Wages: the Fo

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"The mistake that workers make in their att instead of trying to remove the factors that d obtain a greater share after the prima

FEW people recognise any fundamental economic principles governing the rate of wages. Ideas as to what constitutes a "fair" wage vary considerably, and those who set themselves up as judges in this matter are often no better informed than the wage-earners themselves. Most seem content to leave the matter in the hands of their trade union, which must secure all it can for them irrespective of the economics of the matter.

Popular, too, in many quarters is the idea that job evaluation by bodies representing the various interests is the best way to arrive at a "proper" wage. When anyone points out that there is an economic law that determines wages, and argues that this law should be allowed to function freely, he is dismissed as a reactionary and brushed aside as a defender of *laisser-faire* which is regarded as the source of all the trouble.

This is not surprising because the whole question of wage rates has been presented as a battle between the employing capitalists and those employed. If wages are low, who else is there to blame? And does not history testify to the irreconcilable interests of capital and labour?

The classical economists sought to establish economic laws governing wages, but since these laws offered no consolation or hope for wage-earners, the science of political economy was understandably dubbed "the dismal science".

But economic laws are obliged to function within the framework of the existing institutions and laws of a country. Might it not be that it is in these institutions that may be found the reasons for low wages and other social problems?

Economic laws are amoral and cannot be changed; political and social institutions are not amoral and can be changed. But if "blind economic forces" are identified as the villain of the piece, then coercion is used to counter their effects and thus arises the complex structure that is being forever dismantled, added to, revised and debated, producing no permanent answer but only spawning new and intractable problems.

But there is no need to act contrarily to economic laws and no reason to accept that there is a necessary conflict between labour and capital.

It is necessary here to emphasise that economic theory deals largely with generalities. Economic laws are not precise in action but are subject to time lags and of course to the necessary proviso that in looking at the working of any particular economic law, other factors remain the same. This in no way invalidates them but merely establishes them as inevitable *pressures*.

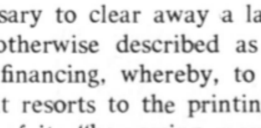
Since in our society so many economic factors do not remain constant, particularly because of the intervention of government, it might be argued that a theory of wages is not of much use. On the contrary, it is only by observing what would have happened in the absence of intervention, that a true assessment of the intervention can be made and compared with the alternative of changing not the effects of economic laws, but the background against which they are obliged to work.

This article is based upon a booklet *False Paths to Higher Wages* by the same author. It has been revised, expanded and updated.

In what follows, no regard will be had for minimum wage laws, sexual discrimination, statutory or voluntary pay agreements, the closed shop etc. Nor will regard be had for productivity agreements, immobility of labour and many other factors that distort the workings of economic laws and are, although part of the everyday facts of life, basically excrescences on the body economic.

Before attempting an economic analysis of wages, it is necessary to clear away a large obstacle to our thinking, otherwise described as monetary inflation or deficit financing, whereby, to put it bluntly, the government resorts to the printing press to meet the main part of its "borrowing requirement". (The increase of money in circulation was originally intended to "increase demand" in the pursuance of "full employment").

The more money that is put into circulation the lower falls its purchasing power, together with that of all other money circulating in the country. Generally speaking, the wage-earner does not understand the nature of inflation and cannot separate its effects from those arising from other causes. In Great Britain, and to a greater or less degree in other countries, the general increase in wages since before the last war has been cancelled out by the fall in the purchasing power of money. Where money wages have, for instance, increased 12-fold it will be found that prices *generally* have done likewise. Inflation of the currency is certainly the biggest, though not



the only, factor responsible for increases in the cost of living; *all inflation causes an increase in the cost of living but not all increases in the cost of living are caused by inflation.*

The following figures show the steady increase in the issue of new money in Great Britain side by side with the fall in the value of the pound (taking the

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pound in 1938 at 100 per cent purchasing power).

Year end	Money in Circulation [£ Millions]	Value of Pound [1938 £ = 100]
1939	580	97
1941	780	71
1943	1,100	63
1945	1,400	61
1947	1,325	55
1949	1,350	50
1951	1,450	45
1953	1,675	41
1955	1,850	39
1957	2,050	36
1959	2,275	36
1961	2,474	34
1963	2,548	32
1965	2,734	30
1967	2,968	27
1968	2,859	25
1969	3,006	23
1970	3,650	20
1971	3,866	18.6
1972	4,464	17.4
1973	4,988	15.8
1974	5,280	13.7
1975	6,150	11.0
1976	6,775	9.6

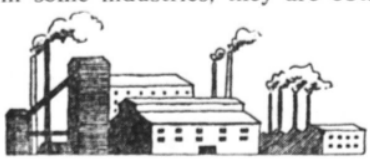
Inflation of the currency causes a fall in the purchasing power of money. This, in turn, gives rise to demands for increases in wages and explains why there have been and still will continue to be, so long as inflation continues, demands from all sections of the community for increases in wages every year—a situation quite unheard of in the days of comparatively stable currency between the wars.

It is often said that wage demands must be resisted because, if granted, they would cause inflation. The truth, however, is that it is inflation that has largely caused the demand for increased wages. This confusion of cause with effect is, in many quarters, deliberate. While inflation is continuing, it enables "wage increases" to be granted which are in fact not wage increases at all. In the circumstances caused by inflation it is as much as many wage-earners can do to keep their wages in pace with the cost of living. The exceptional bargaining power of certain strong unions is a separate factor and raises different issues.

Inflation of the currency affects the price of all goods so that there is a continual adjustment aimed at restoring the original economic relationship among those who share the fruits of production. It is not within the scope of this article to deal with the effects of inflation on the several classes of the community, nor to deal with the additional motives that governments have for adopting inflation as part of economic policy. It is the limited purpose here to show the effect of inflation on wages. Inflation is, economically speaking, a problem separate and distinct from the one of what proportion of the total production of wealth should be distributed as wages.

Let us now look at the problem of wages in a non-inflationary context and examine the means usually adopted to increase real wages and see how in the long run they fall short of their objective.

No matter how increases in wages (for the same work) for any section of wage-earners are secured, the economic consequences are the same; the increased cost is passed on to the consumers in higher prices. (Business men are familiar with the circular letter beginning: "Owing to a new wage agreement we regret we must increase our charges", etc.) In other words, when wage increases are given to workers in some industries, they are obtained at the



expense of fellow workers in all other industries. Trade unions are becoming increasingly aware of this, but their defence is that it is not their fault if the cost of their wage increases is passed on to the consumer. Wage rises, they say, should come out of "profits". They cannot, however, explain how this should be done, nor can they explain by exactly what method the passing on of increased costs to consumers can be avoided. Adversely affected by the price increases resulting from the higher wages of their fellow workers, who have indirectly passed the cost on to *them*, trade unionists become concerned only with their own problems, and disregard the general interest. Today the unity of the workers is a sham, the closed shop and restrictive practices are products of fear and frustration—fear that wages may be lowered by competition from fellow workers, and frustration from the knowledge that they have found no way of raising real wages.

The ordinary worker cannot see beyond his employer whose interests he regards as antagonistic to his own. This short-sighted view prevents him from acquiring an understanding of the economic forces that can be harnessed to increase his real wages. He does not understand the varying factors that contribute to business incomes and which are all telescoped into the word "profits".

Now it is on the meaning of the words profits and capital that a better understanding of the wages question rests. Often hidden in "profits" is a return that is due to none of the three factors of production (land, labour and capital) but to privilege, either deliberately granted through legislation, or fostered and encouraged by it. Such are protective tariffs, quotas, licences, subsidies, grants and monopolies. The Common Agricultural Policy of the EEC is a classic example of privilege accorded to land owners at the expense of the wage-earner/consumer.

Because the legitimate return to capital is not distinguished from the profits of privilege, defence of interest on capital is interpreted as defence of profits of all kinds, no matter what their origin. Defence of capital or capital-owners is taken as defence of combines and monopolies. The remedy for low wages therefore does not lie in clobbering the legitimate capitalist, nor in "profit" taxing or "profit" sharing, but in the simple and just expedient of removing the source of privileged profits.

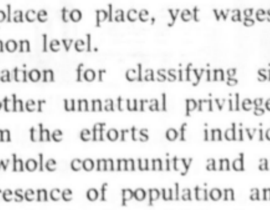
Using the word profits in a general sense, it will be seen that wages are no higher, other things being equal, in businesses where there is an element of privilege or monopoly than in businesses where there is competition. Where productive power is enormously increased by the siting of shops or factories on superior locations, wages are no higher for that reason. The productive capacity of land due to its mineral content, fertility or position varies enormously from place to place, yet wages tend throughout to a common level.

The justification for classifying site or location values with other unnatural privileges is that they arise not from the efforts of individuals but from those of the whole community and are a manifestation of the presence of population and the expenditure of public funds, by which they are currently sustained.

The collection of the site-rent as the first source of public revenue would enable taxation to be removed from wages and from the products that wages buy and also from the hard-pressed genuine capitalist.

The mistake that workers make in their attempts to secure a greater share of wealth, is that instead of trying to remove the factors that depress wages at their source, they attempt to obtain a greater share after the primary division of wealth has taken place. They are tackling the problem at the wrong end.

Under prevailing conditions wage increases are not and cannot be extracted from the profits of mono-



poly or privilege. Nor can they become a charge on the advantages which accrue to the holders of superior sites or locations, for in the workings of economic law such surplus "profits" remain untouched (and are expressed in the higher prices asked for land). They come out of the pockets of fellow workers in higher prices. What are the mechanics of this? The answer can be found by reference to the non-privileged capitalist who, operating in free and open competition with his fellow capitalists does not get more than a competitive return on his real capital. He can in no way benefit himself at the expense of the community. Advantages accrue to him if he is first in the field with a particular project, but such advantages are short-lived because of competition. Whatever the product, if the producer has not got the advantage of a licence, subsidy, quota, import tariff,

patent or some other instrument, then he must content himself with the competitive return to capital. Only skill, daring, enterprise, knowledge and sheer hard work (all attributes of entrepreneurial *labour*) will secure for him greater rewards than his competitors, but such rewards will not be at the expense of his competitors; they will be rightly his wages even though he is operating as a capitalist. (This is more obvious with the self-employed).

What can such a producer do when faced with a higher wages bill? He could, of course, meet it from his own wages, but it is not likely except in special circumstances that he would consent to work for less while his own employees got more. He could accept a lower rate of interest on his capital, but, in most cases, the proportion of wealth produced in a business that goes as interest on capital is so small that even one wage increase could absorb the capitalist's share and the business would collapse. He is therefore obliged to pass on the cost or go out of business altogether. Although the privilegeed or monopolistic producer is not under the same compulsion (wage increases *could* come out of the value of the special privileges he enjoys) he nevertheless does pass them on. His privileged profits are protected by the very existence of his unprivileged competitors.

A man who has special ability is not obliged to give his customers the benefit of it, and so it is with the artificially created "ability" of the legally privileged. For this reason, when wage-earners demand higher wages, at the expense of "profits", their blows are always diverted.

When free and equal competition is established and legal privilege abolished; when one man cannot benefit himself at the expense of another; when location values flow to the public purse; then will there be no claims on production save those of labour and capital; then the path to permanently high real wages will have been well and truly laid.