

## CHAPTER IV

### Wages and Interest

WHY WE WORK. CAPITAL AIDS LABOR, INCREASING ITS EFFICIENCY, PRODUCTION, AND ITS REWARD. RESPONSIBILITY OF GIVING EMPLOYMENT BY SPENDING.

*The expression, "Production for use and not for profit," was coined by Karl Marx, father of communism. No sillier slogan was ever thought up by the mind of man. Everything that is made—if you get above the level of children's mud pies—is made for use. Men don't waste their time making things that have no use. If a thing is useful it will be traded. And when it is traded, there's a profit—two profits, in fact, one for each party to the trade. For a profit, mind you, is merely an excess of return over output. When you take in more than you lay out, there's your profit. And that's what happens in every trade. You get more than you give, as you value things at the moment. If you didn't, you wouldn't trade. And that goes for the other guy. He values what he gets more than he values what he gives. If he didn't, he wouldn't trade. He's no sap either. So you can paste this in your hat—and leave it there. There's never a trade without a profit. It is equally true that there is never a profit without a trade. A farmer may have a million bushels of wheat. That million bushels won't do him a bit of good until he trades them. Remember those two great truths—there's never a trade without a profit, and never a profit without a trade. They will help you to realize the importance of trade, and the damage that results when men's freedom to trade is curtailed in any manner—whether by tariffs, cartels, quotas, embargoes, or whatever.*

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in *The Individualist*  
September, 1953

**I**N MANY occupations wages are paid in advance of completion of the product, but they are wages nevertheless and must be paid out of production. The man who builds a house or a ship receives wages as the work progresses and is not compelled to await its completion. Some would say that such wages must be paid out of capital, but such wages simply represent a transfer of capital from one to another. The one who is directing the enterprise—the entrepreneur in the language of economics—buys from the workers their share of the capital which they are accumulating in the form of a building or a ship approaching completion: the worker is glad to exchange his claim on capital for wages upon which to live and support his family. It is from production as construction progresses that workers draw

their wages, and the situation is no different from the case of the master fisherman who pays his crew in advance of the catch. It makes not a particle of difference whether a lone worker knocks together in a day a rude craft and has that boat as his wages, or whether a hundred men labor for a year on a ship which represents their accumulated, combined wages; nor does it alter the situation when someone paying the accepted wages buys from the shipyard workers their share in the progress of construction marked by each day's labor.

Inasmuch as wages must be determined by production and can be paid only out of its fruits, it is apparent how futile must be proposals to fix wages by law. If wages are set higher than the value of labor's product, the worker receives wages earned, in part, by another, and if they are less than what his labor produces, he is defrauded; but don't overlook the fact that labor of brain is as truly productive labor as labor of brawn, nor the vital point that some part of production must go to pay for the use of capital.

For ages, experiments at wage-fixing have been tried—they date back to long before the Christian era and students of ancient Babylonian texts trace them back even to those remote days. Our own race has been toying with such schemes ever since the beginning of our civilization, and we are at it yet, always with a uniform record of failure. Sometimes our motive has been to keep wages down, in the interest of such favored classes as "the landed gentry," as when, following the Black Death, labor was depleted and scarce. More often today the object is to increase wages, and doubtless the shift in sentiment is due to changes in government; formerly the wealthy and powerful nobles had to be truckled to, but today it is the masses with votes.

However such schemes are framed, they must always fail: if wages are set too high, production will not cover them and employers will cease to hire workers; or, if forced to do so, will soon be unable to pay them. If the added expense is passed on to the consumer in increased price, the cost of living will be advanced; and, in the long run, few will be better off. If wages are set too low, none will accept employment, but all will "go fishing" or work for themselves, for they will be better off.

The pay of different workers is best adjusted according to laws of supply and demand. If the number of workers is insufficient in one occupation, we may have to raise the wages; and if there is a long line of people seeking employment, we can perhaps reduce the wages. Neither wages nor labor can be regulated by

law any better than can prices. Generally wages work out to about what people on the average think the services are worth; but in appraising the values of services, we are not overly bright. One man pays his butler a higher salary than his clergyman gets; apparently it is more important to have cocktails mixed properly than to save his soul!

Perhaps this answers what sounds like a silly question, "Why do men work?" The answer is obvious: to procure their needs and desires, and yet this childishly elemental fact is often forgotten. The thoughtless appear to imagine that men like to work, although even their own attitude in itself shows that they don't like to work with their minds or they wouldn't make such an error!

Of course there is satisfaction in work, especially congenial work, well done and well paid for. One of the best definitions of happiness is that of the great physician, Sir William Osler, who defines happiness as "doing congenial work well and getting paid for it"—but note that last clause, "getting paid for it!" This is vital, for in most of the ordinary life of this work-a-day world getting paid for it is generally the great incentive. We just don't like to do laborious and disagreeable work, and want to be paid for the work we do, and yet we hear constantly talk about "making work" as if this were desirable. We want wages, we want results, but we don't want work!

The whole object of accumulating capital is to save work. It is to do things in an easier way, or to get out of doing them at all. Professor Jenks used to tell his class at Cornell, with a twinkle in his eye and with qualifying caution, that "laziness is the mother of progress." Nearly all our inventions have origin in a desire to get out of work; and yet, in spite of this, men continue to talk about "trying to make work" as if that *in itself* was an objective.

It is a fundamental law of human action that we seek the accomplishment of our purpose with as little effort as possible. We may go about our tasks in roundabout ways, from ignorance, stupidity, or perhaps with ulterior motives. You may be seeking exercise; or as when, for the sake of exercise, you decline a lift that your friend offers you and walk. You may prefer to swing an axe and cut your own firewood; and, as Henry Ford said, let it "warm you twice," rather than to have it sawed by an itinerant buzz-saw, but such cases do not nullify the principle that we seek to avoid work.

Years ago a great costume ball was given by people with more

money than brains. The newspapers were full of reports of the gross extravagance; and yet the affair was justified, in the opinion of many, by the old threadbare fallacy that it "made work" for dressmakers, decorators, caterers, florists, jewelers and hundreds of others. John Ruskin in *The Political Economy of Art* pointed out the folly of this argument. He cites the question of extravagant dress justified by some under the plea that it makes work. His wise answer is that there would be just as much work making good and reasonable clothes for those in need as there would be in making extravagant costumes to be worn for a single night.

Suppose that all this money, spent in one night of folly, had been used in saner ways. Suppose the money spent for outlandish costumes had gone to clothe thousands, cold and ill-clad; suppose the fortune spent on epicurean luxuries had brought substantial food to those in want, that the labor of florists had been expended in planting parks and gardens, brightening the lives of many far more in need of cheer than those already surfeited with luxury. Just as much money would have been spent in ways to enrich rather than to impoverish our lives.

You may say that practically it would not have been spent in such ways, but this is not the point; we emphasize only the economic angle, the effect of spending in one way or another. In either case, the worker would have been recompensated for toil; in one case, for useful and beneficial production and, in the other case, for things of no lasting value, things perhaps injurious, tawdry, and profitless, and as evanescent as April's snow.

In the Roosevelt days of the "New Deal" there were constant examples of efforts to make work. Take a single example. In drainage operations for mosquito elimination there was insistence on hand labor, the use of shovels and wheelbarrows instead of bulldozers and ditchers. Suppose we spend \$100,000 on such a project: it makes not a particle of difference in the employment of labor, barring the relatively small sum which finally finds its way into the pockets of owners of mines, oil wells, and the like. Whether we do our excavating by modern methods or by those of the cave man, *the money all goes to hire labor*. You may say that if we hire men to dig ditches by hand—but do we really mean by hand or with a crude machine that we call a shovel?—we shall pay out more in wages than if we hire them to operate power-ditchers, but this the writer flatly denies. If we spend a million dollars, it makes no difference whether we indirectly hire one group to mine ore and coal and to smelt iron and steel, to fell timber and to build machinery, and another group to operate

the tools which we first have made, or whether we hire the entire lot to dig with their hands like so many prairie dogs. It all goes to pay the wages of labor, to different groups to be sure, but all labor nevertheless. The only difference is that in one case we shall have a ditch a few yards long and shall accomplish nothing and in the other case we shall excavate for miles, drain our swamps, get rid of mosquitoes, and cease to scratch.

Any diversion of our fund to employ men just to dig, instead of hiring them to build adequate machinery for efficient work, means simply that we favor one class of workers at the expense of another and that we sacrifice the efficiency of our undertaking. The pick-and-shovel man is employed; but the miner, the lumberman, the foundryman, and the machinist are out of jobs. Perhaps this will be more obvious from an even simpler illustration. We are engaged in turning the forest into cordwood: does it make any difference in the employment of labor whether you hire men to do the work with dull axes or whether you set some of the laborers to work grinding the axes, filing the saws, and building saw horses? Barring your own profits, you spend all you receive for the wood sold, in hiring labor; and the only difference is that if you follow efficient methods you will cut your wood cheaper, sell more of it, and hire more men.

Why must we go back to the Dark Ages? Our earliest ancestors decided for themselves, in the dawn of time, that machinery was a benefit when some hairy cave-man discovered that a chance shell made a better shovel than his own ungainly paw. The simplest argument for the absurdity of this hoary old fallacy is the *reductio ad absurdum*: if machinery is of no benefit, then we should go all the way and abolish it *in toto*. Let the railroads rust away and go back to the stagecoach—no, we can't do that, for the stagecoach is in itself a machine; so we must go back to Shank's mare and plod along on foot! Scrap our electric lines and emulate the boy Lincoln who did his studying by the flickering light of the fire, give up our paper mills and our printing presses and let scribes indite our newspapers on skins of sheep with quills of birds, or write their messages on tablets of sand. Scrap our plows, our picks and shovels, tickle the earth with bare hands, and let the oxen tread out the grain and the wind of heaven winnow it, and go back to savagery and barbarism. Then we can rest assured that there will be work for all and plenty of it—but a mighty poor living for all of us!

A great deal of confusion is based on a long-exploded "wage-fund" theory. Many suffer from the delusion either that there is

just so much work to be done; or that, in some inscrutable way, there is a definite amount of our national wealth set aside from which, and from which only, wages can be paid. From such premises some reason that this rigidly limited amount of work, and wages must be so stretched and spread that each may get his share while the getting is good.

This reminds one of Tom Sawyer painting the fence: he had to hurry and work fast to get the job done before the paint was used up! That seems to be our notion: we must employ just as many men as possible on that particular job before wages run out!—but the simple fact is that *wages are and always must be paid out of production*. There is no other source; and, if they are not paid out of what the worker produces, somebody else must work and produce to earn the wages that he gets. And this may suggest to the minds of readers a basic fallacy in all “living-wage” legislation; for, if the worker will not earn a living wage, someone else must earn it for him.

We see attempts made to hold wages up, sometimes through organized effort occasionally resorting to strong-arm methods, and by such unethical practices as “feather-bedding,” by which is meant requiring the employment of men who do no work of value. Sometimes electrical workers will not install switch-boards, but pull out all the wiring so their men will have to be paid for doing this job over again. On a construction job an electrician was employed at full wages to throw a switch when things started in the morning and again when things stopped at night. In newspaper offices compositors often have to be hired to set type, which the printer calls “dead horse.” Some material comes to newspapers in printing plates, but often the publisher is compelled to hire compositors to reset this material and distribute the type again although it is never used. This kind of thing is a direct economic waste, absolutely non-productive, and is wasteful; and, in the long run, it means lower wages. Sometimes these efforts to increase wages are inspired by an unwise, unjust, but well-intentioned desire to help those supposed to be the underdogs. If we keep it clear in mind that all wages and all interest must be paid out of production, we shall see that legislation can result only in disturbing the normal balance in division of the wealth produced and not in increasing it.

Whenever we buy anything, we are hiring some worker to make it for us. Whether we order a suit of clothes, or buy it ready-made, we are hiring tailors to make it, weavers to weave it, dyers to color it, spinners to spin it, ranchers to raise the wool,

and thousands of others who contribute their part in production, processing, transporting, sewing, and even in building tools, machinery, and shelter necessitated. Although the suit existed before you purchased it, it was produced only because someone had the vision to anticipate your demand. We speak of the law of supply and demand, but it is more logical to reverse the terms, for demand comes first; and, until demand exists, either actual or potential, there will be no supply. Hunger preceded agriculture; we suffered from cold before we had clothing. Holding to this conception of trade, we have a truer picture of what happens in industrial life and shall appreciate the responsibility of spending.

To these statements there is one exception. Just as the mere trader, buying and selling things not produced today, such as "old masters," autographs, first editions, and the like, is no factor in production; so the purchase of such articles has little bearing on employment. The value of these things is based on no element of costs of making, for production today is impossible; but as in the case of land, value depends on scarcity and demand. This, as we shall see, is an important principle and should be understood and kept in mind.

We cannot end this discussion without emphasizing the simple but vital truth that when you employ someone you are determining the way in which some fellowman must spend his time—perhaps a lifetime—or possibly the way a group of men will spend the equivalent of several lifetimes. It is equally true that, when you buy any current commodity, your demand determines the line of human labor. It is well that the consumer should keep this in mind, for there is a responsibility, and a great one, in determining how our course affects others.

Not only is this true of hiring and spending; but it is equally true of investing, for that determines what form of capital should be produced and in what industry it will increase output. Men are often singularly inconsistent and have few scruples about making money from industries of which they thoroughly disapprove. Often there is evidence that those, ostensibly of high principles, do not hesitate to profit, directly or indirectly, from professional and crooked gambling. Among the writer's acquaintances there are two instances of this form of unconscious double standards. One derives a goodly income from a distilling stock and the other has his funds largely invested in tobacco stocks. We are not discussing the question of the use of either liquor or tobacco, but these two friends have very positive ideas.

The first is very much averse to alcohol and the other regards tobacco as the invention of the evil one, and yet each rejoices in an income from trades which he deploras!

Would we not do well to realize more keenly the moral responsibility of using our wealth, and following a more sincere course of action?

### QUESTIONS

Is production the source of all wages?

What of the wages of those who work for years building a great ship?

How do capital and labor adjust their shares of production? Can we safely set wages by law?

Which do we want, work or wages?

Is wasteful destruction of wealth desirable in order to make work?

Does money spent generally go in the last analysis to pay wages?

Which is the soundest way to raise wages—to increase production by greater employment of capital, or to fix wages arbitrarily by law?