

CHAPTER IV

BASIS OF DISTRIBUTION WRONG

ADAM SMITH'S great work *The Wealth of Nations*, published in 1776, was a plea for industrial freedom. At that time industries in England were restricted and hampered in a thousand ways by legal enactments. He urged the abolition of all restrictions upon labor and capital, and taught the doctrine that if all labor and capital were free to seek their own interests, the interests of all classes would be secured. Hence to him there was no problem of distribution. It was simply a problem of production. Arnold Toynbee, in his *Industrial Revolution*, notes two conceptions woven into every argument of Adam Smith's work, namely, "The belief in the supreme value of individual liberty, and the conviction that man's self-love is God's providence, that the indi-

Basis of Distribution Wrong 37

vidual in pursuing his own interest is promoting the welfare of all." Adam Smith's successors followed in his footsteps, and the so-called "laissez-faire" doctrine was firmly established through the instruction given in the English universities and fully exemplified in English industry. This doctrine in plain language was to keep hands off from industry; the state must not interfere; let capitalists have absolute liberty; let workmen have the same liberty; the final result will be the best interests of all. If this were sound doctrine, the matter of distribution of wealth would have taken care of itself and there would be no problem now to be solved.

The fatal error in this teaching was, that in this free war, as Mr. Toynbee says, unequal industrial units were pitted against each other as if they were equal in their power to care for their own interests, capitalists against laborers, landowners against non-owners. In recent years the fearful results of this error have been seen, and a determined and general revolt against the hands-off doctrine has followed.

The first half-century of the industrial

38 Basis of Distribution Wrong

freedom for which Adam Smith pleaded forms one of the most doleful chapters in English history, and proves the absolute falsity of the assumptions upon which this hands-off doctrine rests. Between the years 1760 and 1818, while population in England was increasing about 70 per cent., the "poor-rate" (money paid by the English Government in support of its poor) increased 530 per cent. If it should be claimed that the introduction of machinery into the methods of production was the cause of the misery and suffering of this period, it can be replied that if this hands-off doctrine were sound, it would prove as true in a time of rapid progress as in a time of slower progress, and if it fails in time of rapid progress that is sufficient evidence of its falsity. Furthermore, the history of England since the half-century just mentioned, as well as our own recent history, has confirmed this conclusion.

This same doctrine was made a part of the college and university instruction in America and has been exemplified in our industrial life. Any disposition on the part of government to control industry has been called "interference." Both England and the

Basis of Distribution Wrong 39

United States, however, have learned by the disastrous consequences of this teaching, that it is a false assumption to hold that if every man seeks his own selfish ends in the production of wealth, the matter of distribution will take care of itself. This assumption might prove approximately true in a world of equal opportunities, or in a world inhabited by a high grade of angels. But it will never get within sight of the truth in a world of unequal opportunities inhabited by men.

So long as this false assumption was believed and taught there was of course no serious attention given to the question of distribution, which it was supposed would take care of itself. Hence the thought and energies of the nations have been absorbed in wealth-production. The time is now with us, however, when the problem of distribution demands attention, and governments are interfering in order to protect the weaker industrial units against the stronger. This movement has been seen in the United States during the last two decades in the increased amount of legislation intended to protect our laboring people from the encroachments

40 Basis of Distribution Wrong

upon their rights by the capitalistic class. Until recently this movement has been practically unheeded by the millions of our population who belong to the great middle class. But during the last few years these same encroachments by the capitalistic class have been so severely felt by the middle class through the monopolistic power of trusts, that the whole country has become aroused, and the distribution of wealth is now made a practical issue by the two great political parties. Their platforms do not call it an issue upon the "distribution of wealth," but such it is all the same, and both parties claim to be looking after the interests of the people. This is now the issue between these parties in a truer sense than ever before. Distribution of social income is the question of the century.

While the "laissez faire" doctrine prevailed, while the competitive system has been running its course, while the machine was being invented, improved, and applied to industry, the industrial world was being divided into two warring camps. In one camp were those who owned the land and the capital, in the other those who worked for

Basis of Distribution Wrong 41

them. In the one camp were the industrial masters, in the other their subjects. Masters dictate, subjects submit. Under such circumstances an irrational basis of dividing the results of industry is the expected thing. A rational basis would have been a surprise because not in keeping with selfishness, which in the masters' camp now has an opportunity. The expected thing happened. There was no counselling between the camps to determine what would be a fair basis upon which to make the division. The element of sacrifice or merit was not considered. It will probably always be impossible to adopt such a method of division as will give to every one his exact dues, but it is entirely practicable to adopt measures which will approximate justice.

Distribution is now said to be on the basis of service, each receiving from the wealth produced in proportion to his contribution to its production. This of course is not true, but it sounds very plausible and seems to have secured the tacit approval of society, or at least of that part of society which is receiving a sufficiently large portion to make them comfortable or enable them to

42 Basis of Distribution Wrong

wallow in luxury. Distribution on a basis of service seems to imply distribution according to merit. But a little careful consideration makes it evident that it is possible for one to perform a service in the production of wealth by loaning capital, or otherwise, without the least degree of merit attaching to it, or without the least moral claim on social income following from it. Take as an illustration the case of the baby which not long since inherited \$7,000,000 through the death of some relative. Following the usual course the courts undoubtedly appointed a trustee of this wealth. Suppose this trustee holds it invested in four per cent. bonds. This would secure an income for the baby of \$280,000, which must be taken each year out of the values produced that year. Somebody produced these values. The baby did n't. Were not the baby's millions used in industrial enterprise somewhere? Surely. But who produced the millions? The baby did n't. Through a traditional and irrational institution called inheritance the baby will be receiving annually \$280,000 of values produced by others. In this we have an illustration of

Basis of Distribution Wrong 43

what is going on everywhere, a sort of service without sacrifice, hence without merit, and compensation for such meritless service. Whenever the use of capital in social production means a sacrifice on the part of its owner, the service he is performing is meritorious and deserves reward. But when use of capital means no sacrifice on the part of its owner, his service to society is not meritorious and does not deserve reward. This frequently happens when inherited wealth is loaned for some business enterprise. It often happens in these days of great wealth that men, women, and children inherit millions to the production of which they have never made the least contribution, and perhaps they have never made contribution to social welfare in any form, yet society's stupid reverence for the traditional gives these millions to them. One's sense of justice protests, and says that such unrestricted privileges of inheritance are wrong; that our inheritance laws must be recast and adapted to the changed conditions; that through them a large portion of social income is being secured by those who have no moral claim to it.

44 Basis of Distribution Wrong

There is the same lack of moral right to incomes received from stock-watering processes. For example the dividends paid annually on the fictitious securities issued by the railroads alone of this country amount to about \$300,000,000. This enormous sum is paid out of social income, all of which is produced by somebody's sacrifice of time and vitality. Just how large a part of total social income is taken every year through this species of social robbery it is impossible to say. But the fact that it is large and growing larger necessitates radical changes in our method of distribution.

Unrestricted inheritance privileges and stock-watering processes, however, are only two illustrations of many that might be named of the methods employed in securing unearned and undeserved portions of social income. Others are stock market gambling, use of monopolistic power, municipal franchises, certain insurance practices, and many questionable business methods. When through any of these methods a man secures a portion of social income without sacrifice on his part commensurate with the amount received, he is getting something for

Basis of Distribution Wrong 45

nothing, something which belongs to somebody else, hence does not belong to him. There can be no production of values without sacrifice. All wealth produced by the deliberate action of men should be divided among those who make the necessary sacrifice, and as nearly as possible in proportion to the sacrifice made. The nearer we approach to this the nearer we shall approximate justice. Distribution on the basis of service which involves sacrifice would cut out from any share in the products of industry all social parasites, both the idle rich and tramps, and would set them to work, or give them an opportunity to fast. The world owes no man a living, but it does owe to every man an opportunity to earn a living. Our method of dividing social income gives to a large and growing class of idle rich a living without the least return to society on their part. If this class could be eliminated a long stride towards the solution of the problem of distribution would be taken.

Several attempts have been made to state in general terms the concentration of wealth in the United States which has resulted

46 Basis of Distribution Wrong

from the agencies employed for its distribution. One of these attempts was made in the early nineties by the late Charles B. Spahr, at that time an associate editor of the *Outlook*. He concluded that one per cent. of the families of the nation owned more than half of our national wealth. In other words, 125,000 families owned one half, and 12,375,000 families owned the other half. He also concluded that of the 12,500,000 families in the nation at that time 5,500,000 were practically "propertyless." He accredited to each of these families average family possessions amounting to about \$150 in the form of clothing and plain household goods. Mr. Spahr summed up his study of the distribution of incomes as follows:

"It appears that the general distribution of incomes in the United States is wider and better than in most of the countries of western Europe. Despite this fact, however, one eighth of the families receive more than half of the aggregate income, and the richest one per cent. receives a larger income than the poorest fifty per cent. In fact this small class of wealthy property-owners receives from property alone as large an income as half of our population receive from property and labor."

Basis of Distribution Wrong 47

Mr. George K. Holmes, chief of the Bureau of Statistics of the Department of Agriculture, Washington, D. C., also published an estimate during the early nineties. He concluded that "twenty per cent. of our national wealth is owned by three hundredths of one per cent. of the families; fifty-one per cent. by nine per cent. of the families not including the millionaires; seventy-one per cent. by nine per cent. of the families including the millionaires; and twenty-nine per cent. by ninety-one per cent. of the families." Again he says: "As little as five per cent. of the nation's wealth is owned by fifty-two per cent. of the families. Finally, 4047 families possess about seven tenths as much as do 11,593,887 families."

The same forces leading to concentration which were in operation up to the time when these estimates were made have been in operation since that time, and with increased activity and increased scope for this activity, as is evidenced by the great number of combinations with greater or less monopolistic power that have been organized in all departments of industry since that time. The inequalities are greater to-day than ever.

48 Basis of Distribution Wrong

A recent estimate of Mr. Lucien Sanial, a life-long student of social conditions, is full of interest in all its details, but we give room for his summary of conclusions only. He concludes that of the \$95,000,000,000 which constituted the national wealth in 1900, the 250,251 wealthiest men possessed \$67,000,000,000; the 8,429,845 persons who compose the middle class possessed \$24,000,000,000; while the poorer classes, composed of 20,393,137 persons, owned only \$4,000,000,000. In this enumeration of population only those "ten years and over reported as occupied" are included. Of the wealth produced in 1900, estimated at \$24,500,000,000, Mr. Sanial concludes that 23.74 per cent. went to productive workers, while 76.26 per cent. went to non-producers and exploiters.

None of these three men claim scientific accuracy for their figures. They claim only that they approximate the truth. As approximations to the truth they certainly contain material for reflection whatever may be our fair criticisms on them. Everybody knows that enormous wealth is amassed in the hands of a comparatively few men.

Basis of Distribution Wrong 49

every impartial student believes that such concentration is a hindrance to healthy social growth, hence a menace to social welfare. In it is developing a species of anarchism not yet generally recognized, but far more destructive of democratic government than the bomb-throwing type.

We have already said we know how to produce wealth, but we know nothing about its equitable distribution. The above estimates of the results of the utterly irrational agencies employed by society for dividing the products of industry, although they may be overdrawn, yet they show the necessity of attention to this side of our economic life. Not that we have a nest of pirates and robbers that must be routed. There are not many of us who would refuse to be of the number. Some of them are robbers, intentional robbers, and deliberately plunder the public. Samples of these plunderers of the public have been introduced to the world in public print during the last two or three years through insurance and railroad investigations, but these are exceptions. Most of our millionaires are simply lucky, and society is paying

4

50 Basis of Distribution Wrong

for their luck, and society must continue to pay for that luck until agencies used for dividing the products of industry shall be so modified that an accumulation of millions in the hands of one person will be an impossibility, and that a general diffusion according to merit will result. I have said that many are rich through luck. This is veritably true. Many are rich through inheritance, and all inheritance is luck so far as the man who inherits is concerned. Many are rich through stock-gambling, a large element of which is luck. But aside from these kinds of luck many men become rich through allowed "business" methods, in which the element of luck plays its part, in some cases the degree of luck being greater than in others. For example, if one's business is the manufacturing of some fad for a fad-crazy public, this is the element of luck in his success. A resident of the city of Pittsburgh, the city of steel, of wealth, and of many mansions, after pointing out the homes of many millionaires who picked up their millions in oil and steel, said to the man at his side, "Lots of these men can't help being rich." To one who knows how for-

Basis of Distribution Wrong 51

tunes have been made in these industries during the period of their rapid development this comes simply as a statement of a known fact.

Some months ago in New York before the Steel Institute Mr. Carnegie divided men into three classes: first, "those who go through life doing a good work, but who do not get the reward they deserve"; second, "those who do a great work and who are appreciated"; and third, "those who do a great work, and who really feel and know that they have received more than ten times more recognition than they were entitled to." Mr. Carnegie put himself into this last class. He knows he has never merited all his millions and is frank and honest enough to openly acknowledge it.

What contrasts! While recently visiting blast furnaces owned by the Steel Trust, my companion, our guide, and myself approached a huge furnace out of which tons of molten iron were being drawn and run into huge ladles, a series of which on trucks formed a train of cars. Men stood by this furnace attending to their duties. When we approached the heat was so intense that

52 Basis of Distribution Wrong

my companion and our guide turned back. I thought, if those men can work there for hours I can stand it for a minute, so I stepped up to one of them and said: "What do you get for living in this heat?" He replied: "\$1.73 a day." Notice! A dollar and *seventy-three* cents, not \$1.75 or \$1.80, even change, but \$1.73 for living in physical torment. For steel magnates this is fine discrimination. I turned to another man who was controlling the flow of molten iron and in other ways superintending the furnace. I afterwards learned that he was superintendent of three such furnaces. His face was leathery. He stood scantily clad, with perspiration oozing from every pore. I asked: "What wages are you paid for your services in this heat?" He replied, "Well, sir, if I were paid \$10.00 a day I would n't be half paid, would I?" I shook my head, and he continued, "Well, I get \$2.50." "For how many hours?" I asked. "Well," he replied, "you see I'm on one month in the daytime and the next month in the night. For one month I'm on eleven hours a day, and the night run, thirteen. And when I shift from my day run to my night run, I am

Basis of Distribution Wrong 53

on one day for twenty-four hours." Here is a man considered by the officials sufficiently capable and sufficiently trustworthy to superintend three of these smelting furnaces, and receives for eleven (or thirteen) hours of labor and endurance the sum of \$2.50. While this conversation was going on my companion in conversation with some other men who were taking a little respite from the heat where they were shielded from it said: "You have a pretty hot berth here." "Yes," one of them replied, "but there is one consolation in it, when we get through with this world they can't punish us any in the next."

The above conversation may be taken for what it is worth. It interested me in the matter of wages paid in the iron and steel business and led me to make some investigation. According to the *Bulletin of the Bureau of Labor, Department of Commerce and Labor*, Washington, D. C., for July, 1906, the average wage paid throughout the United States to blast furnace workers for the year 1905, when the iron and steel business was booming, was 16.9 cents per hour. Blast furnace men are a class by themselves. Fortunately some

54 Basis of Distribution Wrong

other classes are much better paid. According to this same authority the average paid the same year throughout the United States to blowers, melters, and pourers, who represent the highest skill employed about the Bessemer converters, was 50.5 cents per hour, and that paid to heaters, rollers, and roughers, who represent the highest skill employed about the rolling mills, was 63.6 cents per hour. This is a much better wage than that received by the blast furnace men, but the highest paid is utterly inadequate compensation for the service performed, when the skill and experience required, the unhealthy conditions endured, and the enormous profits made are all taken into consideration.

Authorized statements made by the United States Steel Corporation in its first annual report, and by the Carnegie Company before it was absorbed by the Trust, indicate that Mr. Carnegie retired from business with bonds in his pocket sufficient to give him a personal annual income, apart from that of other members of his family, of nearly \$11,000,000. This is the way the thing we call civilization distributes wealth. Who produces this vast income? Or does it just

Basis of Distribution Wrong 55

come without being produced as some people seem to think? Or does the Great Dweller in the skies drop it down to Mr. Carnegie to take care of? Somebody produces it. It does not produce itself. What about the man at the furnace getting \$1.73 per day for working in hell? What about the other man who gets \$2.50 for superintending three furnaces in the same place?

Another illustration of the results of the agencies employed by society in distributing the products of industry is found in the sugar-refining business. The Sugar Trust was first organized in 1887. As reorganized in 1891 it is capitalized at \$90,000,000, half of which is preferred stock and receives 7 per cent. dividend. The other half is common stock which receives from 7 per cent. to 12 per cent. dividends. A fair valuation for all the Trust's realty, plants, etc., is \$35,000,000. It is often estimated even below this. This leaves 55,000,000 of water, 45,000,000 of which as common stock received 12 per cent. dividend each year from 1894 to 1900 and the other 10,000,000 received 7 per cent. The dividend each year on water was approximately \$6,000,000. During this period of

56 Basis of Distribution Wrong

six years the total dividends on water amounted to 36,000,000 dollars, gold dollars, paid on 55,000,000 of water. Who produced the value of these 36,000,000 gold dollars? Have they got a peculiar kind of press in these refineries which will squeeze gold dollars out of water or air? Did the Great Dweller in the skies drop it down to Mr. Havemeyer to care for? He was the man who said to our government's commission appointed to investigate the business of such men, "I do not care two cents for your ethics,"¹ that it was perfectly proper and right to plunder the public. He said that wages in sugar refining range from \$1.35 to \$1.50 per day of eight hours in summer, and ten in winter.² He also said that the "normal heat of a refinery is 90 degrees; there are places, where the sugar is dried, where it runs up to 110 degrees." He adds: "They [the workmen] rather like it. They perspire freely and do not feel it. They drink a great deal of beer and that

¹ See *Report of Industrial Commission*, vol. i., p. 118 of Testimony.

² *Ibid.*, vol. i., p. 128 of Testimony.

Basis of Distribution Wrong 57

tends to promote perspiration.”¹ In plain English, the workmen in a sugar refinery swelter in a temperature ranging from 90 to 110 degrees, are provided by the company with all the beer they want [but the men pay for it] to enable them to endure the heat eight hours a day in summer, and ten in winter. Who produced the \$36,000,000 paid in dividends on air between 1894 and 1900, to say nothing of many more millions paid on the same air before 1894 and since 1900? What about the man sweltering in the heat of the refineries during those years? At the higher limit of wages named by Mr. Have-meyer, working three hundred days in a year, in order to secure the amount paid in six years as dividends on air only, to say nothing of the 7 per cent. dividends paid on actual values represented in property, a thousand men must swelter in the heat for eighty years. This again is a specimen of the results of the way civilized (?) society distributes the products of industry.

One more illustration of these irrational methods is seen in the organization of the

¹ See *Report of Industrial Commission*, vol. i., p. 129 of Testimony.

58 Basis of Distribution Wrong

Steel Trust. Mr. J. Pierpont Morgan organized the syndicate to provide the cash necessary to man the Trust. He acted as their agent in organizing the Trust and was to receive, as it has been generally understood, 20 per cent. of whatever the syndicate should get out of the deal. The Trust was organized with a capitalization of \$1,100,000,000, one half of it, \$550,000,000, preferred stock, the other half common. The syndicate furnished \$25,000,000 in money, and took as their reward 649,987 shares of preferred stock and a like number of common shares.¹ The preferred sold to-day at 102 and the common at 35. In the market to-day the syndicate's stock is worth \$90,000,000. They furnished \$25,000,000 in money. Subtract this and \$3,000,000 more for expenses in organizing from \$90,000,000 and we have \$62,000,000, which represents the syndicate's profit, if sold at prices which have prevailed in the market to-day. Mr. Morgan, as it has been generally understood, received 20 per cent. of this amount as his fee for acting as the syndi-

¹ See Syndicate's final report to the Trust, and the Trust's First Annual Report.

Basis of Distribution Wrong 59

cate's agent. Twenty per cent. of \$62,000,000 is \$12,400,000. This means that Mr. Morgan could have exchanged to-day the stock which he received for his services in organizing the Trust, for 12,400,000 gold dollars. This does not include the value of the stock which he received as a member of the syndicate in return for the portion of the \$25,000,000 which he furnished.

If a laborer working at the average wage paid in the steel industry had undertaken to earn the same amount, and had started out when according to the Church's teaching Adam and Eve were in the Garden of Eden, and had worked three hundred days every year since, he would be at it still, and would have fifteen thousand years yet to work. To earn the amount necessary to pay dividends on the Steel Trust's stock and interest on its bonds for one year, working three hundred days in the year at the average wage paid in the steel industry, four thousand men would be compelled to work their entire lifetime.

Not long since a slum worker was found working for five-elevenths of a cent an hour.

60 Basis of Distribution Wrong

Not long since a standard oil magnate said:
"My problem is to know how to sink my
surplus."

This is the mill that makes anarchists!