will be great; while if plentiful, its value will decrease. Just so it is with labor. If labor increases at a relatively slow rate, its value as measured in wages will be great; while if its rate of increase is relatively rapid, its value will decrease.

Now, in the United States, during the past century, there is little doubt concerning the relative rates of increase of land, labor, and capital. Capital has increased so enormously that the rate of interest has steadily declined. Through wonderful improvements in agriculture, land has likewise yielded a greater and greater return. However, labor, the remaining factor in production, has increased at a rate which is slow when compared with capital's rate of increase or land's rate of increase. To-day, evidence of labor's slow rate of increase is frequently found in utterances against "race suicide." Therefore, since labor's rate of increase has been slower than that of capital or land, it is fair to conclude that its share of wealth has increased at a proportionally greater rate than that of capital or land. From this point of view, therefore, labor may be said, broadly speaking, to have received the greatest benefits from production.

Conditions in United States.

Briefly the problem of distribution may be thus summarized: Rent is paid to the landlord because of his control over natural resources. Interest goes to the capitalist in return for the use of capital in industry. Profits is paid to the entrepreneur because of his special ability and the risks he undertakes. Wages, finally, is paid to the laborer in return for industrial effort and in proportion to his productive and monopoly power. But, while all these shares are thus divided up in

General conclusion.

theory, they are not always so separately distributed in practice. One individual, by representing several factors in production, may receive several shares in distribution, while another individual may receive but one share. In America, this may be slowly taking place. Broadly speaking, the laborer usually receives only one of these shares — wages — while the entrepreneur frequently takes the rest. As American society evolves, the landlord controlling natural resources, the factory owner controlling capital, the entrepreneur taking risks, and the monopolist controlling prices, all tend to become the same person. Through large scale production, one business interest may control all the important processes of industry from the raw to the finished product, and take into one treasury the different incomes from several distributive channels.

TOPICS FOR CLASS DISCUSSION

1. What reasons can you offer to explain why the wages of women are generally lower than the wages of men?
2. What conditions fix the maximum and minimum limits to the rate of wages in a particular case?
3. What connection is there between the American rate of wages and American labor-saving devices?
4. By what methods is labor increasing its monopoly power?
5. Name the factors in modern society which increase the mobility of labor.
6. What effect should the increased mobility of labor have on wages in different sections of the same country?
7. Ordinarily an increased demand for a commodity which is not absolutely limited in amount will result in an increased supply. To what extent would this be true of laborers? Of labor?
8. Cite cases of monopolistic limitation of the supply of labor.
9. Explain the operation of the power of substitution.
10. What factors limit the power of the entrepreneur to fix wages?