PART V

THE DISTRIBUTION OF WEALTH

CHAPTER XXXII

PRELIMINARY SURVEY OF DISTRIBUTION

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In our treatment of economics thus far, we have considered the problems arising from the consumption, production, and exchange of wealth. The chapters devoted to a discussion of the mechanism of exchange have shown us that this phase of economics, in common with all its other parts, is intimately connected with the subject of individual and social welfare. There still remains one phase of wealth that we have yet to consider, that is, the problem of its distribution.

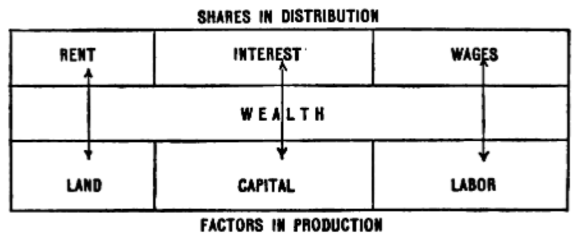
Nature of Distribution. — The problem of distribution deals with the principles according to which the wealth of society is distributed among its members. Exchange deals with the mechanism whereby goods are transferred from one person to another through the medium of money, credit, trade, or some similar device. Distribution, on the other hand, considers the question, "How much wealth goes to one member of society and how much to another?"

Meaning of distribution.

Two questions naturally suggest themselves to the student of the distribution of wealth. In the first place, "How is wealth created?" In the second place, "To whom does wealth belong?" If three men build a boat, it belongs to them. If, however, instead of a boat, all the wealth of society is to be considered, it becomes necessary to inquire in detail what factors produced this wealth in order to know who are entitled to it and how it should be distributed. The factors which produce wealth are land, labor, and capital. Therefore, if land, labor, and capital have produced the wealth of society, land, labor, and capital must be entitled to its use and enjoyment. This is the basis of the distribution of wealth throughout society. Each factor in production is entitled to a share in distribution by reason of the part it has played in production. Each share in dis-

The shares in distribution.

tribution is then given a special name in accordance with the factor it represents, — land's share is called rent; capital's, interest; and labor's, wages. These factors in production and shares in distribution may be represented in a simple manner by the following diagram:



In our further discussion it will be shown that certain modern conditions interfere to prevent the shares in distribution from corresponding exactly to the respective parts played by the factors in production; that other elements enter not only into production but also into distribution; and that these shares themselves, as the diagram might seem to indicate, are by no means equal in amount.

Inequalities of income: *The causes.*

This fact of the inequality of the different shares in distribution is seen in the inequality of income of different classes of people throughout society. Of course rent really goes, not to land, but to the landlord, and interest not to capital, but to the capitalist, while wages goes to the laborer. Therefore, if rent and interest increase rapidly and wages does not, the income of landlords and capitalists will rise, while that of labor may remain almost stationary. These inequalities of wealth and income constitute a very real factor in the life of every modern community. Fifth Avenue stands out in sharp contrast to the lower East Side. Compared to the adversity of the many, the prosperity of the few is exceptional. Here, for example, is one family with an income of five hundred dollars a week, and there another, struggling to maintain itself on five hundred dollars a year. What, then, are the causes of this great inequality of income? Many explanations and suggestions have been offered to account for this difference of wealth, but there is little harmony of opinion among writers as to its ultimate cause. To-day, however, in America four factors seem to stand out as prominent and striking causes of such inequality: (1) monopoly of land, (2) monopoly of capital, (3) exploitation of labor, and (4) difference in productive capacity.

The monopoly of land or natural resources in the United States has already been referred to and its effect on prices explained. No one can fail to see the social importance of this monopoly control. Since national prosperity is directly dependent on natural resources, and since individual welfare is closely related to social prosperity, every effort should be made to extend the use of natural resources to all members of the community. If, however, these resources should be monopolized or withheld from use by a few individuals, the great mass of people would either be deprived of advantages or forced to pay exorbitant prices for the enjoyment of their products. Through the monopoly of land, prices may be so controlled as to deprive the consumer of a large part of his income.

Monopoly price, depending on the monopoly of natural resources, is thus one means of shifting income from one class to another. But the determination of price does not depend entirely upon the monopoly of natural resources. Monopoly of capital is also a factor in determining monopoly price and in bringing about great monopoly profits. The concentration of great masses of capital in the hands of few individuals gives them a tremendous advantage in fixing prices, in creating profits, and in diverting income from others to themselves. Likewise, special privileges secured through patents and copyrights play an important part in creating monopoly profits.

Because of this monopoly power, some writers maintain that the wealth of one group in society often increases at the expense of another. They take the view that, if certain men receive more than they produce, others receive less than they produce. A monopoly profit is a profit secured through the possession of some unusually great power, either in the form of land resources, or capital resources, or labor resources. Setting aside, for the moment, the monopoly power that comes from exceptional capacity or unusual training, it is maintained by this school of writers that the monopolist, deriving his power through an exceptional control of land or capital, is reaping where he has not sown, — that is, securing value which he has not produced. If, therefore, labor has produced this value and is deprived of it, the monopolist is charged with exploiting labor for his own benefit. In this manner, monopoly of land, monopoly of capital, and exploitation of labor constitute, in the opinion of these writers, a series of causes which explain many of the inequalities in social income.

Opposed to this explanation of inequalities of income we have the view of another school of writers which seeks in labor itself the cause of such inequality. According to this view, it is not the monopolist, nor the capitalist, nor the so-called exploiter who is responsible for differences in income. These differences are due primarily to differences in earning capacity. If one man's income is five hundred dollars a year and another's five thousand dollars a year, the difference is due to the fact that the first laborer has but one tenth the productive capacity of the second. Labor itself — not land or capital — is thus held responsible for its own condition.

Despite any difference of opinion regarding the causes of these inequalities of income, there can, however, be no doubt of their existence and consequences. We have seen that a standard of living is determined largely by wages, and we now see that wages depends upon distribution.

The consequence.

Therefore, inequalities of income have a direct effect upon standards of living. While, to-day, comparatively few individuals have such great incomes as to permit the development of the highest possible economic standards, large numbers of people are existing on a standard of living so low that they are scarcely able to secure the necessaries of life. As a consequence, the children of these families are likely to grow up to be inefficient men and women.

These low standards and wages brought about by inequalities of income can find no justification in the nation's natural resources or in the productive capacity of the industrial system. To-day, the United States easily produces sufficient economic goods to maintain every family on a basis of efficiency.

The remedy.

There is enough wealth for all to enjoy. If, then, our productive system is so efficient, why does poverty exist beside riches? Evidently the answer to this question may be found in a study of the present system of the distribution of wealth throughout society. If we would seek to remedy these inequalities of income, we must bring about some change either in individual capacity or in the system of distribution whereby the different shares of wealth that go to land, labor, and capital may become more equal.

Groups of Distribution Theories. — From this brief discussion it may readily be seen how vital is the problem of wealth distribution. Without a proper distribution of wealth, the attainment of economic ideals, such as efficiency, opportunity, prosperity, and welfare, would be impossible.

Unfortunately, economists do not agree on one single theory of distribution. In fact, opinion has been so divided that many conflicting theories have been advanced from time to time. In general, however, theories of distribution may at present be divided into two main groups, (1) those emphasizing productivity, and (2) those emphasizing monopoly as the determining factor in the problem. While both these schools of writers believe in social justice, they vary in their explanations of the causes of inequalities of income. The productivity school bases its theory on competition and productive capacity. Its followers hold that certain natural laws always tend to produce given results. One of these natural laws, competition, will result in a just system of distribution provided it be left free to work itself out. In the absence of competition, distributive justice is obviously impossible; but were competition widespread, a just system of distribution founded on productive capacity would be inevitable.

The productivity theory: *Its basis.*

Proceeding on this basis, the productivity theorists apply their system to modern society through the program of government regulation. They admit the presence of monopoly but direct all their efforts towards its abolition because they believe that only through competition will justice be realized. That is, they advocate strict government regulation of industry. This theory holds that the shares in distribution are determined exactly by the extent of productivity. That is, if a tin dipper costs ten cents, and if natural resources contributed two cents to its production, under a strictly competitive régime, natural resources would be paid two cents in rent. In the same way, if labor contributed four cents, labor would receive four cents as wages. Thus, if competition can be made free, society will naturally right itself by the action of this universal law.

What it advocates.

The monopoly theory of distribution, in distinct contrast to this productivity theory, looks upon monopoly as the factor of prime importance and as the logical outcome of present social development. Social evolution has reached a stage in which monopoly is inevitable. This school, therefore, takes the position that no person is to blame for modern industrial monopoly. Monopoly is not "wrong." It is merely a product of modern industrial conditions. In other words, monopoly is an economic law of modern society. Therefore, in solving the distribution problem, monopoly, not productivity, is looked upon as of primary importance. According to the theories advanced by this group of thinkers, if natural resources contribute but one cent to the actual production of the dipper, nevertheless, because of the monopoly which the owner of the natural resources possesses, the amount which goes to him may be three cents, — one cent representing the contribution of natural resources and two cents representing monopoly power.

The monopoly theory: *Its basis.*

If this monopoly theory be true, the method of securing a more equal distribution of wealth lies in the increase of monopoly power rather than in its abolition. This school, therefore, advocates increasing labor's monopoly power. Does the laborer feel that he is being unfairly treated by not securing the full value of his work? Or, does he think he is being exploited by his employer? If so, he has but one remedy. That is, he must secure through organization, education, or legislation some special monopoly which will enable him to make headway against the monopoly enjoyed by his employer.

What it advocates.

In contrasting these two theories, it may be said that the productivity theory of distribution is really a prophecy of what might be under ideal conditions of competition, while the monopoly theory is an analysis of things as they really are. For this reason the monopoly theory furnishes a much more adequate basis for a discussion of modern conditions than the productivity theory. While, therefore, in the following chapters, the productivity theory of distribution will be kept in mind, chief emphasis will be laid upon the monopoly principle whenever it appears to be the determining factor in distribution. Throughout the entire discussion of the principles of distribution, it will be the aim, however, to present as nearly as possible one consistent theory of distribution rather than a disjointed résumé of conflicting theories.

Why monopoly is emphasized.

TOPICS FOR CLASS DISCUSSION

1. In Economics why should the emphasis be laid to-day on the subject of distribution rather than on that of production?

2. If a man produces one commodity, how does he satisfy his wants? Upon what will his ability to satisfy his wants depend?

3. What idea lies back of the expression "distribution of wealth"?

4. What are the different methods by which people obtain their incomes?