

Patent Medicine Economics Do Not Cure

By Archibald C. Matteson, Jr.

The "Fair Labor Standards Act of 1938" after eighteen months of wrangling, conference, and compromise, is at last joined in the body of the law. Although it is weaker in a number of important respects than when it was first introduced in Congress in the fall of 1936, it has been widely hailed by the New Dealers as a piece of social legislation second in importance only to the Social Security Act.

The stated purpose of the law is "to correct and as rapidly as practicable to eliminate labor conditions detrimental to the maintenance of the minimum standard of living necessary for health, efficiency and general well-being of workers . . . without substantially curtailing employment or earning power." Towards this end, the work week will be reduced successively from 44 to 42 to 40 hours over a three year period starting next October. A minimum wage of 25 cents an hour is decreed for the twelve months following October, 1938 higher minima may subsequently be determined by committees for each industry acting through an Administrator attached to the Department of Labor. Fines are established for non-compliance; second offenders may be imprisoned for not more than six months. This summary does not pretend to cover the manifold exceptions or the detailed method of procedure provided in the Act, but it affords an adequate basis upon which to assess the measure as a contribution to our economic life.

However laudable the purpose which prompted the "Fair Labor Standards Act of 1938" may have been, the Act itself cannot improve the condition of those it seeks to help, for its economic basis is untenable. Any attempt to increase the general level of real wages by decreeing minimum hourly rates of pay and maximum working hours cannot succeed, because real wages are not, in the

final analysis, determined by rates of pay but by production. In the economy of an individual real wages are identical with the part of his production realized for his own use. The amount and rate of production possible for him determine the length of time he must work and the intensity of labor necessary in order that he may produce his own needs. Wages follow production; they can never precede it. And they are, in any economy, limited to the value created at the margin of production.

Through the misappropriation of the gifts of Nature for unsocial purposes, the margin of production has been extended far below the point where a decent existence can be maintained. As a consequence, people who in a free economy could maintain themselves directly through their own labor are forced to compete with one another for jobs. So long as the majority of men are dependent upon others for an opportunity to work, their wages will be determined not by the value of what they produce, but by the balance between the supply of their labor and the demand for it.

The battle for employment on less than a real subsistence basis is bitter among the unskilled laborers of this country. This bitterness is enhanced by the realization that their real wages are far below their contribution to production. Their feelings will not be assuaged by an increase in the contents of their pay envelope, if the money will buy no more than it did before.

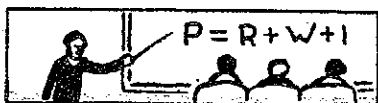
Insofar as money wages are increased by the "Fair Labor Standards Act of 1938" the wage factor in the cost of production will rise. In many cases management will be able to offset higher wagecosts through increased efficiency, but where this is the case, fewer employees will be needed for a given production. Relatively inefficient workers will give way to those more efficient, but the relief authorities will find no comfort in exchanging three or four relatively efficient individuals for ten inefficient ones. They all have the same number of mouths.

In many instances, however, management will not be able to absorb increased labor costs through greater efficiency. Where this is so, management must either obtain a better price or put the keys in its pocket and go home. The New Dealers argue that a better price will be available because the two million persons directly affected by the Act will have more money to spend. To which the question follows—what will this money buy? It will not only buy no more shelter than the old wages did, but monopoly rent may be depended upon to absorb any difference. Houses are built on land, and land is a monopoly privilege. Monopolies are not subject to the laws of supply and demand which tend to balance a free exchange. Rent is not determined by what is given in exchange, but by what the market will bear.

This being the case, management which finds it necessary to get an increased price for its product to support higher labor cost will find the market for goods smaller than it was before. And it will consequently be unable to employ profitably so many workers.

It is not to the moral turpitude of management, so satisfying a concept to the Marxist, that one should blame this inability to "take up the slack." So long as labor is unable to buy back what it produces, capital in its own struggle for existence is forced constantly to reduce costs, seeking thereby to find a wider market at a reduced price.

Were the "Fair Labor Standards Act of 1938" to affect everyone equally its futility would soon be apparent. Unfortunately, the Act will operate instead as a sort of internal tariff, levying uneven tribute upon us in accordance with the relationship which we bear individually to the economy of the country as a whole. It will function as one added restraint upon our already burdened power to produce the things we need.



the expense of wages and interest. Therefore the make-work program of the "lenders-spenders" must eventuate in the decrease of that return to labor and capital which the program hopes to avoid.

The most recently announced program of the President is no different

from the ineffective programs of the past five years, which have increased our national debt burden by fifteen billion dollars (and resulted in "recession"), no different from the make-work programs of Hitler, Stalin and Mussolini, no different from the make-work programs of Pericles

and the Pharaohs. The result will likewise be the same.

When a ship's compass is fallacious the craft not only does not reach its destination but is quite likely to founder on the rocks. When a political polity runs contrary to natural law, human happiness is at stake.