CHAPTER XXII

SOME UNACCEPTABLE THEORIES OF WAGE JUSTICE

"It may be that we are not merely chasing a will-o'-the-wisp when we are hunting for a reasonable wage, but we are at any rate seeking the unattainable."

Thus wrote Professor Frank Haight Dixon in a paper read at the twenty-seventh annual meeting of the American Economic Association, December, 1914. Whether he reflected the opinion of the majority of the economists, he at least gave expression to a thought that has frequently suggested itself to everyone who has gone into the wage question free from prejudices and preconceived theories. One of the most palpable indications of the difficulty to which Professor Dixon refers is the number of doctrines concerning wage justice that have been laboriously built up during the Christian era, and that have failed to approve themselves to the majority of students and thinkers. In the present chapter the attempt is made to set forth some of the most important of these doctrines, and to show wherein they are defective. They can all be grouped under these heads: The Prevailing-Rate Theory; Exchange-Equivalence Theories; and Productivity Theories.

I. The Prevailing-Rate Theory

This is not so much a systematic doctrine as a rule of expediency devised to meet concrete situations in the absence of any better guiding principle. Both its basis and its nature are well exemplified in the following extract from the Report of the Board of Arbitration in the Matter of the Controversy Between the Eastern Railroads and the Brotherhood of Locomotive Engineers":[1] "Possibly there should be some theoretical relation for a given branch of industry between the amount of the income that should go to labor and the amount that should go to capital; and if this question were decided, a scale of wages might be devised for the different classes of employees which would determine the amount rightly absorbed by labor. . . . Thus far, however, political economy is unable to furnish such a principle as that suggested. There is no generally accepted theory of the division between capital and labor. . . .

"What, then, is the basis upon which a judgment may be passed as to whether the existing wage scale of the engineers in the Eastern District is fair and reasonable? It seems to the Board that the only practicable basis is to compare the rates and earnings of engineers in the Eastern District with those of engineers in the Western and Southern Districts, and with those of other classes of railway employees."

Six of the seven men composing this board of arbitration subscribed to this statement. Of the six one is the president of a great state university, another is a successful and large-minded merchant, the third is a great building contractor, the fourth is a distinguished lawyer, the fifth is a prominent magazine editor, and the sixth is a railway president. The dissenting member represented the employees. Since the majority could not find in any generally accepted theory a principle to determine the proper division of the product between capital and labor, they were perhaps justified in falling back upon the practical rule that they adopted.

Not in Harmony with Justice

From the viewpoint of justice, however, this rule or standard is utterly inadequate. It is susceptible of two interpretations. "Wages prevailing elsewhere," may mean

[1] Page 47.

either the highest rates or those most frequently occurring. According to the latter understanding, only those wages which were below the majority rates should be raised, while all those above that level ought to be lowered. In almost all cases this would mean a reduction of the highest wages, as these are usually paid only to a minority of the workers of any grade. The adoption of the highest existing rates as a standard would involve no positive losses, but it would set a rigid limit to all possible gains in the future. According to either interpretation of the prevailing rate, the increases in wages which a powerful labor union seeks to obtain are unjust until they have been established as the prevailing rates. Thus, the attorney for the street railways of Chicago dissented from the increases in wages awarded to the employees by the majority of the board of arbitration in the summer of 1915 because, "these men are already paid not only a fair wage but a liberal wage, when the wages in the same employment and the living conditions in other large cities are taken into consideration, or when comparison is made of these men's annual earnings with the earnings in any comparable line of work in the city of Chicago." [1] In other words, the dominant thing is always the right thing. Justice is determined by the preponderance of economic force. Now, a rule such as this, which condemns improvement until improvement has somehow become general, which puts a premium upon physical and intellectual strength, and which disregards entirely the moral claims of human needs, efforts, and sacrifices, is obviously not an adequate measure of either reason or justice. And we may well doubt that it would be formally accepted as such by any competent and disinterested student of industrial relations.

II. Exchange-Equivalence Theories

According to these theories, the determining factor of wage justice is to be found in the wage contract. The

[1] *The Chicago Daily Tribune,* July 17, 1915.

basic idea is the idea of equality, inasmuch as equality is the fundamental element in the concept of justice. The principle of justice requires that equality should be maintained between what is owed to a person and what is returned to him, between the kinds of treatment accorded to different persons in the same circumstances. Similarly it requires that equality should obtain between the things that are exchanged in onerous contracts. An onerous contract is one in which both parties undergo some privation, and neither intends to confer a gratuity upon the other. Each exchanger desires to obtain the full equivalent of the thing that he transfers. Since each is equal in personal dignity and intrinsic worth to the other, each has a strict right to this full equivalent. Owing to the essential moral equality of all men, no man has a right to make of another a mere instrument to his own interests through physical force or through an onerous contract. Men have equal rights not only to subsist upon the earth, but to receive benefits from the exchange of goods.

The Rule of Equal Gains

The agreement between employer and employee is an onerous contract; hence it ought to be made in such terms that the things exchanged will be equal, that the remuneration will be equal to the labor. How can this equivalence be determined and ascertained? Not by a direct comparison of the two objects, work and pay, for their differences render them obviously incommensurable. Some third term or standard of comparison is required in which both objects can find expression. One such standard is individual net advantage. Inasmuch as the aim of the labor contract is reciprocal gain, it is natural to infer that the gains ought to be equal for the two parties. Net gain is ascertained by deducting in each case the utility transferred from the utility received; in other words, by deducting the privation from the gross return. The good received by the employer when diminished by or weighed against the amount that he pays in wages should be equal to the good received by the laborer when diminished by or weighed against the inconvenience that he undergoes through the expenditure of his time and energy. Hence the contract should bring to employer and employee equal amounts of net advantage or satisfaction.

Plausible as this rule may appear, it is impracticable, inequitable, and unjust. In the vast majority of labor contracts it is impossible to know whether both parties obtain the same quantity of net advantage. The gains of the employer can, indeed, be frequently measured in terms of money, being the difference between the wages paid to and the specific product turned out by the laborer. In the case of the laborer no such process of deduction is possible; for advantage and expenditure are incommensurable. We cannot subtract the laborer's privation, that is, his expenditure of time and energy, from his gross advantage, that is, his wages. How can we know or measure the net benefit obtained by a man who shovels sand ten hours for a wage of two dollars? How can we deduct his pain-cost from or weigh it against his compensation?

So far as the two sets of advantages are comparable at all those of the employee would seem to be always greater than those of the employer. A wage of seventy-five cents a day enables the laborer to satisfy the most important wants of life. Weighed against this gross advantage, his pain-cost of toil is relatively insignificant. His net advantage is the greatest that a man can enjoy, the continuation of his existence. The net advantage received by the employer from such a wage contract is but a few cents, the equivalent of a cigar or two. Even if the wage be raised to the highest level yet reached by any wage earner, the net advantage to the laborer, namely, his livelihood, will be greater than the net advantage to the employer from that single contract. Moreover, the sum total of an employer's gains from all his labor contracts is less quantitatively than the sum total of the gains obtained by all his employees. The latter gains provide for many livelihoods, the former for only one. Again, no general rate of wages could be devised which would enable all the members of a labor group to gain equally. Differences in health, strength and intelligence would cause differences in the pain-cost involved in a given amount of labor; while differences in desires, standards of living, and skill in spending would bring about differences in the satisfactions derived from the same compensation. Finally, various employers would obtain various money gains from the same wage outlay, and various advantages from the same money gains. Hence if the rule of equality of net advantages were practicable it would be inequitable. At best, it would mean equal treatment of unequals.

It is also fundamentally unjust because it ignores the moral claims of needs, efforts and sacrifices as regards the laborer. As we have seen in the chapter on profits in competitive conditions, and as we shall have occasion to recognize again in a later chapter, no canon or scheme of distributive justice is acceptable that does not give adequate consideration to these fundamental attributes of human personality.

The Rule of Free Contract

Another form of the exchange-equivalence theory would disregard the problem of *equality* of gains, and assume that justice is realized whenever the contract is free from force or fraud. In such circumstances both parties gain something, and presumably are satisfied; otherwise, they would not enter the contract. Probably the majority of employers regard this rule as the only available measure of practicable justice. The majority of economists likewise subscribed to it during the first half of the nineteenth century. In the words of Henry Sidgwick, "the teaching of the political economists pointed to the conclusion that a free exchange, without fraud or coercion, is also a fair exchange." [1] Apparently the economists based this teaching on the assumption that competition was free and general among both laborers and employers. In other words, the rule as understood by them was probably identical with the rule of the market rate, which we shall examine presently. It is not at all likely that the economists here referred to would have given their moral approval to those "free" contracts in which the employer pays starvation wages because he takes advantage of the ignorance of the laborer, or because he exercises the power of monopoly.

No matter by whom it is or has been held, the rule of free contract is unjust. In the first place, many labor contracts are not free in any genuine sense. When a laborer is compelled by dire necessity to accept a wage that is insufficient for a decent livelihood, his consent to the contract is free only in a limited and relative way. It is what the moralists call *voluntarium imperfectum.* It is vitiated to a substantial extent by the element of fear, by the apprehension of a cruelly evil alternative. The laborer does not agree to this wage because he prefers it to any other, but merely because he prefers it to unemployment, hunger, and starvation. The agreement to which he submits in these circumstances is no more free than the contract by which the helpless wayfarer gives up his purse to escape the pistol of the robber. While the latter action is free in the sense that it is chosen in preference to a violent death, it does not mean that the wayfarer gives, or intends to give, the robber the right of ownership in the purse. Neither should the laborer who from fear of a worse evil enters a contract to work for starvation wages, be regarded as transferring to the employer the full moral right to the services which he agrees to render. Like the wayfarer, he merely submits to superior force.

[1] Article on "Political Economy and Ethics," in Palgrave's Dictionary of Political Economy.

The fact that the force imposed upon him is economic does not affect the morality of the transaction.

To put the matter in another way, the equality which justice requires is wanting in an oppressive labor contract because of the inequality existing between the contracting parties. In the words of Professor Ely: "Free contract supposes equals behind the contract in order that it may produce equality." [1]

Again, the rule of free contract is unjust because it takes no account of the moral claims of needs. A man whose only source of livelihood is his labor does wrong if he accepts a starvation wage willingly. Such a contract, however free, is not according to justice because it disregards the requirements of reasonable life. No man has a right to do this, any more than he has a right to perpetrate self-mutilation or suicide.

The Rule of Market Value

A third method of interpreting exchange-equivalence is based upon the concept of value. Labor and compensation are thought to be equal when the value of one is equal to the value of the other. Then the contract is just and the compensation is just. The only objection to these propositions is that they are mere truisms. What does value mean, and how is it to be determined? If it is to receive an ethical signification; if the value of labor is to be understood as denoting not merely the value that labor will command in a market, but the value that labor ought to have, the statement that wages should equal the value of labor is an identical proposition. It tells us that wages ought to be what they ought to be.

In its simplest economic sense value denotes purchasing power, or importance in exchange. As such, it may be either individual or social; that is, it may mean the exchange importance attributed to a commodity by an individual, or that attributed by a social group. In a

[1] "Property and Contract," II, 603.

competitive society social value is formed through the higgling of the market, and is expressed in market price.

Now individual value is utterly impracticable as a measure of exchange-equivalence in the wage contract. Since the value attributed to labor by the employer differs in the great majority of instances from that estimated by the laborer himself, it is impossible to determine which is the true value, and the proper measure of just wages.

The doctrine that the social value or market price of labor is also the ethical value or just price, is sometimes called the classical theory, inasmuch as it was held, at least implicitly, by the majority of the early economists of both France and England.[1] Under competitive conditions, said the Physiocrats, the price of labor as of all other things corresponds to the cost of production; that is, to the cost of subsistence for the laborer and his family. This is the natural law of wages, and being natural it is also just. Adam Smith likewise declared that competitive wages were natural wages, but he refrained from the explicit assertion that they were just wages. Nevertheless his abiding and oft-expressed faith in the theory that men's powers were substantially equal, and in the social beneficence of free competition, implied that conclusion. Although the great majority of his followers denied that economics had moral aspects, and sometimes asserted that there was no such thing as a just or unjust wage, their teaching tended to convey the thought that competitively fixed wages were more or less in accordance with justice. As noted above, their belief in the efficacy of competition led them to the inference that a free contract is also a fair contract. By a free contract they meant for the most part one that is made in the open market, that is governed by the forces of supply and demand, and that expresses the social economic value of the things exchanged.

All the objections that have been brought against the rule of the prevailing rate apply even more strongly to the

[1] Cf. "L'Idée du Juste Salaire." by Léon Polier. ch. iii. Paris: 1903.

doctrine of the market rate. The former takes as a standard the scale of wages most frequently paid in the market, while the latter approves any scale that obtains in any group of laborers or section of the market. Both accept as the ultimate determinant of wage justice the preponderance of economic force. Neither gives any consideration to the moral claims of needs, efforts, or sacrifices. Unless we are to identify justice with power, might with right, we must regard these objections as irrefutable, and the market value doctrine as untenable.

The Medieval Theory

Another exchange-equivalence theory which turns upon the concept of value is that found in the pages of the medieval canonists and theologians. But it interprets value in a different sense from that which we have just considered. As the measure of exchange-equivalence the medieval theory takes objective value, or true value. However, the proponents of this view did not formally apply it to wage contracts, nor did they discuss systematically the question of just wages. They were not called upon to do this, for they were not confronted by any considerable class of wage earners. In the country the number of persons who got their living exclusively as employees was extremely small, while in the towns the working class was composed of independent producers who sold their wares instead of their labor.[1] The question of fair compensation for the town workers was, therefore, the question of a fair price for their products. The latter question was discussed by the medieval writers formally and in great detail. Things exchanged should have equal values, and commodities should always sell for the equivalent of their values. By what rule was equality to be measured and value determined? Not by the subjective appreciations of the exchangers, for these would sometimes sanction the most flagrant extortion. Were no other help

[1] Polier, op. cit., p. 33, sq.

available, the starving man would give all he possessed for a loaf of bread. The unscrupulous speculator could monopolize the supply of foodstuffs and give them an exorbitantly high price which purchasers would accept and pay rather than go hungry. Hence we find the medieval writers seeking a standard of *objective* value which should attach to the commodity itself, not to the varying opinions of buyers and sellers.

In the thirteenth century Albertus Magus [1] and Thomas Aquinas [2] declared that the proper standard was to be found in labor. A house is worth as many shoes as the labor embodied in the latter is contained in the labor embodied in the former. It is worthy of note that the diagram which Albertus Magnus presents to illustrate this formula of value and exchange had been used centuries before by Aristotle. It is likewise noteworthy that this conception of ethical value bears a striking resemblance to the theory of economic value upheld by Marxian Socialists. However, neither Aristotle nor the Schoolmen asserted that all kinds of labor had equal value.

Now this medieval labor-measure of value could be readily applied only to cases of barter, and even then only when the value of different kinds of labor had already been determined by some other standard. Accordingly we find the medieval writers expounding and defending a more general interpretation of objective or true value.

This was the concept of normal value; that is, the average or medium amount of utility attributed to goods in the average conditions of life and exchange. On the one hand, it avoided the excesses and the arbitrariness of individual estimates; on the other hand, it did not attribute to value the characters of immutability and rigidity. Contrary to the assumptions of some modern writers, the Schoolmen never said that value was something as fixedly inherent in goods as physical and chemical qualities.

[1] "Ethica," lib. v. tr. 2, cap. 5.
[2] "Comment. ad Eth., XXI, 172.

When they spoke of "intrinsic" value, they had in mind merely the constant capacity of certain commodities to satisfy human wants. Even to-day bread has always the intrinsic potency of alleviating hunger, regardless of all the fluctuations of human appraisement. The objectivity that the medieval writers ascribed to value was relative. It assumed normal conditions as against exceptional conditions. To say that value was objective merely meant that it was not wholly determined by the interplay of supply and demand, but was based upon the stable and universally recognized use-qualities of commodities in a society where desires, needs and tastes were simple and fairly constant from one generation to another.

How or where was this relatively objective value of goods to find concrete expression? In the "communis aestimatio," or social estimate, declared the canonists. Objective value and just price would be ascertained practically through the judgment of upright and competent men, or preferably through legally fixed prices. But neither the social estimate nor the ordinances of lawmakers were authorized to determine values and prices arbitrarily. They were obliged to take into account certain objective factors. In the thirteenth and fourteenth centuries, the factors universally recognized as determinative were the utility or use-qualities of goods, but especially their cost of production. Later on, in the sixteenth and seventeenth centuries, risk and scarcity were given considerable prominence as value determinants. Now cost of production in the Middle Ages was mainly labor cost; hence the standard of value was chiefly a labor standard. Moreover, this labor doctrine of true value and equality in exchanges was strongly reinforced by another medieval principle, according to which labor was the supreme if not the only just title to rewards.

How was labor cost to be measured, and the different kinds of labor evaluated? By the necessary and customary expenditures of the class to which the laborer belonged. Medieval society was composed of a few definite, easily recognized, and relatively fixed orders or grades, each of which had its own function in the social hierarchy, its own standard of living, and its moral right to a livelihood in accordance with that standard. Like the members of the other orders, the laborers were conceived as entitled to live in conformity with their customary class-requirements. From this it followed that the needs of the laborer became the main determinant of the cost of production, and of the value and just price of goods. Inasmuch as the standards of living of the various divisions of the workers were fixed by custom, and limited by the restricted possibilities of the time, they afforded a fairly definite measure of value and price—much more definite than the standard of general utility. To Langenstein, vice chancellor of the University of Paris in the latter half of the fourteenth century, the matter seemed quite simple; for he declared that everyone could determine for himself the just price of his wares by referring to the customary needs of his rank of life.[1]

Nevertheless, class needs are not and cannot be a standard of exchange-equivalence. They cannot become a criterion of equality, a common denominator, a third term of comparison, between labor and wages. When we say that a given amount of wages is equal to a given content of livelihood, we express a purely economic, positive, and mathematical relation: when we say that a given amount of labor is equal to a given content of livelihood, we are either talking nonsense or expressing a purely ethical relation; that is, declaring that this labor *ought* to equal this livelihood. In other words, we are introducing a fourth term of comparison; namely, the moral worth or personal dignity of the laborer. Thus, we have not a single and common standard to measure both labor and wages, and to indicate a relation of equality between them. While class needs directly measure wages, they do not measure

[1] Cf. Polier, op. cit., pp. 66-75.

labor, either quantitatively, or qualitatively, or under any other aspect or category.

Aside from this purely theoretical defect, the canonist doctrine of wage justice was fairly satisfactory as applied to the conditions of the Middle Ages. It assured to the laborer of that day a certain rude comfort, and probably as large a proportion of the product of industry as was practically attainable. Nevertheless it is not a universally valid criterion of justice in the matter of wages; for it makes no provision for those laborers who deserve a wage in excess of the cost of living of their class; nor does it furnish a principle by which a whole class of workers can justify their advance to a higher standard of living. It is not sufficiently elastic and dynamic.

A Modern Variation of the Medieval Theory

In spite of its fundamental impossibility, the concept of exchange-equivalence still haunts the minds of certain Catholic writers.[1] They still strive to get a formula to express equality between labor and remuneration. Perhaps the best known and least vulnerable of the attempts made along this line is that defended by Charles Antoine, S. J.[2] Justice, he declares, demands an objective equivalence between wages and labor; and objective equivalence is determined and measured by two factors. The remote factor is the cost of decent living for the laborer; the proximate factor is the economic value of his labor. The former describes the *minimum* to which the worker is entitled; the latter comprises perfect and adequate justice. In case of conflict between the two factors, the first is determinative of and morally superior to the second; that is to say, no matter how small the economic value of labor may *seem* to be, it never can descend below the requisites of a decent livelihood.

Now, neither of these standards is in harmony with the

[1] Cf. Polier, op. cit., pp. 92-95.
[2] "Cours d' Économie Sociale," pp. 598, sq.

principle of exchange-equivalence, nor capable of serving as a satisfactory criterion of wage justice. Father Antoine argues that labor is always the moral equivalent of a decent livelihood because the worker expends his energies, and gives out a part of his life in the service of his employer. Unless his wage enables the laborer to replace these energies and conserve his life, it is not the equivalent of the service. If the wage falls short of this standard the laborer gives more than he receives, and the contract is essentially unjust. In this conception of equivalence, energy expended, instead of cost of living, becomes the term of comparison and the common measure of labor and remuneration. Energy expended is, however, technically incapable of providing such a common standard, for it does not measure both related terms in the same way. The service rendered to the employer is the *effect* rather than the equivalent of the energy expended; and the compensation is a *means* to the replacement of this energy rather than its formal equivalent. Moreover, the formula does not even furnish an adequate rational basis for the claim to a decent minimum wage. A wage which is merely adequate to the replacement of expended energy and the maintenance of life, is really inadequate to a decent livelihood. Such compensation would cover only physical health and strength, leaving nothing for intellectual, spiritual, and moral needs. As Father Antoine himself admits and contends, the latter needs are among the elements of a decent livelihood, and a wage which does not make reasonable provision for them fails to comply with the minimum requirements of justice.

The second factor of "objective equivalence" is even more questionable than the first. To be *completely* just, says Father Antoine, wages must be not merely adequate to a decent livelihood, but equivalent to the "economic value of the labor" ("la valeur économique du travail"). This "economic value" is determined objectively by the cost of production, the utility of the product, and the movement of supply and demand; subjectively, by the judgment of employers and employees. In case of conflict between these two measures of value, and in case of uncertainty concerning the objective measure, the decision of the subjective determinant must always prevail.

These statements are hopelessly ambiguous and confusing. If the objective measure of "economic value" is to be understood in a purely positive way, it merely means the wages that actually obtain in a competitive market. In the purely positive or economic sense, the utility of labor is measured by what it will command in the market, the movement of supply and demand is likewise reflected in market wages, and the determining effect of cost of production is also seen in the share that the market awards to labor after the other factors of production have taken their portions of the product. In other words, the "economic value" of labor is simply its market value. This, however, is not Father Antoine's meaning; for he has already declared that the "economic value" of labor is never less than the equivalent of a decent livelihood, whereas we know that the market value often falls below that level. In his mind, therefore, "economic value" has an ethical signification. It indicates at least the requisites of decent living, and it embraces more than this in some cases. When? and how much more? Let us suppose a business so prosperous that it returns liberal profits to the employer and the prevailing rate of interest on the capital, and yet shows a surplus sufficient to give all the laborers ten dollars a day. Is "cost of production" to be interpreted here as allowing only the normal rate of profits and interest to the business man and the capitalist, leaving the residue to labor? Or is it to be understood as requiring that the surplus be divided among the three agents of production? In other words, is the "economic value" of labor in such cases to be determined by some ethical principle which tells beforehand how much the other agents than labor ought to receive? If so, what is this principle?

None of these questions is satisfactorily answered in Father Antoine's pages. They are all to be solved by having recourse to the subjective determinant of "economic value"; namely, the judgment of employers and employees. Thus his proximate factor of justice in wages, his formula of complete as against minimum just wages, turns out to be something entirely subjective, and more or less arbitrary. It is in no sense a measure of the equivalence between work and pay.

Moreover, it is inadequate as a measure of justice. Should the majority of both employers and employees fix the "economic value" of the labor of carpenters at five dollars a day, there would be no certainty that this decision was correct, and that this figure represented just wages. Should they determine upon a rate of fifty dollars a day, we could not be sure that their decision was unjust. Undoubtedly the combined judgment of employers and employees will set a fairer wage than one fixed by either party alone, since it will be less one-sided; but there is no sufficient reason for concluding that it will be in all cases completely just. Undoubtedly employers and employees know what wages an industry can afford at prevailing prices, on the assumption that business ability and capital are to have a certain rate of return; but there is no certainty that the prevailing prices are fair, or that the assumed rates of profits and interest are fair. In a word, the device is too arbitrary.

To sum up the entire discussion of exchange-equivalence theories: Their underlying concept is fundamentally unsound and impracticable. All of them involve an attempt to compare two entities which are utterly incommensurate. There exists no third term, or standard, or objective fact, which will inform men whether any rate of wages is the equivalent of any quantity of labor.

III. Productivity Theories

The productivity concept of wage justice appears in a great variety of forms. The first of them that we shall consider is advocated mainly by the Socialists, and is usually referred to as the theory of the "right to the whole product of labor." [1]

Labor's Right to the Whole Product

We have seen that Adam Smith's belief in the normality and beneficence of free competition would have logically led him to the conclusion that competitive wages were just; and we know that this doctrine is implicit in his writings. On the other hand, his theory that all value is determined by labor would seem to involve the inference that all the value of the product belongs to the laborer. As a matter of fact, Smith restricted this conclusion to primitive and pre-capitalist societies. Apparently he, and his disciples in an even larger degree, was more interested in describing the supposed beneficence of competition than in justifying the distribution that resulted from the competitive process.

The early English Socialists were more consistent. In 1793 William Godwin, whom Anton Menger calls "the first scientific Socialist of modern times," laid down in substance the doctrine that the laborer has a right to the whole product.[2] In 1805 Charles Hall formulated and defended the doctrine with greater precision and consistency.[3] In 1824 the doctrine was stated more fundamentally, systematically, and completely by William Thompson.[4] He accepted the labor theory of value laid down by Adam Smith, and formally derived therefrom the ethical conclusion that the laborer has a right to the whole product. "Thompson and his followers are only original in so far as they consider rent and interest to be *unjust*

[1] Polier, op. cit., pp. 219-359; Menger, "The Right to the Whole Produce of Labor"; English Translation. London; 1899.

[2] "Enquiry Concerning Political Justice."

[3] "On the Effects of Civilization on the People of European States."

[4] "An Inquiry Into the Principles of the Distribution of Wealth Most Conducive to Human Happiness."

deductions, which violate the right of the laborer to the whole product of his labor." [1] He denounced the laws which empowered the land owner and the capitalist to appropriate value not created by them, and gave to the value thus appropriated the name, "surplus value." In the use of this term he anticipated Karl Marx by several years. His doctrines were adopted and defended by many other English Socialist writers, and were introduced into France by the followers of Saint-Simon. "From his works," says Menger, "the later Socialists, the Saint-Simonians, Proudhon, and above all, Marx and Rodbertus, have directly or indirectly drawn their opinions." [2]

Although Saint-Simon never accepted the doctrine of the laborer's right to the whole product, his disciples, particularly Enfantin and Bazard, taught it implicitly. In a just social state, they maintained, every one would be expected to labor according to his capacity, and would be rewarded according to his product.[3]

Perhaps the most theoretical and extreme statement of the theory that we are considering is found in the writings of P. J. Proudhon.[4] He maintained that the real value of products was determined by labor time, and that all kinds of labor should be regarded as equally effective in the value-creating process, and he advocated therefore equality of wages and salaries. For the realization of this ideal he drew the outlines of a semi-anarchic social order, of which the main feature was gratuitous public credit. Neither his theories nor his proposals ever obtained any considerable number of adherents.

A milder and better reasoned form of the theory was set forth by Karl J. Rodbertus.[5] Professor Wagner calls him, "the first, the most original, and the boldest repre-

[1] "Menger," op. cit., p. 56.
[2] Op. cit., p. 51.
[3] Cf. Menger, op. cit., pp. 62-73.
[4] "Qu' est-ce que la propriété ou recherches sur la principe du droit et du gouvernment." 1840.
[5] "Zur Erkentniss unserer staatswirthschaftlichen Zustande," 1842.

sentative of scientific Socialism in Germany." Yet, as Menger points out, Rodbertus derived many of his doctrines from Proudhon and the Saint-Simonians. He admitted that in a capitalist society the value of commodities does not always correspond to the labor embodied in them, and that different kinds of labor are productive in different degrees. Therefore, he had recourse to the concept of a normal, or average, day's labor in any group, and would have the various members of the group remunerated with reference to this standard. This was to be brought about by a centralized organization of industry in which the whole product would ultimately go to labor, and the share of the individual worker would be determined by his contribution of socially necessary labor.

Although Karl Marx adopted and formulated in his own terms the theory that value is determined by labor, he did not thence deduce the conclusion that labor has a right to the whole product.[1] Being a materialist, he consistently rejected conceptions of abstract justice or injustice, rights or wrongs. In opposition to the methods of his predecessors, he endeavored to discover the historical and positive forces which determined the actual distribution, and to derive therefrom the laws that were necessarily preparing the way for a new social order. While he contended that rent receivers and interest receivers appropriated the surplus value created by labor, he refrained from stigmatizing this process as morally wrong. It was merely a necessary element of the capitalist system. To call it unjust was in Marx' view to use language without meaning. As well might one speak of the injustice of a hurricane or an avalanche. Not the preaching of abstract justice, but the inevitable transformation of the capitalist into the collectivist organization of industry, would enable labor to obtain its full product.

Nevertheless, it is probably true that a majority of the followers of Marx have drawn from his labor theory of

[1] "Das Kapital," 1867.

value the inference that all the value of the product belongs by a moral right to the laborer. So deeply fixed in the human conscience is the conception of justice, and so general is the conviction of the laborer's right to his product, that most Socialists have not been able to maintain a position of consistent economic materialism. Indeed, Marx himself did not always succeed in evading the influence and the terminology of idealistic conceptions. He frequently thought and spoke of the Socialist régime as not only inevitable but as morally right, and of the capitalist system as morally wrong. Despite his rigid, materialistic theorizing, his writings abound in passionate denunciation of existing industrial evils, and in many sorts of "unscientific" ethical judgments.[1]

In so far as the right to the whole product of labor has been based upon the labor theory of value, it may be summarily dismissed from consideration. The value of products is neither created nor adequately measured by labor; it is determined by utility and scarcity. Labor does, indeed, affect value, inasmuch as it increases utility and diminishes scarcity, but it is not the only factor that influences these categories. Natural resources, the desires and the purchasing power of consumers determine value quite as fundamentally as does labor, and cause it to vary out of proportion to the labor expended.

To-day there are probably not many adherents of the right-to-the-whole-product doctrine who attempt to base it upon any theory of value. The majority appeal to the simple and obvious fact that the laborers, together with the active directors of industry, are the only human beings who expend energy in the productive process. The only labor that the capitalist and the landowner perform in return for the interest and rent that they respectively receive, consists in choosing the particular goods in which their money is to be invested. As capitalist and landowner, they do not participate in the turning out of prod-

[1] Cf. Polier, op. cit., pp. 352, sq.

ucts. They are owners but not operators of the factors of production. In the sense, therefore, of active agents the laborers and the business men are the only producers. Whether land and capital should be called *productive,* whether the product should be regarded as *produced* by land and capital as well as by labor and undertaking activity, is mostly a matter of terminology. Inasmuch as they are instrumental in bringing forth the product, land and capital may properly be designated as productive, but not in the same sense as labor and business energy. The former are passive factors and instrumental causes of the product, while the latter are active factors and original causes. Moreover, the former are non-rational entities, while the latter are attributes of human beings.

As we have seen in former chapters, it is impossible to prove that mere ownership of a productive thing, such as a cow, a piece of land, or a machine, necessarily creates a right to either the concrete or the conventional product. The formula, *"res fructificat domino,"* is not a self-evident proposition. Nor are there any premises available from which the formula can be logically and necessarily deduced. On the other hand, we cannot prove conclusively that ownership of productive property does *not* give a right to the product. Whence it follows that the owners of land and capital have at least a presumptive claim to take rent and interest from their possessions. Moreover, those owners of capital who would not have saved money without the hope of interest have a just claim thereto on account of their sacrifices in saving.

Would the State be justified in abolishing rent and interest, and thus enabling labor to obtain the whole product? Conceivably this result might be brought about under the present system of private ownership, or through the substitution of collectivism. Were the change made by the former method land and capital would no longer be sought or have value on account of their annual revenues, but only as receptacles of saving. They would be desired solely as means of accumulating stores of goods which might be exchanged for articles of consumption sometime in the future. While we cannot estimate even approximately the decline that would thus occur in the value of land and capital, we may safely assert that it would be considerable. Unless the proprietors received adequate compensation for this loss, they would be compelled to suffer obvious and grave injustice. Any attempt, however, to carry out such a scheme, either with or without compensation, would inevitably fail. Rent might be terminated through the Single Tax, but interest could not be abolished by any mere legal prohibition. Nor does Socialism afford a way out; for, as we have seen in a former chapter, it is an impracticable system. Consequently the theory of the right to the whole product of labor is confronted by the final objection that its realization would involve greater evils and injustices than those which it seeks to abolish.

Finally, the theory is radically incomplete. It professes to describe the requirements of justice as between the landowners and capitalists on the one side, and the wage earners on the other; but it provides no rule for determining distributive justice as between different classes of labor. In none of its forms does it provide any comprehensive rule or principle to ascertain the difference between the products of different laborers, and to decide how the product belonging to any group of men as a whole should be divided among the individual members. Does the locomotive engineer produce more than the section hand, the bookkeeper more than the salesman, the ditch digger more than the teamster? These and countless similar questions are, from the nature of the productive process, unanswerable. Even if it were ethically acceptable, the doctrine of the right to the whole product is hopelessly inadequate.

As intimated above, the notion that if the laborer receives compensation according to his product he receives just compensation, is one of the most prevalent and fundamental concepts in the controversy about wage justice. Hence we find it in certain theories which reject the doctrine of the right to the whole product. According to these theories, not only the laborer but all the agents of production should be rewarded in proportion to their productive contributions. Instead of the whole product, the worker ought to receive that portion of it which corresponds to his specific productivity, that is, that portion of the product which represents his productive influence as compared with the productive efficacy of land, capital, and business energy.

Clark's Theory of Specific Productivity

One of the theories referred to in the last paragraph is that which has been elaborated in great detail and with great ingenuity by Professor John Bates Clark. As stated by himself in the opening sentence of the preface to his "Distribution of Wealth," its main tenet is, "that the distribution of the income of society is controlled by a natural law, and that this law, if it worked without friction, would give to every agent of production the amount of wealth which that agent creates." In a régime of perfect competition, therefore, the laborer would get, not the whole product of industry, but the whole product due to his own exertions.

It is impossible, and indeed unnecessary, to enter upon an extended examination of this contention. It will be sufficient to state in a summary way the most obvious and cogent objections. Without making any examination of Professor Clark's theory, we should expect to find it unconvincing. For the productive process is by analogy an organic process, in which every factor requires the coöperation of every other factor in order to turn out even the smallest portion of the product. Each factor is in its own order the cause of the whole product. Consequently no physical portion of the product can be set aside and designated as wholly due to any one factor.

Apparently the majority of economists do not accept Professor Clark's theory; for of the nine who discussed it at the nineteenth annual meeting of the American Economic Association only one approved it, three were non-committal, and five expressed dissent.[1]

Even if the theory were true its hypothetical character would deprive it of any practical value. It assumes a régime of perfect competition, but this assumption is so seldom realized that no rule based upon it can throw much light on the question of the productivity of present-day laborers.

Even if it were exactly applicable to existing conditions, that is, if laborers were actually getting their specific products, the theory would not provide us with a doctrine of just wages. As we have seen in former chapters, productivity is neither the only nor the highest canon of justice, whether as regards the comparative claims of capital and labor, or as regards the claims of different laborers. The contention that capital ought to command interest because it aids in bringing forth the product, is neither self evident nor demonstrable by any process of reasoning. Even if we should concede that the capitalist has a right to interest by virtue of the productivity of his capital, we should not therefore conclude that this right is as cogent as the corresponding right of the laborer. In the former case the productive agency is not human nor active, but only material and passive; and the recipient of the product performs no labor as capitalist, but is left free to get a livelihood by personal activity. The productivity of labor differs in all these respects, and the difference is ethically sufficient to justify the claim that the laborer may sometimes have a right to a part of the specific product of capital. To sum up the matter in the words of Professor Wicker: "To have proved that the capitalist gets in interest what his capital produces is not to have proved that the capitalist gets what he has earned. To have

[1] "Proceedings," pp. 231-54.

proved that the landlord gets what his land produces is not to have proved that the landlord earns his distributive share. . . . Economics is not ethics; explanation is not justification." [1]

Indeed, Professor Clark nowhere explicitly asserts that productivity is an adequate rule of justice. "We might raise the question," he says, "whether a rule that gives to a man his product is in the highest sense just." [2] Scattered throughout his volume, however, are many expressions which might fairly be interpreted as answering this question in the affirmative. The statements that distribution according to product is a "natural law," and that if the laborer does not get his full specific product he is "despoiled," suggest if they do not imply that wages according to productivity is not merely the economic but the ethical norm. At any rate, the assumption of productivity as the adequate canon of wage justice, is very widely adopted, and is frequently brought forward to give sanction to insufficient rates of remuneration. Hence it has been thought well to show that the economic basis of the assumption, *i.e.*, that the laborer gets what he produces, is unproved and unprovable.

Carver's Modified Version of Productivity

Professor Carver makes no attempt to ascertain or state the exact physical productivity of labor as compared with that of capital, but confines his attention to what he calls the "economic" productivity of a given unit of labor in a given productive process.[3] "Find out accurately how much the community produces with his [the laborer's] help, over and above what it produces without his help, and you have an exact measure of his productivity." [4] By this rule we can determine a man's productivity not

[1] "Proceedings of the 22d Annual Meeting of the American Economic Association," pp. 160, 161.
[2] Op. cit., p. 8.
[3] "Essays in Social Justice"; especially ch. vii.
[4] Op. cit., pp. 187, 188.

only as compared with his inactivity in relation to a given industry or establishment, but as compared with the productivity of some other man who might be substituted for him. Thus understood, productivity expresses the value of a man to the industrial process in which he participates. It "determines how much a man is worth, and consequently, according to our criterion of justice, how much a man ought to have as a reward for his work." [1]

While this conception of productivity is relatively simple, and the canon of justice based upon it is somewhat plausible, neither is adequate. To many situations the productivity test is substantially inapplicable. The removal from industry of the man who works alone; for example, the independent shoemaker, blacksmith, tailor or farmer would result not in a certain diminution, but in the entire nonappearance of the product and the removal of the capital or tools would have precisely the same effect. According to the former method, the laborer is to be credited with the whole product, and capital with nothing; according to the latter method, capital produces everything, and labor nothing. Even when several laborers are employed in an establishment, the test is inapplicable to those who are engaged upon indispensable tasks; for example, the engineer in the boiler room of a small factory, and the bookkeeper in a small store. Remove them, and you have no product at all; hence a rigid enforcement of Professor Carver's test would award them the whole product. To be sure, we can get some measure of the productivity of these men by observing the effect on the product when inferior men are put in their places; but this merely enables us to tell how much more they are worth than other men, not their total worth. Moreover, even the substitution test is not always practicable. The attempt to ascertain the productivity of a workman of high technical skill by putting in his place an utterly unskilled laborer, would not yield very satisfactory results, either to the inquiry or to the

[1] Op. cit., p. 201

industry. In the majority of such cases the difference in the resulting product would probably far exceed the difference in the existing wage rates of the two men, thus showing that the skilled worker is getting considerably less than he is "economically worth."

In the field to which it is applicable; namely, that of more or less unspecialized labor in large establishments, Professor Carver's theory violates some of the most fundamental conceptions of justice and humanity. He admits that it takes no account of the laborer's efforts, sacrifices, or needs, and that when unskilled labor becomes too plentiful, the value of the product may fall below the cost of supporting a decent standard of living. While he looks with some sympathy upon the demand for a minimum wage of two dollars per day, he contends that unless the laborer really *earns* that amount, some other man will be paid less than he earns, "which would be unjust." To "earn" two dollars a day means, in Professor Carver's terminology, to add that much value to the product of the establishment in which the laborer is employed; for this is the measure of the laborer's productivity. If all the men who are now getting less than two dollars a day are receiving the full value of their product, and if all the other workers are likewise given the full value of their product, an increase in the remuneration of the former will mean a deduction from the compensation of the latter.

These conclusions of ethical pessimism are extremely vulnerable. As we have shown in chapter xvi, efforts, sacrifices and needs are superior to productivity as claims to reward, and must be given due consideration in any just scheme of distribution. Professor Carver would leave them out of account entirely. In the second place, it is not always nor necessarily ever true that to raise the wages of the poorest paid laborers will mean to lower the remuneration of those who are better paid. Many workers, particularly women, are now receiving less than the measure of their "productivity," less than they "earn," less than their worth to the employer, less than he would be willing to pay rather than go without their services. Professor Carver would, of course, not deny that the wages of all such laborers could be raised without affecting the remuneration of other workers. Even when the poorest paid class is receiving all that its members are at present worth to the employer, an increase in their compensation would not necessarily come out of the fund available for the better paid. It could be deducted from excessive profits and interest; for we know well that in many industries competition does not automatically keep down these shares to the minimum necessary to retain the services of business ability and capital. It could be provided to some extent out of the enlarged product that would result from improvements in the productive process, and from the increased efficiency of those workers whose wages had been raised. Finally, the increased remuneration could be derived from increased prices. When we speak of the unskilled laborer as getting all that he produces, or all that he earns, we refer not to his concrete product, but to the value of that product, to the selling price of the product. Neither this price, nor any other existing price, has anything about it that is either economically or ethically sacred. In a competitive market current prices are fixed by the forces of supply and demand, which often involve the exploitation of the weak; in a monopoly market they are set by the desires of the monopolist, which are likewise destitute of moral validity. Hence a minimum wage law which would raise the price and value of the product sufficiently to provide living wages for the unskilled workers, thus increasing their "productivity" and enabling them to "earn" the legal wage, would neither violate the principles of justice, nor necessarily diminish the compensation of any other laboring group. To be sure, the increased prices might be followed by such a lessening of demand for the product as to diminish employment; but this is another matter which has no direct bearing on either the economic or the ethical phases of productivity and earning power. And the disadvantages involved in the supposition of a reduced volume of employment may possibly be not so formidable socially as those which accompany a large volume of insufficiently paid occupations. This question will receive further consideration in a later chapter.

In the meantime, we conclude that Professor Carver's rule is inapplicable to a large part of the industrial field, and that where it does apply it frequently runs counter to some of the principles of distributive justice.