

XXI. WORK AND WAGES

1. Introversive Labor and Extroversive Labor

A MAN may overcome the disutility of labor (forego the enjoyment of leisure) for various reasons.

1. He may work in order to make his mind and body strong, vigorous, and agile. The disutility of labor is not a price expended for the attainment of these goals; overcoming it is inseparable from the contentment sought. The most conspicuous examples are genuine sport, practiced without any design for reward and social success, and the search for truth and knowledge pursued for its own sake and not as a means of improving one's own efficiency and skill in the performance of other kinds of labor aiming at other ends.¹

2. He may submit to the disutility of labor in order to serve God. He sacrifices leisure to please God and to be rewarded in the beyond by eternal bliss and in the earthly pilgrimage by the supreme delight which the certainty of having complied with all religious duties affords. (If, however, he serves God in order to attain worldly ends—his daily bread and success in his secular affairs—his conduct does not differ substantially from other endeavors to attain mundane advantages by expending labor. Whether the theory guiding his conduct is correct and whether his expectations will materialize are irrelevant to the catallactic qualification of his mode of acting.²)

3. He may toil in order to avoid greater mischief. He submits to the disutility of labor in order to forget, to escape from depressing thoughts and to banish annoying moods; work for him is, as it were, a perfected refinement of play. This refined playing must not be confused with the simple games of children which are merely pleasure-producing. (However, there are also other children's games. Children too are sophisticated enough to indulge in refined play.)

1. Cognition does not aim at a goal beyond the act of knowing. what satisfies the thinker is thinking as such, not obtaining perfect knowledge, a goal inaccessible to man.

2. It is hardly necessary to remark that comparing the craving for knowledge and the conduct of a pious life with sport and play does not imply any disparagement of either.

4. He may work because he prefers the proceeds he can earn by working to the disutility of labor and the pleasures of leisure.

The labor of the classes 1, 2, 3 is expended because the disutility of labor in itself—and not its product—satisfies. One toils and troubles not in order to reach a goal at the termination of the march, but for the very sake of marching. The mountain-climber does not want simply to reach the peak, he wants to reach it by climbing. He disdains the rack railway which would bring him to the summit more quickly and without trouble even though the fare is cheaper than the costs incurred by climbing (e.g., the guide's fee). The toil of climbing does not gratify him immediately; it involves disutility of labor. But it is precisely overcoming the disutility of labor that satisfies him. A less exerting ascent would please him not better, but less.

We may call the labor of classes 1, 2, and 3 introversive labor and distinguish it from the extroversive labor of class 4. In some cases introversive labor may bring about—as a by-product as it were—results for the attainment of which other people would submit to the disutility of labor. The devout may nurse sick people for a heavenly reward; the truth seeker, exclusively devoted to the search for knowledge, may discover a practically useful device. To this extent introversive labor may influence the supply on the market. But as a rule catallactics is concerned only with extroversive labor.

The psychological problems raised by introversive labor are catallactically irrelevant. Seen from the point of view of economics introversive labor is to be qualified as consumption. Its performance as a rule requires not only the personal efforts of the individuals concerned, but also the expenditure of material factors of production and the produce of other peoples' extroversive, not immediately gratifying labor that must be bought by the payment of wages. The practice of religion requires places of worship and their equipment, sport requires diverse utensils and apparatus, trainers and coaches. All these things belong in the orbit of consumption.

2. Joy and Tedium of Labor

Only extroversive, not immediately gratifying labor is a topic of catallactic disquisition. The characteristic mark of this kind of labor is that it is performed for the sake of an end which is beyond its performance and the disutility which it involves. People work because they want to reap the produce of labor. The labor itself causes disutility. But apart from this disutility which is irksome and would enjoin upon man the urge to economize labor even if his power to work were not limited and he were able to perform unlimited work, special emo-

tional phenomena sometimes appear, feelings of joy or tedium, accompanying the execution of certain kinds of labor.

Both, the joy and the tedium of labor, are in a domain other than the disutility of labor. The joy of labor therefore can neither alleviate nor remove the disutility of labor. Neither must the joy of labor be confused with the immediate gratification provided by certain kinds of work. It is an attendant phenomenon which proceeds either from labor's mediate gratification, the produce or reward, or from some accessory circumstances.

People do not submit to the disutility of labor for the sake of the joy which accompanies the labor, but for the sake of its mediate gratification. In fact the joy of labor presupposes for the most part the disutility of the labor concerned.

The sources from which the joy of labor springs are:

1. The expectation of the labor's mediate gratification, the anticipation of the enjoyment of its success and yield. The toiler looks at his work as a means for the attainment of an end sought, and the progress of his work delights him as an approach toward his goal. His joy is a foretaste of the satisfaction conveyed by the mediate gratification. In the frame of social cooperation this joy manifests itself in the contentment of being capable of holding one's ground in the social organism and of rendering services which one's fellow men appreciate either in buying the product or in remunerating the labor expended. The worker rejoices because he gets self-respect and the consciousness of supporting himself and his family and not being dependent on other people's mercy.

2. In the pursuit of his work the worker enjoys the aesthetic appreciation of his skill and its product. This is not merely the contemplative pleasure of the man who views things performed by other people. It is the pride of a man who is in a position to say: I know how to make such things, this is my work.

3. Having completed a task the worker enjoys the feeling of having successfully overcome all the toil and trouble involved. He is happy in being rid of something difficult, unpleasant, and painful, in being relieved for a certain time of the disutility of labor. His is the feeling of "I have done it."

4. Some kinds of work satisfy particular wishes. There are, for example, occupations which meet erotic desires—either conscious or subconscious ones. These desires may be normal or perverse. Also fetishists, homosexuals, sadists and other perverts can sometimes find in their work an opportunity to satisfy their strange appetites. There are occupations which are especially attractive to such people. Cruelty and blood-thirstiness luxuriantly thrive

under various occupational cloaks.

The various kinds of work offer different conditions for the appearance of the joy of labor. These conditions may be by and large more homogeneous in classes 1 and 3 than in class 2. It is obvious that they are more rarely present for class 4.

The joy of labor can be entirely absent. Psychological factors may eliminate it altogether. On the other hand one can purposely aim at increasing the joy of labor.

Keen discerners of the human soul have always been intent upon enhancing the joy of labor. A great part of the achievements of the organizers and leaders of armies of mercenaries belonged to this field. Their task was easy as far as the profession of arms provides the satisfactions of class 4. However, these satisfactions do not depend on the arms-bearer's loyalty. They also come to the soldier who leaves his war-lord in the lurch and turns against him in the service of new leaders. Thus the particular task of the employers of mercenaries was to promote an esprit de corps and loyalty that could render their hirelings proof against temptations. There were also, of course, chiefs who did not bother about such impalpable matters. In the armies and navies of the eighteenth century the only means of securing obedience and preventing desertion were barbarous punishments.

Modern industrialism was not intent upon designedly increasing the joy of labor. It relied upon the material improvement that it brought to its employees in their capacity as wage earners as well as in their capacity as consumers and buyers of the products. In view of the fact that job-seekers thronged to the plants and everyone scrambled for the manufactures, there seemed to be no need to resort to special devices. The benefits which the masses derived from the capitalist system were so obvious that no entrepreneur considered it necessary to harangue the workers with procapitalist propaganda. Modern capitalism is essentially mass production for the needs of the masses. The buyers of the products are by and large the same people who as wage earners cooperate in their manufacturing. Rising sales provided dependable information to the employer about the improvement of the masses' standard of living. He did not bother about the feelings of his employees as workers. He was exclusively intent upon serving them as consumers. Even today, in face of the most persistent and fanatical anticapitalist propaganda, there is hardly any counter-propaganda.

This anticapitalist propaganda is a systematic scheme for the substitution of tedium for the joy of labor. The joy of labor of classes 1 and 2 depends to some extent on ideological factors. The worker rejoices in his place in

society and his active cooperation in its productive effort. If one disparages this ideology and replaces it by another which represents the wage earner as the distressed victim of ruthless exploiters, one turn the joy of labor into a feeling of disgust and tedium.

No ideology, however impressively emphasized and taught, can affect the disutility of labor. It is impossible to remove or to alleviate it by persuasion or hypnotic suggestion. On the other hand it cannot be increased by words and doctrines. The disutility of labor is a phenomenon unconditionally given. The spontaneous and carefree discharge of one's own energies and vital functions in aimless freedom suits everybody better than the stern restraint of purposive effort. The disutility of labor also pains a man who with heart and soul and even with self-denial is devoted to his work. He too is eager to reduce the lump of labor if it can be done without prejudice to the mediate gratification expected, and he enjoys the joy of labor of class 3.

However, the joy of labor of classes 1 and 2 and sometimes even that of class 3 can be eliminated by ideological influences and be replaced by the tedium of labor. The worker begins to hate his work if he becomes convinced that what makes him submit to the disutility of labor is not his own higher valuation of the stipulated compensation, but merely an unfair social system. Deluded by the slogans of the socialist propagandists, he fails to realize that the disutility of labor is an inexorable fact of human conditions, something ultimately given that cannot be removed by devices or methods of social organization. He falls prey to the Marxian fallacy that in a socialist commonwealth work will arouse not pain but pleasure.³

The fact that the tedium of labor is substituted for the joy of labor affects the valuation neither of the disutility of labor nor of the produce of labor. Both the demand for labor and the supply of labor remain unchanged. For people do not work for the sake of labor's joy, but for the sake of the mediate gratification. What is altered is merely the worker's emotional attitude. His work, his position in the complex of the social division of labor, his relations to other members of society and to the whole of society appear to him in a new light. He pities himself as the defenseless victim of an absurd and unjust system. He becomes an ill-humored grumbler, an unbalanced personality, an easy prey to all sorts of quacks and cranks. To be joyful in the performance of one's tasks and in overcoming the disutility of labor makes people cheerful and strengthens their energies and vital forces. To feel tedium in working makes people morose and

3. Engels, *Herrn Eugen Dührings Umwälzung der Wissenschaft* (7th ed. Stuttgart, 1910), p. 317. See above, p. 137.

neurotic. A commonwealth in which the tedium of labor prevails is an assemblage of rancorous, quarrelsome and wrathful malcontents.

However, with regard to the volitional springs for overcoming the disutility of labor, the role played by the joy and the tedium of labor is merely accidental and supererogatory. There cannot be any question of making people work for the mere sake of the joy of labor. The joy of labor is no substitute for the mediate gratification of labor. The only means of inducing a man to work more and better is to offer him a higher reward. It is vain to bait him with the joy of labor. When the dictators of Soviet Russia, Nazi Germany, and Fascist Italy tried to assign to the joy of labor a definite function in their system of production, they saw their expectations blighted.

Neither the joy nor the tedium of labor can influence the amount of labor offered on the market. As far as these feelings are present with the same intensity in all kinds of work, the case is obvious. But it is the same with regard to joy and tedium which are conditioned by the particular features of the work concerned or the particular character of the worker. Let us look, for example, at the joy of class 4. The eagerness of certain people to get jobs which offer an opportunity for the enjoyment of these particular satisfactions tends to lower wage rates in this field. But it is precisely this effect that makes other people, less responsive to these questionable pleasures, prefer other sectors of the labor market in which they can earn more. Thus an opposite tendency develops which neutralizes the first one.

The joy and the tedium of labor are psychological phenomena which influence neither the individual's subjective valuation of the disutility and the mediate gratification of labor nor the price paid for labor on the market.

3. Wages

Labor is a scarce factor of production. As such it is sold and bought on the market. The price paid for labor is included in the price allowed for the product or the services if the performer of the work is the seller of the product or the services. If bare labor is sold and bought as such, either by an entrepreneur engaged in production for sale or by a consumer eager to use the services rendered for his own consumption, the price paid is called wages.

For acting man his own labor is not merely a factor of production but also the source of disutility; he values it not only with regard to the mediate gratification expected but also with regard to the disutility it causes. But for him, as for everyone, other people's labor as offered for sale on the market is nothing but a factor of production. Man deals with other people's labor in the same way

that he deals with all scarce material factors of production. He appraises it according to the principles he applies in the appraisal of all other goods. The height of wage rates is determined on the market in the same way in which the prices of all commodities are determined. In this sense we may say that labor is a commodity. The emotional associations which people, under the influence of Marxism, attach to this term do not matter. It suffices to observe incidentally that the employers deal with labor as they do with commodities because the conduct of the consumers forces them to proceed in this way.

It is not permissible to speak of labor and wages in general without resorting to certain restrictions. A uniform type of labor or a general rate of wages do not exist. Labor is very different in quality, and each kind of labor renders specific services. Each is appraised as a complementary factor for turning out definite consumers' goods and services. Between the appraisal of the performance of a surgeon and that of a stevedore there is no direct connection. But indirectly each sector of the labor market is connected with all other sectors. An increase in the demand for surgical services, however great, will not make stevedores flock into the practice of surgery. Yet the lines between the various sectors of the labor market are not sharply drawn. There prevails a continuous tendency for workers to shift from their branch to other similar occupations in which conditions seem to offer better opportunities. Thus finally every change in demand or supply in one sector affects all other sectors indirectly. All groups indirectly compete with one another. If more people enter the medical profession, men are withdrawn from kindred occupations who again are replaced by an inflow of people from other branches and so on. In this sense there exists a connexity between all occupational groups however different the requirements in each of them may be. There again we are faced with the fact that the disparity in the quality of work needed for the satisfaction of wants is greater than the diversity in men's inborn ability to perform work.⁴

Connexity exists not only between different types of labor and the prices paid for them but no less between labor and the material factors of production. Within certain limits, labor can be substituted for material factors of production and vice versa. The extent that such substitutions are resorted to depends on the height of wage rates and the prices of material factors.

The determination of wage rates—like that of the prices of material factors of production—can be achieved only on the market. There is no such thing as nonmarket wage rates, just as there are no nonmarket prices. As far as there are wages, labor is dealt with like any material factor of production

4. Cf. above, pp. 133-135.

and sold and bought on the market. It is usual to call the sector of the market of producers' goods on which labor is hired the labor market. As with all other sectors of the market, the labor market is actuated by the entrepreneurs intent upon making profits. Each entrepreneur is eager to buy all the kinds of specific labor he needs for the realization of his plans at the cheapest price. But the wages he offers must be high enough to take the workers away from competing entrepreneurs. The upper limit of his bidding is determined by anticipation of the price he can obtain for the increment in salable goods he expects from the employment of the worker concerned. The lower limit is determined by the bids of competing entrepreneurs who themselves are guided by analogous considerations. It is this that economists have in mind in asserting that the height of wage rates for each kind of labor is determined by its marginal productivity. Another way to express the same truth is to say that wage rates are determined by the supply of labor and of material factors of production on the one hand and by the anticipated future prices of the consumers' goods.

This catallactic explanation of the determination of wage rates has been the target of passionate but entirely erroneous attacks. It has been asserted that there is a monopoly of the demand for labor. Most of the supporters of this doctrine think that they have sufficiently proved their case by referring to some incidental remarks of Adam Smith concerning "a sort of tacit but constant and uniform combination" among employers to keep wages down.⁵ Others refer in vague terms to the existence of trade associations of various groups of businessmen. The emptiness of all this talk is evident. However, the fact that these garbled ideas are the main ideological foundation of labor unionism and the labor policy of all contemporary governments makes it necessary to analyze them with the utmost care.

The entrepreneurs are in the same position with regard to the sellers of labor as they are with regard to the sellers of the material factors of production. They are under the necessity of acquiring all factors of production at the cheapest price. But if in the pursuit of this endeavor some entrepreneurs, certain groups of entrepreneurs, or all entrepreneurs offer prices or wage rates which are too low, i.e., do not agree with the state of the unhampered market, they will succeed in acquiring what they want to acquire only if entrance into the ranks of entrepreneurship is blocked through institutional barriers. If the emergence of new entrepreneurs or the expansion of the activities of already operating

5. Cf. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Basle, 1791), vol. I, Bk. I, chap. viii, p. 100. Adam Smith himself seems to have unconsciously given up the idea. Cf. W.H. Hutt, *The Theory of Collective Bargaining* (London, 1930), pp. 24-25.

entrepreneurs is not prevented, any drop in the prices of factors of production not consonant with the structure of the market must open new chances for the earning of profits. There will be people eager to take advantage of the margin between the prevailing wage rate and the marginal productivity of labor. Their demand for labor will bring wage rates back to the height conditioned by labor's marginal productivity. The tacit combination among the employers to which Adam Smith referred, even if it existed, could not lower wages below the competitive market rate unless access to entrepreneurship required not only brains and capital (the latter always available to enterprises promising the highest returns), but in addition also an institutional title, a patent, or a license, reserved to a class of privileged people.

It has been asserted that a job-seeker must sell his labor at any price, however low, as he depends exclusively on his capacity to work and has no other source of income. He cannot wait and is forced to content himself with any reward the employers are kind enough to offer him. This inherent weakness makes it easy for the concerted action of the masters to lower wage rates. They can, if need be, wait longer, as their demand for labor is not so urgent as the worker's demand for subsistence. The argument is defective. It takes it for granted that the employers pocket the difference between the marginal-productivity wage rate and the lower monopoly rate as an extra monopoly gain and do not pass it on to the consumers in the form of a reduction in prices. For if they were to reduce prices according to the drop in costs of production, they, in their capacity as entrepreneurs and sellers of the products, would derive no advantage from cutting wages. The whole gain would go to the consumers and thereby also to the wage-earners in their capacity as buyers; the entrepreneurs themselves would be benefitted only as consumers. To retain the extra profit resulting from the "exploitation" of the workers' alleged poor bargaining power would require concerted action on the part of employers in their capacity as sellers of the products. It would require a universal monopoly of all kinds of production activities which can be created only by an institutional restriction of access to entrepreneurship.

The essential point of the matter is that the alleged monopolistic combination of the employers about which Adam Smith and a great part of public opinion speak would be a monopoly of demand. But we have already seen that such alleged monopolies of demand are in fact monopolies of supply of a particular character. The employers would be in a position enabling them to lower wage rates by concerted action only if they were to monopolize a factor indispensable for every kind of production and to restrict the employ-

ment of this factor in a monopolistic way. As there is no single material factor indispensable for every kind of production, they would have to monopolize all material factors of production. This condition would be present only in a socialist community, in which there is neither a market nor prices and wage rates.

Neither would it be possible for the proprietors of the material factors of production, the capitalists and the landowners, to combine in a universal cartel against the interests of the workers. The characteristic mark of production activities in the past and in the foreseeable future is that the scarcity of labor exceeds the scarcity of most of the primary, nature-given material factors of production. The comparatively greater scarcity of labor determines the extent to which the comparatively abundant primary natural factors can be utilized. There is unused soil, there are unused mineral deposits and so on because there is not enough labor available for their utilization. If the owners of the soil that is tilled today were to form a cartel in order to reap monopoly gains, their plans would be frustrated by the competition of the owners of the submarginal land. The owners of the produced factors of production in their turn could not combine in a comprehensive cartel without the cooperation of the owners of the primary factors.

Various other objections have been advanced against the doctrine of the monopolistic exploitation of labor by a tacit or avowed combine of employers. It has been demonstrated that at no time and at no place in the unhampered market economy can the existence of such cartels be discovered. It has been shown that it is not true that the job-seekers cannot wait and are therefore under the necessity of accepting any wage rates, however low, offered to them by the employers. It is not true that every unemployed worker is faced with starvation; the workers too have reserves and can wait; the proof is that they really do wait. On the other hand waiting can be financially ruinous to the entrepreneurs and capitalists too. If they cannot employ their capital, they suffer losses. Thus all the disquisitions about an alleged "employers' advantage" and "workers' disadvantage" in bargaining are without substance.⁶

But these are secondary and accidental considerations. The central fact is that a monopoly of the demand for labor cannot and does not exist in an unhampered market economy. It could originate only as an outgrowth of institutional restrictions of access to entrepreneurship.

Yet one more point must be stressed. The doctrine of the monopolistic

6. All these and many other points are carefully analyzed by Hutt, *op. cit.*, pp. 35-72.

manipulation of wage rates by the employers speaks of labor as if it were a homogeneous entity. It deals with such concepts as demand for "labor in general" and supply of "labor in general." But such notions have, as has been pointed out already, no counterpart in reality. What is sold and bought on the labor market is not "labor in general," but definite specific labor suitable to render definite services. Each entrepreneur is in search of workers who are fitted to accomplish those specific tasks which he needs for the execution of his plans. He must withdraw these specialists from the employments in which they happen to work at the moment. The only means he has to achieve this is to offer them higher pay. Every innovation which an entrepreneur plans—the production of a new article, the application of a new process of production, the choice of a new location for a specific branch or simply the expansion of production already in existence either in his own enterprise or in other enterprises—requires the employment of workers hitherto engaged somewhere else. The entrepreneurs are not merely faced with a shortage of "labor in general," but with a shortage of those specific types of labor they need for their plants. The competition among the entrepreneurs in bidding for the most suitable hands is no less keen than their competition in bidding for the required raw materials, tools, and machines and in their bidding for capital on the capital and loan market. The expansion of the activities of the individual firms as well as of the whole society is not only limited by the amount of capital goods available and of the supply of "labor in general." In each branch of production it is also limited by the available supply of specialists. This is, of course, only a temporary obstacle which vanishes in the long run when more workers, attracted by the higher pay of the specialists in comparatively undermanned branches, will have trained themselves for the special tasks concerned. But in the changing economy such a scarcity of specialists emerges anew daily and determines the conduct of employers in search for workers.

Every employer must aim at buying the factors of production needed, inclusive of labor, at the cheapest price. An employer who paid more than agrees with the market price of the services his employees render him, would be soon removed from his entrepreneurial position. On the other hand an employer who tried to reduce wage rates below the height consonant with the marginal productivity of labor would not recruit the type of men that the most efficient utilization of his equipment requires. There prevails a tendency for wage rates to reach the point at which they are equal to the price of the marginal product of the kind of labor in question. If wage rates drop below this point, the gain derived from the employment of every additional

worker will increase the demand for labor and thus make wage rates rise again. If wage rates rise above this point, the loss incurred from the employment of every worker will force the employers to discharge workers. The competition of the unemployed for jobs will create a tendency for wage rates to drop.

4. Catallactic Unemployment

If a job-seeker cannot obtain the position he prefers, he must look for another kind of job. If he cannot find an employer ready to pay him as much as he would like to earn, he must abate his pretensions. If he refuses, he will not get any job. He remains unemployed.

What causes unemployment is the fact that—contrary to the above-mentioned doctrine of the worker's inability to wait—those eager to earn wages can and do wait. A job-seeker who does not want to wait will always get a job in the unhampered market economy in which there is always unused capacity of natural resources and very often also unused capacity of produced factors of production. It is only necessary for him either to reduce the amount of pay he is asking for or to alter his occupation or his place of work.

There were and still are people who work only for some time and then live for another period from the savings they have accumulated by working. In countries in which the cultural state of the masses is low, it is often difficult to recruit workers who are ready to stay on the job. The average man there is so callous and inert that he knows of no other use for his earnings than to buy some leisure time. He works only in order to remain unemployed for some time.

It is different in the civilized countries. Here the worker looks upon unemployment as an evil. He would like to avoid it provided the sacrifice required is not too grievous. He chooses between employment and unemployment in the same way in which he proceeds in all other actions and choices: he weighs the pros and cons. If he chooses unemployment, this unemployment is a market phenomenon whose nature is not different from other market phenomena as they appear in a changing market economy. We may call this kind of unemployment market-generated or *catallactic unemployment*.

The various considerations which may induce a man to decide for unemployment can be classified in this way:

1. The individual believes that he will find at a later date a remunerative job in his dwelling place and in an occupation which he likes better and for which he has been trained. He seeks to avoid the expenditure and other disadvantages involved in shifting from one occupation to another and from one geographical point to another. There may be special conditions increasing these costs. A

worker who owns a homestead is more firmly linked with the place of his residence than people living in rented apartments. A married woman is less mobile than an unmarried girl. Then there are occupations which impair the worker's ability to resume his previous job at a later date. A watchmaker who works for some time as a lumberman may lose the dexterity required for his previous job. In all these cases the individual chooses temporary unemployment because he believes that this choice pays better in the long run.

2. There are occupations the demand for which is subject to considerable seasonal variations. In some months of the year the demand is very intense, in other months it dwindles or disappears altogether. The structure of wage rates discounts these seasonal fluctuations. The branches of industry subject to them can compete on the labor market only if the wages they pay in the good season are high enough to indemnify the wage earners for the disadvantages resulting from the seasonal irregularity in demand. Then many of the workers, having saved a part of their ample earnings in the good season, remain unemployed in the bad season.

3. The individual chooses temporary unemployment for considerations which in popular speech are called uneconomic or even irrational. He does not take jobs which are incompatible with his religious, moral, and political convictions. He shuns occupations the exercise of which would impair his social prestige. He lets himself be guided by traditional standards of what is proper for a gentleman and what is unworthy. He does not want to lose face or caste.

Unemployment in the unhampered market is always voluntary. In the eyes of the unemployed man, unemployment is the minor of two evils between which he has to choose. The structure of the market may sometimes cause wage rates to drop. But, on the unhampered market, there is always for each type of labor a rate at which all those eager to work can get a job. The final wage rate is that rate at which all job-seekers get jobs and all employers as many workers as they want to hire. Its height is determined by the marginal productivity of each type of work.

Wage rate fluctuations are the device by means of which the sovereignty of the consumers manifests itself on the labor market. They are the measure adopted for the allocation of labor to the various branches of production. They penalize disobedience by cutting wage rates in the comparatively overmanned branches and recompense obedience by raising wage rates in the comparatively undermanned branches. They thus submit the individual to a harsh social pressure. It is obvious that they indirectly limit the individual's freedom to choose his occupation. But this pressure is not rigid. It leaves to the individual

a margin in the limits of which he can choose between what suits him better and what less. Within this orbit he is free to act of his own accord. This amount of freedom is the maximum of freedom that an individual can enjoy in the framework of the social division of labor, and this amount of pressure is the minimum of pressure that is indispensable for the preservation of the system of social cooperation. There is only one alternative left to the catallactic pressure exercised by the wages system: the assignment of occupations and jobs to each individual by the peremptory decrees of an authority, a central board planning all production activities. This is tantamount to the suppression of all freedom.

It is true that under the wages system the individual is not free to choose permanent unemployment. But no other imaginable social system could grant him a right to unlimited leisure. That man cannot avoid submitting to the disutility of labor is not an outgrowth of any social institution. It is an inescapable natural condition of human life and conduct.

It is not expedient to call catallactic unemployment in a metaphor borrowed from mechanics "frictional" unemployment. In the imaginary construction of the evenly rotating economy there is no unemployment because we have based this construction on such an assumption. Unemployment is a phenomenon of a changing economy. The fact that a worker discharged on account of changes occurring in the arrangement of production processes does not instantly take advantage of every opportunity to get another job but waits for a more propitious opportunity is not a consequence of the tardiness of the adjustment to the change in conditions, but is one of the factors slowing down the pace of this adjustment. It is not an automatic reaction to the changes which have occurred, independent of the will and the choices of the job-seekers concerned, but the effect of their intentional actions. It is speculative, not frictional.

Catallactic unemployment must not be confused with *institutional unemployment*. Institutional unemployment is not the outcome of the decisions of the individual job-seekers. It is the effect of interference with the market phenomena intent upon enforcing by coercion and compulsion wage rates higher than those the unhampered market would have determined. The treatment of institutional unemployment belongs to the analysis of the problems of interventionism.

5. Gross Wage Rates and Net Wage Rates

What the employer buys on the labor market and what he gets in exchange for the wages paid is always a definite performance which he appraises according to its market price. The customs and usages prevailing on the various

sectors of the labor market do not influence the prices paid for definite quantities of specific performances. Gross wage rates always tend toward the point at which they are equal to the price for which the increment resulting from the employment of the marginal worker can be sold on the market, due allowance being made for the price of the required materials and to ordinary interest on the capital needed.

In weighing the pros and cons of the hiring of workers the employer does not ask himself what the worker gets as take-home wages. The only relevant question for him is: What is the total price I have to expend for securing the services of this worker? In speaking of the determination of wage rates *cattalactics* always refers to the total price which the employer must spend for a definite quantity of work of a definite type, i.e., to gross wage rates. If laws or business customs force the employer to make other expenditures besides the wages he pays to the employee, the take-home wages are reduced accordingly. Such accessory expenditures do not affect the gross rate of wages. Their incidence falls upon the wage-earner. Their total amount reduces the height of take-home wages, i.e., of net wage rates.

It is necessary to realize the following consequences of this state of affairs:

1. It does not matter whether wages are time wages or piecework wages. Also where there are time wages, the employer takes only one thing into account; namely, the average performance he expects to obtain from each worker employed. His calculation discounts all the opportunities time work offers to shirkers and cheaters. He discharges workers who do not perform the minimum expected. On the other hand a worker eager to earn more must either shift to piecework or seek a job in which pay is higher because the minimum of achievement expected is greater.

Neither does it matter on an unhampered labor market whether time wages are paid daily, weekly, monthly, or as annual wages. It does not matter whether the time allowed for of discharge is longer or shorter, whether agreements are made for definite periods or for the worker's lifetime, whether the employee is entitled to retirement and a pension for himself, his widow, and his orphans, to paid or unpaid vacations, to certain assistance in case of illness or invalidism or to any other benefits and privileges. The question the employer faces is always the same: Does it or does it not pay for me to enter into such a contract? Don't I pay too much for what I am getting in return?

2. Consequently the incidence of all so-called social burdens and gains ultimately falls upon the worker's net wage rates. It is irrelevant whether or not the employer is entitled to deduct the contributions to all kinds of social

security from the wages he pays in cash to the employee. At any rate these contributions burden the employee, not the employer.

3. The same holds true with regard to taxes on wages. Here too it does not matter whether the employer has or has not the right to deduct them from take-home wages.

4. Neither is a shortening of the hours of work a free gift to the worker. If he does not compensate for the shorter hours of work by increasing his output accordingly, time wages will drop correspondingly. If the law decreeing a shortening of the hours of work prohibits such a reduction in wage rates, all the consequences of a government-decreed rise in wage rates appear. The same is valid with regard to all other so-called social gains, such as paid vacations and so on.

5. If the governments grants to the employer a subsidy for the employment of certain classes of workers, their take-home wages are increased by the total amount of such a subsidy.

6. If the authorities grant to every employed worker whose own earnings lag behind a certain minimum standard an allowance raising his income to this minimum, the height of wage rates is not directly affected. Indirectly a drop in wage rates could possibly result as far as this system could induce people who did not work before to seek jobs and thus bring about an increase in the supply of labor.⁷

6. Wages and Subsistence

The life of primitive man was an unceasing struggle against the scantiness of the nature-given means for his sustenance. In this desperate effort to secure bare survival, many individuals and whole families, tribes, and races succumbed. Primitive man was always haunted by the specter of death from starvation. Civilization has freed us from these perils. Human life is menaced day and night by innumerable dangers; it can be destroyed at any instant by natural forces which are beyond control or at least cannot be controlled at the present stage of our knowledge and our potentialities. But the horror of starvation no longer terrifies people living in a capitalist society. He who is able to work earns much more than is needed for bare sustenance.

There are also, of course, disabled people who are incapable of work.

7. In the last years of the eighteenth century, amidst the distress produced by the protracted war with France and the inflationary methods of financing it, England resorted to this makeshift (the Speenhamland system). the real aim was to prevent agricultural workers from leaving their jobs and going into the factories where they could earn more. The Speenhamland system was thus a disguised subsidy for the landed gentry saving them the expense of higher wages.

Then there are invalids who can perform a small quantity of work, but whose disability prevents them from earning as much as normal workers do; sometimes the wage rates they could earn are so low that they could not maintain themselves. These people can keep body and soul together only if other people help them. The next of kin, friends, the charity of benefactors and endowments, and communal poor relief take care of the destitute. Alms-folk do not cooperate in the social process of production; as far as the provision of the means for the satisfaction of wants is concerned, they do not act; they live because other people look after them. The problems of poor relief are problems of the arrangement of consumption, not of the arrangement of production activities. They are as such beyond the frame of a theory human action which refers only to the provision of the means required for consumption, not to the way in which these means are consumed. Catallactic theory deals with the methods adopted for the charitable support of the destitute only as far as they can possibly affect the supply of labor. It has sometimes happened that the policies applied in poor relief have encouraged unwillingness to work and the idleness of able-bodied adults.

In the capitalist society there prevails a tendency toward a steady increase in the per capita quota of capital invested. The accumulation of capital soars above the increase in population figures. Consequently the marginal productivity of labor, real wage rates, and the wage earners' standard of living tend to rise continually. But this improvement in well-being is not the manifestation of the operation of an inevitable law of human evolution; it is a tendency resulting from the interplay of forces which can freely produce their effects only under capitalism. It is possible and, if we take into account the direction of present-day policies, even not unlikely that capital consumption on the one hand and an increase or an insufficient drop in population figures on the other hand will reverse things. Then it could happen that men will again learn what starvation means and that the relation of the quantity of capital goods available and population figures will become so unfavorable as to make part of the workers earn less than a bare subsistence. The mere approach to such conditions would certainly cause irreconcilable dissensions within society, conflicts the violence of which must result in a complete disintegration of all societal bonds. The social division of labor cannot be preserved if part of the cooperating members of society are doomed to earn less than a bare subsistence.

The notion of a physiological minimum of subsistence to which the "iron law of wages" refers and which demagogues put forward again and again is of no use for a catallactic theory of the determination of wage rates. One of

the foundations upon which social cooperation rests is the fact that labor performed according to the principle of the division of labor is so much more productive than the efforts of isolated individuals that able-bodied people are not troubled by the fear of starvation which daily threatened their forebears. Within a capitalist commonwealth the minimum of subsistence plays no catalactic role.

Furthermore, the notion of a physiological minimum of subsistence lacks that precision and scientific rigor which people have ascribed to it. Primitive man, adjusted to a more animal-like than human existence, could keep himself alive under conditions which are unbearable to his dainty scions pampered by capitalism. There is no such thing as a physiologically and biologically determined minimum of subsistence, valid for every specimen of the zoological species *homo sapiens*. No more tenable is the idea that a definite quantity of calories is needed to keep a man healthy and progenitive, and a further definite quantity to replace the energy expended in working. The appeal to such notions of cattle breeding and the vivisection of guinea pigs does not aid the economist in his endeavors to comprehend the problems of purposive human action. The "iron law of wages" and the essentially identical Marxian doctrine of the determination of "the value of labor power" by "the working time necessary for its production, consequently also for its reproduction,"⁸ are the least tenable of all that has ever been taught in the field of catalactics.

Yet it was possible to attach some meaning to the ideas implied in the iron law of wages. If one sees in the wage earner merely a chattel and believes that he plays no other role in society, if one assumes that he aims at no other satisfaction than feeding and proliferation and does not know of any employment for his earnings other than the procurement of those animal satisfactions, one may consider the iron law as a theory of the determination of wage rates. In fact the classical economists, frustrated by their abortive value theory, could not think of any other solution of the problem involved. For Torrens and Ricardo the theorem that the natural price of labor is the price which enables the wage earners to subsist and to perpetuate their race, without any increase or diminution, was the logically inescapable inference from their untenable value theory. But when their epigones saw that they could no longer satisfy themselves with this manifestly preposterous law, they resorted to a modification of it which was

8. Cf. marx, *Das Kapital* (7th ed. Hamburg, 1914), I, 133. In the *Communist Manifesto* (Section II) Marx and Engels formulate their doctrine in this way: "The average price of a wage labor is the minimum wage, i.e., that quantum of means of subsistence which is absolutely required to keep the laborer in bare existence as laborer." It "merely suffices to prolong and produce a bare existence."

tantamount to a complete abandonment of any attempt to provide an economic explanation of the determination of wage rates. They tried to preserve the cherished notion of the minimum of subsistence by substituting the concept of a "social" minimum for the concept of a physiological minimum. They no longer spoke of the minimum required for the necessary subsistence of the laborer and for the preservation of an undiminished supply of labor. They spoke instead of the minimum required for the preservation of a standard of living sanctified by historical tradition and inherited customs and habits. While daily experience taught impressively that under capitalism real wage rates and the wage earners' standard of living were steadily rising, while it became from day to day more obvious that the traditional walls separating the various strata of the population could no longer be preserved because the social improvement in the conditions of the industrial workers demolished the vested ideas of social rank and dignity, these doctrinaires announced that old customs and social convention determine the height of wage rates. Only people blinded by preconceived prejudices and party bias could resort to such an explanation in an age in which industry supplies the consumption of the masses again and again with new commodities hitherto unknown and makes accessible to the average worker satisfactions of which no king could dream in the past.

It is not especially remarkable that the Prussian Historical School of the *wirtschaftliche Staatswissenschaften* viewed wage rates no less than commodity prices and interest rates as "historical categories" and that in dealing with wage rates it had recourse to the concept of "income adequate to the individual's hierarchical station in the social scale of ranks." It was the essence of the teachings of this school to deny the existence of economics and to substitute history for it. But it is amazing that Marx and the Marxians did not recognize that their endorsement of this spurious doctrine entirely disintegrated the body of the so-called Marxian system of economics. When the articles and dissertations published in England in the early 'sixties convinced Marx that it was no longer permissible to cling unswervingly to the wage theory of the classical economists, he modified his theory of the value of labor power. He declared that "the extent of the so-called natural wants and the manner in which they are satisfied, are in themselves a product of historical evolution" and "depend to a large extent on the degree of civilization attained by any given country and, among other factors, especially on the conditions and customs and pretensions concerning the standard of life under which the class of free laborers has been formed." Thus "a historical and moral element enter into the determination of the value of labor power." But when Marx adds that nonetheless

“for a given country at any given time, the average quantity of *indispensable* necessities of life is a given fact,”⁹ he contradicts himself and misleads the reader. What he has in mind is no longer the “indispensable necessities,” but the things considered indispensable from a traditional point of view, the means necessary for the preservation of a standard of living adequate to the workers’ station in the traditional social hierarchy. The recourse to such an explanation means virtually the renunciation of any economic or catallactic elucidation of the determination of wage rates. Wage rates are explained as a datum of history. They are no longer seen as a market phenomenon, but as a factor originating outside of the interplay of the forces operating on the market.

However, even those who believe that the height of wage rates as they are actually paid and received in reality are forced upon the market from without as a datum cannot avoid developing a theory which explains the determination of wage rates as the outcome of the valuations and decisions of the consumers. Without such a catallactic theory of wages, no economic analysis of the market can be complete and logically satisfactory. It is simply nonsensical to restrict the catallactic disquisitions to the problems of the determination of commodity prices and interest rates and to accept wage rates as a historical datum. An economic theory worthy of the name must be in a position to assert with regard to wage rates more than that they are determined by a “historical and moral element.” The characteristic mark of economics is that it explains the exchange ratios manifested in market transactions as market phenomena the determination of which is subject to a regularity in the concatenation and sequence of events. It is precisely this that distinguishes economic conception from the historical understanding, theory from history.

We can well imagine a historical situation in which the height of wage rates is forced upon the market by the interference of external compulsion and coercion. Such institutional fixing of wage rates is one of the most important features of our age of interventionist policies. But with regard to such a state of affairs it is the task of economics to investigate what effects are brought about by the disparity between the two wage rates, the potential rate which the unhampered market would have produced by the interplay of the supply of and the demand for labor on the one hand, and on the other the rate which external compulsion and coercion impose upon the parties to the market transactions.

9. Cf. Marx, *Das Kapital*, p. 134. Italics are mine. The term used by Marx which in the text is translated as “necessaries of life” is “*Lebensmittel*.” the *Muret-Sanders Dictionary* (16 ed.) translates this term “articles of food, provisions, victuals, grub.”

It is true, wage earners are imbued with the idea that wages must be at least high enough to enable them to maintain a standard of living at least high enough to enable them to maintain a standard of living adequate to their station in the hierarchical gradation of society. Every single worker has his particular opinion about the claims he is entitled to raise on account of "status," "rank," "tradition," and "custom" in the same way as he has his particular opinion about his own efficiency and his own achievements. But such pretensions and self-complacent assumptions are without any relevance for the determination of wage rates. They limit neither the upward nor the downward movement of wage rates. The wage earner must sometimes satisfy himself with much less than what, according to his opinion, is adequate to his rank and efficiency. If he is offered more than he expected, he pockets the surplus without a qualm. The age of *laissez faire* for which the iron law and Marx's doctrine of the historically determined formation of wage rates claim validity witnessed a progressive, although sometimes temporarily interrupted, tendency for real wage rates to rise. The wage earners' standard of living rose to a height unprecedented in history and never thought of in earlier periods.

The labor unions pretend that nominal wage rates at least must always be raised in accordance with the changes occurring in the monetary unit's purchasing power in such a way as to secure to the wage earner the unabated enjoyment of the previous standard of living. They raise these claims also with regard to wartime conditions and the measures adopted for the financing of war expenditure. In their opinion even in wartime neither inflation nor the withholding of income taxes must affect the worker's take-home *real* wage rates. This doctrine tacitly implies the thesis of the *Communist Manifesto* that "the working men have no country" and have "nothing to lose but their chains"; consequently they are neutral in the wars waged by the bourgeois exploiters and do not care whether their nation conquers or is conquered. It is not the task of economics to scrutinize these statements. It only has to establish the fact that it does not matter what kind of justification is advanced in favor of the enforcement of wage rates higher than those the unhampered labor market would have determined. If as a result of such claims real wage rates are really raised above the height consonant with the marginal productivity of the various types of labor concerned, the unavoidable consequences must appear without any regard to the underlying philosophy.

In reviewing the whole history of mankind from the early beginnings of civilization up to our age, it makes sense to establish in general terms the fact that the productivity of human labor has been multiplied, for indeed the

members of a civilized nation produce today much more than their ancestors did. But this concept of the productivity of labor in general is devoid of any praxeological or catallactic meaning and does not allow any expression in numerical terms. Still less is it permissible to refer to it in attempts to deal with the problems of the market.

Present-day labor-union doctrine operates with a concept of productivity of labor that is designedly constructed to provide an alleged ethical justification for syndicalistic ventures. It defines productivity either as the total market value in terms of money that is added to the products by the processing (either of one firm or by all the firms of a branch of industry), divided by the number of workers employed, or as output (of this firm or branch of industry) per manhour of work. Comparing the magnitudes computed in this way for the beginning of a definite period of time and for its end, they call the amount by which the figure computed for the later date exceeds that for the earlier date "increase in productivity of labor," and they pretend that it by rights belongs entirely to the workers. They demand that this whole amount should be added to the wage rates which the workers received at the beginning of the period. Confronted with these claims of the unions, the employers for the most part do not contest the underlying doctrine and do not question the concept of productivity of labor involved. They accept it implicitly in pointing out that wage rates have already risen to the full extent of the increase in productivity, computed according to this method, or that they have already risen beyond this limit.

Now this procedure of computing the productivity of the work performed by the labor force of a firm or an industry is entirely fallacious. One thousand men working forty hours a week in a modern American shoe factory turn out every month m pairs of shoes. One thousand men working with the traditional old-fashioned tools in small artisan shops somewhere in the backward countries of Asia produce over the same period of time, even when working much longer than forty hours weekly, many fewer than m pairs. Between the United States and Asia the difference in productivity computed according to the methods of the union doctrine is enormous. It is certainly not due to any inherent virtues of the American worker. He is not more diligent, painstaking, skillful, or intelligent than the Asiatics. (We may even assume that many of those employed in a modern factory perform much simpler operations than those required from a man handling the old-fashioned tools.) The superiority of the American plant is entirely caused by the superiority of its equipment and the prudence of its entrepreneurial conduct. What prevents the business-

men of the backward countries from adopting the American methods of production is lack of capital accumulated, not any insufficiency on the part of their workers.

On the eve of the "Industrial Revolution," conditions in the West did not differ much from what they are today in the East. The radical change of conditions that bestowed on the masses of the West the present average standard of living (a high standard indeed when compared with pre-capitalistic or with Soviet conditions) was the effect of capital accumulation by saving and the wise investment of it by farsighted entrepreneurship. No technological improvement would have been possible if the additional capital goods required for the practical utilization of new inventions had not previously been made available by saving.

While the workers in their capacity as workers did not, and do not, contribute to the improvement of the apparatus of production, they are (in a market economy which is not sabotaged by government or union violence), both in their capacity as workers and in their capacity as consumers, the foremost beneficiaries of the ensuing betterment of conditions.

What initiates the chain of actions that results in an improvement of economic conditions is the accumulation of new capital through saving. These additional funds render the execution of projects possible which, for the lack of capital goods, could not have been executed previously. Embarking upon the realization of the new projects, the entrepreneurs compete on the market for the factors of production with all those already engaged in projects previously entered upon. In their attempts to secure the necessary quantity of raw materials and of manpower, they push up the prices of raw materials and wage rates. Thus the wage earners, already at the start of the process, reap a share of the benefits that the abstention from consumption on the part of the savers has begotten. In the farther course of the process they are again favored, now in their capacity as consumers, by the drop in prices that the increase in production tends to bring about.¹⁰

Economics describes the final outcome of this sequence of changes thus: An increase in capital invested results, with an unchanged number of people intent upon earning wages, in a rise of the marginal utility of labor and therefore of wage rates. What raises wage rates is an increase in capital exceeding the increase in population or, in other words, an increase in the per-head quota of capital invested. On the unhampered labor market, wage rates always tend toward the height at which they equal the marginal productivity of each kind of

10. See above, pp. 296-297.

labor, that is the height that equals the value added to or subtracted from the value of the product by the employment or discharge of a man. At this rate all those in search of employment find jobs, and all those eager to employ workers can hire as many as they want. If wages are raised above this market rate, unemployment of a part of the potential labor force inevitably results. It does not matter what kind of doctrine is advanced in order to justify the enforcement of wage rates that exceed the potential market rates.

Wage rates are ultimately determined by the value which the wage earner's fellow citizens attach to his services and achievements. Labor is appraised like a commodity, not because the entrepreneurs and capitalists are hardhearted and callous, but because they are unconditionally subject to the supremacy of the consumers of which today the earners of wages and salaries form the immense majority. The consumers are not prepared to satisfy anybody's pretensions, presumptions, and self-conceit. They want to be served in the cheapest way.

*A Comparison Between the Historical Explanation of Wage Rates
and the Regression Theorem*

It may be useful to compare the doctrine of Marxism and the Prussian Historical School, according to which wage rates are a historical datum and not a catallactic phenomenon, with the regression theorem of money's purchasing power.¹¹

The regression theorem establishes the fact that no good can be employed for the function of a medium of exchange which at the very beginning of its use for this purpose did not have exchange value on account of other employments. This fact does not substantially affect the daily determination of money's purchasing power as it is produced by the interplay of the supply of and the demand for money on the part of people intent upon keeping cash. The regression theorem does not assert that any actual exchange ratio between money on the one hand and commodities and services on the other hand is a historical datum not dependent on today's market situation. It merely explains how a new kind of media of exchange can come into use and remain in use. In this sense it says that there is a historical component in money's purchasing power.

It is quite different with the Marxian and Prussian theorems. As this doctrine sees it, the actual height of wage rates as it appears on the market is a historical datum. The valuations of the consumers who mediately are the buyers of labor and those of the wage earners, the sellers of labor, are of no avail. Wage rates are fixed by historical events of the past. They can neither rise above nor drop

11. See above, pp. 408-410.

below this height. The fact that wage rates are higher in Switzerland than in India can be explained only by history, just as only history can explain why Napoleon I became a Frenchman and not an Italian, an emperor and not a Corsican lawyer. It is impossible, in the explanation of the discrepancy between the wage rates of shepherds or of bricklayers in these two countries, to resort to factors unconditionally in operation on every market. An explanation can only be provided by the history of these two nations.

7. The Supply of Labor as Affected by the Disutility of Labor

The fundamental facts affecting the supply of labor are:

1. Every individual can expend only a limited quantity of labor.
2. This definite quantity cannot be performed at any time desired. The interpolation of periods of rest and recreation is indispensable.
3. Not every individual is able to perform any kind of labor. There are innate as well as acquired diversities in the abilities to perform certain types of work. The innate faculties required for certain types of work cannot be acquired by any training and schooling.
4. The capacity of work must be dealt with appropriately if it is not to deteriorate or to vanish altogether. Special care is needed to preserve a man's abilities—both the innate and the acquired—for such a period as the unavoidable decline of his vital forces may permit.
5. As work approaches the point at which the total amount of work a man can perform at the time is exhausted and the interpolation of a period of recreation is indispensable, fatigue impairs the quantity and the quality of the performance.¹²
6. Men prefer the absence of labor, i.e., leisure, to labor, or as the economists put it: they attach disutility to labor.

The self-sufficient man who works in economic isolation for the direct satisfaction of his own needs only, stops working at the point at which he begins to value leisure, the absence of labor's disutility, more highly than the increment in satisfaction expected from working more. Having satisfied his most urgent needs, he considers the satisfaction of the still unsatisfied needs less desirable than the satisfaction of his striving after leisure.

The same is true for wage earners no less than for an isolated autarkic

12. Other fluctuations in the quantity and quality of the performance per unit of time, e.g., the lower efficiency in the period immediately following the resumption of work interrupted by recreation, are hardly of any importance for the supply of labor on the market.

worker. They too are not prepared to work until they have expended the total capacity of work they are capable of expending. They too are eager to stop working at the point at which the mediate gratification expected no longer outweighs the disutility involved in the performance of additional work.

Popular opinion, laboring under atavistic representations and blinded by Marxian slogans, was slow in grasping this fact. It clung and even today clings to the habit of looking at the wage earner as a bondsman, and at wages as the capitalist equivalent of the bare subsistence which the slave owner and the cattle owner must provide for their slaves and animals. In the eyes of this doctrine the wage earner is a man whom poverty has forced to submit to bondage. The vain formalism of the bourgeois lawyers, we are told, calls this subjection voluntary, and interprets the relation between employer and employee as a contract between two equal parties. In truth, however, the worker is not free; he acts under duress; he must submit to the yoke of virtual serfdom because no other choice is left to him, society's disinherited outcast. Even his apparent right to choose his master is spurious. The open or silent combination of the employers fixing the conditions of employment in a uniform way by and large makes this freedom illusory.

If one assumes that wages are merely the reimbursement of the expenses incurred by the worker in the preservation and reproduction of labor power or that their height is determined by tradition, it is quite consistent to consider every reduction in the obligations which the labor contract imposes on the worker as a unilateral gain for the worker. If the height of wage rates does not depend on the quantity and quality of the performance, if the employer does not pay to the worker the price the market assigns to his achievement, if the employer does not buy a definite quantity and quality of workmanship, but buys a bondsman, if wage rates are so low that for natural or "historical" reasons they cannot drop any further, one improves the wage earner's lot by forcibly shortening the length of the working day. Then it is permissible to look at the laws limiting the hours of work as tantamount to the decrees by means of which European governments of the seventeenth, eighteenth, and early nineteenth centuries step by step reduced and finally entirely abolished the amount of the unpaid statute labor (corvée) which the peasant bondsmen were liable to give to their lords, or to ordinances lightening the work to be done by convicts. Then the shortening of daily hours of work which the evolution of capitalist industrialism brought about is appraised as a victory of the exploited wage-slaves over the rugged selfishness of their tormentors. All laws imposing upon the employer the duty to make definite expenditures to the benefit of the employees are described as "social

gains," i.e., as liberalities for the attainment of which the employees do not have to make any sacrifice.

It is generally assumed that the correctness of this doctrine is sufficiently demonstrated by the fact that the individual wage earner has only a negligible influence on the determination of the terms of the labor contract. The decisions concerning the length of the working day, work on Sundays and holidays, the time set for meals and many other things are made by the employers without asking the employees. The wage earner has no other choice than to yield to these orders or to starve.

The cardinal fallacy involved in this reasoning has already been pointed out in the preceding sections. The employers are not asking for labor in general, but for men who are fitted to perform the kind of labor they need. Just as an entrepreneur must choose for his plants the most suitable location, equipment, and raw materials, so he must hire the most efficient workers. He must arrange conditions of work in such a way as to make them appear attractive to those classes of workers he wants to employ. It is true that the individual worker has but little to say with regard to these arrangements. They are, like the height of wage rates itself, like commodity prices, and the shape of articles produced for mass consumption, the product of the interaction of innumerable people participating in the social process of the market. They are as such mass phenomena which are but little subject to modification on the part of a single individual. However, it is a distortion of truth to assert that the individual voter's ballot is without influence because many thousands or even millions of votes are required to decide the issue and that those of people not attached to any party virtually do not matter. Even if one were to admit this thesis for the sake of argument, it is a non sequitur to infer that the substitution of totalitarian principles for democratic procedures would make the officeholders more genuine representatives of the people's will than election campaigns. The counterparts of these totalitarian fables in the field of the market's economic democracy are the assertions that the individual consumer is powerless against the suppliers and the individual employee against the employers. It is, of course, not an individual's taste, different from that of the many, that determines the features of articles of mass production designed for mass consumption, but the wishes and likes of the majority. It is not the individual job-seeker, but the masses of job-seekers whose conduct determines the terms of the labor contracts prevailing in definite areas or branches of industry. If it is customary to have lunch between noon and one o'clock, an individual worker who prefers to have it between two and three p.m. has little chance of having his wishes satisfied.

However, the social pressure to which this solitary individual is subject in this case is not exercised by the employer, but by his fellow employees.

Employers in their search for suitable workers are forced to accommodate themselves even to serious and costly inconveniences if they cannot find those needed on other terms. In many countries, some of them stigmatized as socially backward by the champions of anticapitalism, employers must yield to various wishes of workers motivated by considerations of religious ritual or caste and status. They must arrange hours of work, holidays, and many technical problems according to such opinions, however burdensome such an adjustment may be. Whenever an employer asks for special performances which appear irksome or repulsive to the employees, he must pay extra for the excess of disutility the worker must expend.

The terms of the labor contract refer to all working conditions, not merely to the height of wage rates. Teamwork in factories and the interdependence of various enterprises make it impossible to deviate from the arrangements customary in the country or in the branch concerned and thus result in a unification and standardization of these arrangements. But this fact neither weakens nor eliminates the employee contribution in their setting up. For the individual workers they are, of course, an unalterable datum as the railroad's timetable is for the individual traveler. But nobody would contend that in determining the timetable the company does not bother about the wishes of the potential customers. Its intention is precisely to serve as many of them as possible.

The interpretation of the evolution of modern industrialism has been utterly vitiated by the anticapitalistic bias of governments and professedly prolabor writers and historians. The rise in real wage rates, the shortening of hours of work, the elimination of child labor, and the restriction of the labor of women, it is asserted, were the result of the interference of governments and labor unions and the pressure of public opinion aroused by humanitarian authors. But for this interference and pressure the entrepreneurs and capitalists would have retained for themselves all the advantages derived from the increase in capital investment and the consequent improvement in technological methods. The rise in the wage earners' standard of living was thus brought about at the expense of the "unearned" income of capitalists, entrepreneurs, and landowners. It is highly desirable to continue these policies, benefiting the many at the sole expense of a few selfish exploiters, and to reduce more and more the unfair take of the propertied classes.

The incorrectness of this interpretation is obvious. All measures restricting the supply of labor directly or indirectly burden the capitalists as far as they increase the marginal productivity of labor and reduce the marginal productivity of the material factors of production. As they restrict the supply of labor without reducing the supply of capital, they increase the portion allotted to the wage earners out of the total net product of the production effort. But this total net produce will drop too, and it depends on the specific data of each case whether the relatively greater quota of a smaller cake will be greater or smaller than the relatively smaller quota of a bigger cake. Profits and the rate of interest are not directly affected by the shortening of the total supply of labor. The prices of material factors of production drop and wage rates per unit of the individual worker's performance (not necessarily also per capita of the workers employed) rise. The prices of the products rise too. Whether all these changes result in an improvement or in a deterioration of the average wage earner's income is, as has been said, a question of fact in each instance.

But our assumption that such measures do not affect the supply of material factors of production is impermissible. The shortening of the hours of work, the restriction of night work and of the employment of certain classes of people impair the utilization of a part of the equipment available and are tantamount to a drop in the supply of capital. The resulting intensification of the scarcity of capital goods may entirely undo the potential rise in the marginal productivity of labor as against the marginal productivity of capital goods.

If concomitantly with the compulsory shortening of the hours of work the authorities or the unions forbid any corresponding reduction in wage rates which the state of the market would require or if previously prevailing institutions prevent such a reduction, the effects appear that every attempt to keep wage rates at a height above the potential market rate brings about: institutional unemployment.

The history of capitalism as it has operated in the last two hundred years in the realm of Western civilization is the record of a steady rise in the wage earners' standard of living. The inherent mark of capitalism is that it is mass production for mass consumption directed by the most energetic and far-sighted individuals, unflaggingly aiming at improvement. Its driving force is the profit-motive the instrumentality of which forces the businessman constantly to provide the consumers with more, better, and cheaper amenities. An excess of profits over losses can appear only in a progressing economy and only to the

extent to which the masses' standard of living improves.¹³ Thus capitalism is the system under which the keenest and most agile minds are driven to promote to the best of their abilities the welfare of the laggard many.

In the field of historical experience it is impossible to resort to measurement. As money is no yardstick of value and want-satisfaction, it cannot be applied for comparing the standard of living of people in various periods of time. However, all historians whose judgment is not muddled by romantic prepossessions agree that the evolution of capitalism has multiplied capital equipment on a scale which far exceeded the synchronous increase in population figures. Capital equipment both per capita of the population and per capita of those able to work is immensely larger today than fifty, a hundred, or two hundred years ago. Concomitantly there has been a tremendous increase in the quota which the wage earners receive out of the total amount of commodities produced, an amount which in itself is much bigger than in the past. The ensuing rise in the masses' standard of living is miraculous when compared with the conditions of ages gone by. In those merry old days even the wealthiest people led an existence which must be called straitened when compared with the average standard of the American or Australian worker of our age. Capitalism, says Marx, unthinkingly repeating the fables of the eulogists of the Middle Ages, has an inevitable tendency to impoverish the workers more and more. The truth is that capitalism has poured a horn of plenty upon the masses of wage earners who frequently did all they could to sabotage the adoption of those innovations which render their life more agreeable. How uneasy an American worker would be if he were forced to live in the style of a medieval lord and to miss the plumbing facilities and the other gadgets he simply takes for granted!

The improvement in his material well-being has changed the worker's valuation of leisure. Better supplied with the amenities of life as he is, he sooner reaches the point at which he looks upon any further increment in the disutility of labor as an evil which is no longer outweighed by the expected further increment in labor's mediate gratification. He is eager to shorten the hours of daily work and to spare his wife and children the toil and trouble of gainful employment. It is not labor legislation and labor-union pressure that have shortened hours of work and withdrawn married women and children from the factories; it is capitalism, which has made the wage earner so prosperous that he is able to buy more leisure time for himself and his

13. See above, pp. 294-300.

dependents. The nineteenth century's labor legislation by and large achieved nothing more than to provide a legal ratification for changes which the interplay of the market factors had brought about previously. As far as it sometimes went ahead of industrial evolution, the quick advance in wealth soon made things right again. As far as the allegedly prolabor laws decreed measures which were not merely the ratification of changes already effected or the anticipation of changes to be expected in the immediate future, they hurt the material interests of the workers.

The term "social gains" is utterly misleading. If the law forces workers who would prefer to work forty-eight hours a week not to give more than forty hours of work, or if it forces employers to incur certain expenses for the benefit of employees, it does not favor workers at the expense of employers. Whatever the provisions of a social security law may be, their incidence ultimately burdens the employee, not the employer. They affect the amount of take-home wages; if they raise the price the employer has to pay for a unit of performance above the potential market rate, they create institutional unemployment. Social security does not enjoin upon the employers the obligation to expend more in buying labor. It imposes upon the wage earners a restriction concerning the spending of their total income. It curtails the worker's freedom to arrange his household according to his own decisions.

Whether such a system of social security is a good or a bad policy is essentially a political problem. One may try to justify it by declaring that the wage earners lack the insight and the moral strength to provide spontaneously for their future. But then it is not easy to silence the voices of those who ask whether it is not paradoxical to entrust the nation's welfare to the decisions of voters whom the law itself considers incapable of managing their own affairs; whether it is not absurd to make those people supreme in the conduct of government who are manifestly in need of a guardians? It is no accident that Germany, the country that inaugurated the social security system, was the cradle of both varieties of modern disparagement of democracy, the Marxian as well as the non-Marxian.

*Remarks About the Popular Interpretation
of the "Industrial Revolution"*

It is generally asserted that the history of modern industrialism and especially the history of the British "Industrial Revolution" provide an empirical verification of the "realistic" or "institutional" doctrine and utterly

explode the “abstract” dogmatism of the economists.¹⁴

The economists flatly deny that labor unions and government pro-labor legislation can and did lastingly benefit the whole class of wage earners and raise their standard of living. But the facts, say the anti-economists, have refuted these fallacies. The statesmen and legislators who enacted the factory acts displayed a better insight into reality than the economists. While laissez-faire philosophy, without pity and compassion, taught that the sufferings of the toiling masses are unavoidable, the common sense of laymen succeeded in quelling the worst excesses of profit-seeking business. The improvement in the conditions of the workers is entirely an achievement of governments and labor unions.

Such are the ideas permeating most of the historical studies dealing with the evolution of modern industrialism. The authors begin by sketching an idyllic image of conditions as they prevailed on the eve of the “Industrial Revolution.” At that time, they tell us, things were, by and large, satisfactory. The peasants were happy. So also were the industrial workers under the domestic system. They worked in their own cottages and enjoyed a certain economic independence since they owned a garden plot and their tools. But then “the Industrial Revolution fell like a war or a plague” on these people.¹⁵ The factory system reduced the free worker to virtual slavery; it lowered his standard of living to the level of bare subsistence; in cramming women and children into the mills it destroyed family life and sapped the very foundations of society, morality, and public health. A small minority of ruthless exploiters had cleverly succeeded in imposing their yoke upon the immense majority.

The truth is that economic conditions were highly unsatisfactory on the eve of the Industrial Revolution. The traditional social system was not elastic enough to provide for the needs of a rapidly increasing population. Neither farming nor the guilds had any use for the additional hands. Business was imbued with the inherited spirit of privilege and exclusive monopoly; its institutional foundations were licenses and the grant of a patent of monopoly; its philosophy was restriction and the prohibition of competition both domestic and foreign. The

14. The attribution of the phrase “the Industrial Revolution” to the reigns of the two last Hanoverian Georges was the outcome of deliberate attempts to melodramatize economic history in order to fit it into the Procrustean Marxian schemes. The transition from medieval methods of production to those of the free enterprise system was a long process that started centuries before 1760 and, even in England, was not finished in 1830. Yet, it is true that England’s industrial development was considerably accelerated in the second half of the eighteenth century. It is therefore permissible to use the term “Industrial Revolution” in the examination of the emotional connotations with which Fabianism, Marxism, the Historical School, and Institutionalism have loaded it.

15. J.L. Hammond and Barbara Hammond, *The Skilled Labourer 1760-1832* (2d ed. London, 1920), p. 4.

number of people for whom there was no room left in the rigid system of paternalism and government tutelage of business grew rapidly. They were virtually outcasts. The apathetic majority of these wretched people lived from the crumbs that fell from the tables of the established castes. In the harvest season they earned a trifle by occasional help on farms; for the rest they depended upon private charity and communal poor relief. Thousands of the most vigorous youths of these strata were pressed into the service of the Royal Army and Navy; many of them were killed or maimed in action; many more perished ingloriously from the hardships of the barbarous discipline, from tropical diseases, or from syphilis.¹⁶ Other thousands, the boldest and most ruthless of their class, infested the country as vagabonds, beggars, tramps, robbers, and prostitutes. The authorities did not know of any means to cope with these individuals other than the poorhouse and the workhouse. The support the government gave to the popular resentment against the introduction of new inventions and laborsaving devices made things quite hopeless.

The factory system developed in a continuous struggle against innumerable obstacles. It had to fight popular prejudice, old established customs, legally binding rules and regulations, the animosity of the authorities, the vested interests of privileged groups, the envy of the guilds. The capital equipment of the individual firms was insufficient, the provision of credit extremely difficult and costly. Technological and commercial experience was lacking. Most factory owners failed; comparatively few succeeded. Profits were sometimes considerable, but so were losses. It took many decades until the common practice of reinvesting the greater part of profits earned accumulated adequate capital for the conduct of affairs on a broader scale.

That the factories could thrive in spite of all these hindrances was due to two reasons. First there were the teachings of the new social philosophy expounded by the economists. They demolished the prestige of Mercantilism, paternalism, and restrictionism. They exploded the superstitious belief that labor-saving devices and processes cause unemployment and reduce all people to poverty and decay. The laissez-faire economists were the pioneers of the unprecedented technological achievements of the last two hundred years.

Then there was another factor that weakened the opposition to innovations. The factories freed the authorities and the ruling landed aristocracy from an embarrassing problem that had grown too large for them. They provided sustenance for the masses of paupers. They emptied the poor houses, the workhouses, and the prisons. They converted starving beggars into self-supporting breadwinners.

The factory owners did not have the power to compel anybody to take a

16. In the Seven Years' War, 1,512 British seamen were killed in battle while 133,708 died of disease or were missing. Cf. W.L. Dorn, *Competition for Empire 11740-1763* (New York, 1940), p. 114.

factory job. They could only hire people who were ready to work for the wages offered to them. Low as these wage rates were, they were nonetheless much more than these paupers could earn in any other field open to them. It is a distortion of facts to say that the factories carried off the housewives from the nurseries and the kitchens and the children from their play. These women had nothing to cook with and to feed their children. These children were destitute and starving. Their only refuge was the factory. It saved them, in the strict sense of the term, from death by starvation.

It is deplorable that such conditions existed. But if one wants to blame those responsible, one must not blame the factory owners who—driven by selfishness, of course, and not by “altruism”—did all they could to eradicate the evils. What had caused these evils was the economic order of the precapitalistic era, the order of the “good old days.”

In the first decades of the Industrial Revolution the standard of living of the factory workers was shockingly bad when compared with the contemporary conditions of the upper classes and with the present conditions of the industrial masses. Hours of work were long, the sanitary conditions in the workshops deplorable. The individual’s capacity to work was used up rapidly. But the fact remains that for the surplus population which the enclosure movement had reduced to dire wretchedness and for which there was literally no room left in the frame of the prevailing system of production, work in the factories was salvation. These people thronged into the plants for no reason other than the urge to improve their standard of living.

The *laissez-faire* ideology and its offshoot, the “Industrial Revolution,” blasted the ideological and institutional barriers to progress and welfare. They demolished the social order in which a constantly increasing number of people were doomed to abject need and destitution. The processing trades of earlier ages had almost exclusively catered to the wants of the well-to-do. Their expansion was limited by the amount of luxuries the wealthier strata of the population could afford. Those not engaged in the production of primary commodities could earn a living only as far as the upper classes were disposed to utilize their skill and services. But now a different principle came into operation. The factory system inaugurated a new mode of marketing as well as of production. Its characteristic feature was that the manufactures were not designed for the consumption of a few well-to-do only, but for the consumption of those who had hitherto played but a negligible role as consumers. Cheap things for the many, was the objective of the factory system. The classical factory of the early days of the Industrial Revolution was the cotton mill. Now, the cotton goods it turned out were not something the rich were asking for. These wealthy people clung to silk, linen, and cambric. Whenever the factory with its methods of mass production by means of power-driven machines invaded a

new branch of production, it started with the production of cheap goods for the broad masses. The factories turned to the production of more refined and therefore more expensive goods only at a later stage, when the unprecedented improvement in the masses' standard of living which they caused made it profitable to apply the methods of mass production also to these better articles. Thus, for instance, the factory-made shoe was for many years bought only by the "proletarians" while the wealthier consumers continued to patronize the custom shoemakers. The much talked about sweatshops did not produce clothes for the rich, but for people in modest circumstances. The fashionable ladies and gentlemen preferred and still do prefer custom-made frocks and suits.

The outstanding fact about the Industrial Revolution is that it opened an age of mass production for the needs of the masses. The wage earners are no longer people toiling merely for other people's well-being. They themselves are the main consumers of the products the factories turn out. Big business depends upon mass consumption. There is, in present-day America, not a single branch of big business that would not cater to the needs of the masses. The very principle of capitalist entrepreneurship is to provide for the common man. In his capacity as consumer the common man is the sovereign whose buying or abstention from buying decides the fate of entrepreneurial activities. There is in the market economy no other means of acquiring and preserving wealth than by supplying the masses in the best and cheapest way with all the goods they ask for.

Blinded by their prejudices, many historians and writers have entirely failed to recognize this fundamental fact. As they see it, wage earners toil for the benefit of other people. They never raise the question who these "other" people are.

Mr. and Mrs. Hammond tell us that the workers were happier in 1760 than they were in 1830.¹⁷ This is an arbitrary value judgment. There is no means of comparing and measuring the happiness of different people and of the same people at different times. We may agree for the sake of argument that an individual who was born in 1740 was happier in 1760 than in 1830. But let us not forget that in 1770 (according to the estimate of Arthur Young) England had 8.5 million inhabitants, while in 1831 (according to the census) the figure was 16 million.¹⁸ This conspicuous increase was mainly conditioned by the Industrial Revolution. With regard to these additional Englishmen the assertion of the eminent historians can only be approved by those who endorse the melancholy verses of Sophocles: "Not to be born is, beyond all question, the best; but when a man has once seen the light of day, this is next best, that speedily he should return to that place whence he came."

17.J.L. Hammond and Barbara Hammond, *loc. cit.*

18.F.C. Dietz, *An Economic History of England* (New York, 1942), pp. 279 and 392.

The early industrialists were for the most part men who had their origin in the same social strata from which their workers came. They lived very modestly, spent only a fraction of their earnings for their households and put the rest back into the business. But as the entrepreneurs grew richer, the sons of successful businessmen began to intrude into the circles of the ruling class. The highborn gentlemen envied the wealth of the parvenus and resented their sympathies with the reform movement. They hit back by investigating the material and moral conditions of the factory hands and enacting factory legislation.

The history of capitalism in Great Britain as well as in all other capitalist countries is a record of an unceasing tendency toward the improvement in the wage earners' standard of living. This evolution coincided with the development of prolabor legislation and the spread of labor unionism on the one hand and with the increase in the marginal productivity of labor on the other hand. The economists assert that the improvement in the workers' material conditions is due to the increase in the per capita quota of capital invested and the technological achievements which the employment of this additional capital brought about. As far as labor legislation and union pressure did not exceed the limits of what the workers would have got without them as a necessary consequence of the acceleration of capital accumulation as compared with population, they were superfluous. As far as they exceeded these limits, they were harmful to the interests of the masses. They delayed the accumulation of capital thus slowing down the tendency toward a rise in the marginal productivity of labor and in wage rates. They conferred privileges on some groups of wage earners at the expense of other groups. They created mass unemployment and decreased the amount of products available for the workers in their capacity as consumers.

The apologists of government interference with business and of labor unionism ascribe all the improvements in the conditions of the workers to the actions of governments and unions. Except for them, they contend, the workers' standard of living would be no higher today than it was in the early years of the factory system.

It is obvious that this controversy cannot be settled by appeal to historical experience. With regard to the establishment of the facts there is no disagreement between the two groups. Their antagonism concerns the interpretation of events, and this interpretation must be guided by the theory chosen. The epistemological and logical considerations which determine the correctness or incorrectness of a theory are logically and temporally antecedent to the elucidation of the historical problem involved. The historical facts as such neither prove nor disprove any theory. They need to be interpreted in the light of theoretical insight.

Most of the authors who wrote the history of the conditions of labor under

capitalism were ignorant of economics and boasted of this ignorance. However, this contempt for sound economic reasoning did not mean that they approached the topic of their studies without prepossession and without bias in favor of any theory. They were guided by the popular fallacies concerning governmental omnipotence and the alleged blessings of labor unionism. It is beyond question that the Webbs as well as Lujo Bretano and a host of minor authors were at the very start of their studies imbued with a fanatical dislike of the market economy and an enthusiastic endorsement of the doctrines of socialism and interventionism. They were certainly honest and sincere in their convictions and tried to do their best. Their candor and probity may exonerate them as individuals; it does not exonerate them as historians. However pure the intentions of a historian may be, there is no excuse for his recourse to fallacious doctrines. The first duty of a historian is to examine with the utmost care all the doctrines to which he resorts in dealing with the subject matter of his work. If he neglects to do this and naively espouses the garbled and confused ideas of popular opinion, he is not a historian but an apologist and propagandist.

The antagonism between the two opposite points of view is not merely a historical problem. It refers no less to the most burning problems of the present day. It is the matter of controversy in what is called in present-day America the problem of industrial relations.

Let us stress one aspect of the matter only. Vast areas—Eastern Asia, the East Indies, Southern and Southeastern Europe, Latin America—are only superficially affected by modern capitalism. Conditions in these countries by and large do not differ from those of England on the eve of the “Industrial Revolution.” There are millions of people for whom there is no secure place left in the traditional economic setting. The fate of these wretched masses can be improved only by industrialization. What they need most is entrepreneurs and capitalists. As their own foolish policies have deprived these nations of the further enjoyment of the assistance imported foreign capital hitherto gave them, they must embark upon domestic capital accumulation. They must go through all the stages through which the evolution of Western industrialism had to pass. They must start with comparatively low wage rates and long hours of work. But, deluded by the doctrines prevailing in present-day Western Europe and North America, their statesmen think that they can proceed in a different way. They encourage labor-union pressure and alleged prolabor legislation. Their interventionist radicalism nips in the bud all attempts to create domestic industries. Their stubborn dogmatism spells the doom of the Indian and Chinese coolies, the Mexican peons, and millions of other peoples, desperately struggling on the verge of starvation.

8. Wage Rates as Affected by the Vicissitudes of the Market

Labor is a factor of production. The price which the seller of labor can obtain on the market depends on the data of the market.

The quantity and the quality of labor which an individual is fitted to deliver is determined by his innate and acquired characteristics. The innate abilities cannot be altered by any purposeful conduct. They are the individual's heritage with which his ancestors have endowed him on the day of his birth. He can bestow care upon these gifts and cultivate his talents, he can keep them from prematurely withering away; but he can never cross the boundaries which nature has drawn to his forces and abilities. He can display more or less skill in his endeavors to sell his capacity to work at the highest price which is obtainable on the market under prevailing conditions; but he cannot change his nature in order to adjust it better to the state of the market data. It is good luck for him if market conditions are such that a kind of labor which he is able to perform is lavishly remunerated; it is chance, not personal merit if his innate talents are highly appreciated by his fellow men. Miss Greta Garbo, if she had lived a hundred years earlier, would probably have earned much less than she did in this age of moving pictures. As far as her innate talents are concerned, she is in a position similar to that of a farmer whose farm can be sold at a high price because the expansion of a neighboring city converted it into urban soil.

Within the rigid limits drawn by his innate abilities, a man's capacity to work can be perfected by training for the accomplishment of definite tasks. The individual—or his parents—incur expenses for a training the fruit of which consists in the acquisition of the ability to perform certain kinds of work. Such schooling and training intensify a man's one-sidedness; they make him a specialist. Every special training enhances the specific character of a man's capacity to work. The toil and trouble, the disutility of the efforts to which an individual must submit in order to acquire these special abilities, the loss of potential earnings during the training period, and the money expenditure required are laid out in the expectation that the later increment in earnings will compensate for them. These expenses are an investment and as such speculative. It depends on the future state of the market whether or not they will pay. In training himself the worker becomes a speculator and entrepreneur. The future state of the market will determine whether profit or loss results from his investment.

Thus the wage earner has vested interests in a twofold sense, as a man

with definite innate qualities and as a man who has acquired definite special skills.

The wage earner sells his labor on the market at the price which the market allows for it today. In the imaginary construction of the evenly rotating economy the sum of the prices which the entrepreneur must expend for all the complementary factors of production together must equal—due consideration being made for time preference—the price of the product. In the changing economy changes in the market structure may bring about differences between these two magnitudes. The ensuing profits and losses do not affect the wage earner. Their incidence falls upon the employer alone. The uncertainty of the future affects the employee only as far as the following items are concerned:

1. The expenses incurred in time, disutility, and money for training.
2. The expenses incurred in moving to a definite place of work.
3. In case of a labor contract stipulated for a definite period of time, changes in the price of the specific type of labor occurring in the meantime and changes in the employer's solvency.

9. The Labor Market

Wages are the prices paid for the factor of production, human labor. As is the case with all the other prices of complementary factors of production their height is ultimately determined by the prices of the products as they are expected at the instant the labor is sold and bought. It does not matter whether he who performs the labor sells his services to an employer who combines them with the material factors production and with the services of other people or whether he himself embarks upon his own account and peril upon these acts of combination. The final price of labor of the same quality is at any rate the same in the whole market system. Wage rates are always equal to the price of the full produce of labor. The popular slogan "the worker's right to the full produce of labor" was an absurd formulation of the claim that the consumers' goods should be distributed exclusively among the workers and nothing should be left to the entrepreneurs and the owners of the material factors of production. From no point of view whatever can artifacts be considered as the products of mere labor. They are the yield of a purposive combination of labor and of material factors of production.

In the changing economy there prevails a tendency for market wage rates to adjust themselves precisely to the state of the final wage rates. This adjustment is a time-absorbing process. The length of the period of adjustment depends on the time required for the training for new jobs and for the

removal of workers to new places of residence. It depends furthermore on subjective factors, as for instance the workers' familiarity with the conditions and prospects of the labor market. The adjustment is a speculative venture as far as the training for new jobs and the change of residence involve costs which are expended only if one believes that the future state of the labor market will make them appear profitable.

With regard to all these things there is nothing that is peculiar to labor, wages, and the labor market. What gives a particular feature to the labor market is that the worker is not merely the purveyor of the factor of production labor, but also a human being and that it is impossible to sever the man from his performance. Reference to this fact has been mostly used for extravagant utterances and for a vain critique of the economic teachings concerning wage rates. However, these absurdities must not prevent economics from paying adequate attention to this primordial fact.

For the worker it is a matter of consequence what kind of labor he performs among the various kinds he is able to perform, where he performs it, and under what particular conditions and circumstances. An unaffected observer may consider empty or even ridiculous prejudices the ideas and feelings that actuate a worker to prefer certain jobs, certain places of work, and certain conditions of labor to others. However, such academic judgments of unaffected censors are of no avail. For an economic treatment of the problems involved there is nothing especially remarkable in the fact that the worker looks upon his toil and trouble not only from the point of view of the disutility of labor and its mediate gratification, but also takes into account whether the special conditions and circumstances of its performance interfere with his enjoyment of life and to what extent. The fact that a worker is ready to forego the chance to increase his money earnings by migrating to a place he considers less desirable and prefers to remain in his native place or country is not more remarkable than the fact that a wealthy gentleman of no occupation prefers the more expensive life in the capital to the cheaper life in a small town. The worker and the consumer are the same person; it is merely economic reasoning that integrates the social functions and splits up this unity into two schemes. Men cannot sever their decisions concerning the utilization of their working power from those concerning the enjoyment of their earnings.

Descent, language, education, religion, mentality, family bonds, and social environment tie the worker in such a way that he does not choose the place and the branch of his work merely with regard to the height of wage rates.

We may call that height of wage rates for definite types of labor which would prevail on the market if the workers did not discriminate between various places and, wage rates being equal, did not discriminate between various places and, wage rates being equal, did not prefer one working place to another, standard wage rates (*S*). If, however, the wage earners, out of the above-mentioned considerations, value differently work in different places, the height of market wage rates (*M*) can permanently deviate from the standard rates. We may call the maximum difference between the market rate and the standard rate which does not yet result in the migration of workers from the places of lower market wage rates to those of higher market wage rates the attachment component (*A*). The attachment component of a definite geographical place or area is either positive or negative.

We must furthermore take into account that the various places and areas differ with regard to provision with consumers' goods as far as transportation costs (in the broadest sense of the term) are concerned. These costs are lower in some areas, higher in other areas. Then there are differences with regard to the physical input required for the attainment of the same amount of physical satisfaction. In some places a man must expend more in order to attain the same degree of want-satisfaction which, apart from the circumstances determining the amount of the attachment component, he could attain elsewhere more cheaply. On the other hand, a man can in some places avoid certain expenses without any impairment of his want-satisfaction while renunciation of these expenses would curtail his satisfaction in other places. We may call the expenses which a worker must incur in certain places in order to attain in this sense the same degree of want-satisfaction, or which he can spare without curtailing his want-satisfaction, the cost component (*C*). The cost component of a definite geographical place or area is either positive or negative.

If we assume that there are no institutional barriers preventing or penalizing the transfer of capital goods, workers, and commodities from one place or area to another and that the workers are indifferent with regard to their dwelling and working places, there prevails a tendency toward a distribution of population over the earth's surface in accordance with the physical productivity of the primary natural factors of production and the immobilization of inconvertible factors of production as affected in the past. There is, if we disregard the cost component, a tendency toward an equalization of wage rates for the same type of work all over the earth.

It would be permissible to call an area comparatively overpopulated if in it market wage rates plus the (positive or negative) cost component are lower than the standard rates, and comparatively underpopulated if in it market wage rates

plus the (positive or negative) cost component are higher than the standard rates. But it is not expedient to resort to such a definition of the terms involved. It does not help us in explaining the real conditions of the formation of wage rates and the conduct of wage earners. It is more expedient to choose another definition. We may call an area comparatively overpopulated if in it market wage rates are lower than the standard rates plus both the (positive or negative) attachment component and the (positive or negative) cost component, that is where $M < (S + A + C)$. Accordingly an area is to be called comparatively underpopulated in which $M > (S + A + C)$. In the absence of institutional migration barriers workers move from the comparatively overpopulated areas to the comparatively underpopulated until everywhere $M = S + A + C$.

The same is true, *mutatis mutandis*, for the migration of individuals working on their own account and selling their labor in disposing of its products or in rendering personal services.

The concepts of the attachment component and the cost component apply in the same way to shifting from one branch of business or occupation to another.

It is hardly necessary to observe that the migrations which these theorems describe come to pass only in so far as there are no institutional barriers to the mobility of capital, labor, and commodities. In this age aiming at the disintegration of the international division of labor and at each sovereign nation's economic self-sufficiency, the tendencies they describe are fully operative only within each nation's boundaries.

The Work of Animals and of Slaves

For man, animals are a material factor of production. It may be that one day a change in moral sentiments will induce people to treat animals more gently. Yet, as far as men do not leave the animals alone and let them go their way, they will always deal with them as mere objects of their own acting. Social cooperation can exist only between human beings because only these are able to attain insight into the meaning and the advantages of the division of labor and of peaceful cooperation.

Man subdues the animal and integrates it into his scheme of action as a material thing. In taming, domesticating, and training animals man often displays appreciation for the creature's psychological peculiarities; he appeals, as it were, to its soul. But even then the gulf that separates man from animal remains unbridgeable. An animal can never get anything else than satisfaction of its appetites for food and sex and adequate protection against injury resulting from environmental factors. Animals are bestial and inhuman precisely because

they are such as the iron law of wages imagined workers to be. As human civilization would never have emerged if men were exclusively dedicated to feeding and mating, so animals can neither consort in social bonds nor participate in human society.

People have tried to look upon fellow men as they look upon animals and to deal with them accordingly. They have used whips to compel galley slaves and barge haulers to work like capstan-horses. However, experience has shown that these methods of unbridled brutalization render very unsatisfactory results. Even the crudest and dullest people achieve more when working of their own accord than under the fear of the whip.

Primitive man makes no distinction between his property in women, children, and slaves on the one hand and his property in cattle and inanimate things on the other. But as soon as he begins to expect from his slaver services other than such as can also be rendered by draft and pack animals, he is forced to loosen their chains. He must try to substitute the incentive of self-interest for the incentive of mere fear; he must try to bind the slave to himself by human feelings. If the slave is no longer prevented from fleeing exclusively by being chained and watched and no longer forced to work exclusively under the threat of being whipped, the relation between master and slave is transformed into a social nexus. The slave may, especially if the memory of happier days of freedom is still fresh, bemoan his misfortune and hanker after liberation. But he puts up with what seems to be an inevitable state of affairs and accommodates himself to his fate in such a way as to make it as bearable as possible. The slave becomes intent upon satisfying his master through application and carrying out the tasks entrusted to him; the master becomes intent upon rousing the slave's zeal and loyalty through reasonable treatment. There develop between lord and drudge familiar relations which can properly be called friendship.

Perhaps the eulogists of slavery were not entirely wrong when they asserted that many slaves were satisfied with their station and did not aim at changing it. There are perhaps individuals, groups of individuals, and even whole peoples and races who enjoy the safety and security provided by bondage; who, insensible of humiliation and mortification, are glad to pay with a moderate amount of labor for the privilege of sharing in the amenities of a well-to-do household; and in whose eyes subjection to the whims and bad tempers of a master is only a minor evil or no evil at all.

Of course, the conditions under which the servile workers toiled in big farms and plantations, in mines, in workshops, and galleys were very different from the idyllically described gay life of domestic valets, chambermaids, cooks, and nurses and from the conditions of unfree laborers, dairymaids, herdsman, and shepherds of small farming. No apologist of slavery was bold enough to glorify the lot of the Roman agricultural slaves,

chained and crammed together in the *ergastulum*, or of the Negroes of the American cotton and sugar plantations.¹⁹

The abolition of slavery and serfdom is to be attributed neither to the teachings of theologians and moralists nor to weakness or generosity on the part of the masters. There were among the teachers of religion and ethics as many eloquent defenders of bondage as opponents.²⁰ Servile labor disappeared because it could not stand the competition of free labor; its unprofitability sealed its doom in the market economy.

The price paid for the purchase of a slave is determined by the net yield expected from his employment (both as a worker and as a progenitor of other slaves) just as the price paid for a cow is determined by the net yield expected from its utilization. The owner of a slave does not pocket a specific revenue. For him there is no "exploitation" boon derived from the fact that the slave's work is not remunerated and that the potential market price of the services he renders is possibly greater than the cost of feeding, sheltering, and guarding him. He who buys a slave must in the price paid make good for these economies as far as they may be expected; he pays for them in full, due allowance being made for time preference. Whether the proprietor employs the slave in his own household or enterprise or rents his services to other people, he does not enjoy any specific advantage from the existence of the institution of slavery. The specific boon goes totally to the slave-hunter, i.e., the man who deprives free men of their liberty and transforms them into slaves. But, of course, the profitability of the slave-hunter's business depends upon the height of the prices buyers are ready to pay for the acquisition of slaves. If these prices drop below the operation and transportation costs incurred in the business of slave-hunting, business no longer pays and must be discontinued.

Now, at no time and at no place was it possible for enterprises employing servile labor to compete on the market with enterprises employing free labor. Servile labor could always be utilized only where it did not have to meet the competition of free labor.

If one treats men like cattle, one cannot squeeze out of them more than cattle-like performances. But it then becomes significant that man is physically weaker than oxen and horses, and that feeding and guarding a slave is, in proportion to the performance to be reaped, more expensive than feeding and guarding cattle. When

19. Margaret Mitchell, who in her popular novel *Gone With the Wind* (New York, 1936) eulogizes the South's slavery system, is cautious enough not to enter into particulars concerning the plantation hands, and prefers to dwell upon the conditions of domestic servants, who even in her account appear as an elite of their caste.

20. Cf. about the American proslavery doctrine Charles and Mary Beard. *The Rise of American Civilization* (1944), I, 703-710; and c.e. Merriam, *A History of American Political Theories* (New York, 1924), pp. 227-251.

treated as a chattel, man renders a smaller yield per unit of cost expended for current sustenance and guarding than domestic animals. If one asks from an unfree laborer human performances, one must provide him with specifically human inducements. If the employer aims at obtaining products which in quality and quantity excel those whose production can be extorted by the whip, he must interest the toiler in the yield of his contribution. Instead of punishing laziness and sloth, he must reward diligence, skill, and eagerness. But whatever he may try in this respect, he will never obtain from a bonded worker, i.e., a worker who does not reap the full market price of his contribution, a performance equal to that rendered by a freeman, i.e., a man hired on the unhampered labor market. The upper limit beyond which it is impossible to lift the quality and quantity of the products and services rendered by slave and serf labor is far below the standards of free labor. In the production of articles of superior quality an enterprise employing the apparently cheap labor of unfree workers can never stand the competition of enterprises employing free labor. It is this fact that has made all systems of compulsory labor disappear.

Social institutions once made whole areas or branches of production reservations exclusively kept for the occupation of unfree labor and sheltered against any competition on the part of entrepreneurs employing free men. Slavery and serfdom thus became essential features of a rigid caste system that could be neither removed nor modified by the actions of individuals. Wherever conditions were different, the slave owners themselves resorted to measures which were bound to abolish, step by step, the whole system of unfree labor. It was not humanitarian feelings and clemency that induced the callous and pitiless slaveholders of ancient Rome to loosen the fetters of their slaves, but the urge to derive the best possible gain from their property. They abandoned the system of centralized big-scale management of their vast landholdings, the *latifundia*, and transformed the slaves into virtual tenants cultivating their tenements on their own account and owing to the landlord merely either a lease or a share of the yield. In the processing trades and in commerce the slaves became entrepreneurs and their funds, the *peculium*, their legal quasi-property. Slaves were manumitted in large numbers because the freedman rendered to the former owner, the *patronus*, services more valuable than those to be expected from a slave. For the manumission was not an act of grace and a gratuitous gift on the part of the owner. It was a credit operation, a purchase of freedom on the installment plan, as it were. The freedman was bound to render the former owner for many years or even for a lifetime definite payments and services. The *patronus* moreover had special rights of inheritance to the estate of the deceased freedman.²¹

21.Cf. Ciccotti, *Le Déclin de l'esclavage antique* (Paris, 1910), pp. 292 ff.; Salvioi, *Le Capitalisme dans de monde antique* (Paris, 1906), pp. 141 ff.; Cairnes, *The Slave Power* (London, 1862), p. 234.

With the disappearance of the plants and farms employing unfree laborers, bondage ceased to be a system of production and became a political privilege of an aristocratic caste. The overlords were entitled to definite tributes in kind or money and to definite services on the part of their subordinates; moreover their serfs' children were obliged to serve them as servants or military retinue for a definite length of time. But the underprivileged peasants and artisans operated their farms and shops on their own account and peril. Only when their processes of production were accomplished did the lord step in and claim a part of the proceeds.

Later, from the sixteenth century on, people again began to employ unfree workers in agricultural and even sometimes in industrial big-scale production. In the American colonies Negro slavery became the standard method of the plantations. In Eastern Europe—in Northeastern Germany, in Bohemia and its annexes Moravia and Silesia, in Poland, in the Baltic countries, in Russia, and also in Hungary and its annexes—big-scale farming was built upon the unpaid statute labor of serfs. Both these systems of unfree labor were sheltered by political institutions against the competition of enterprises employing free workers. In the plantation colonies the high costs of immigration and the lack of sufficient legal and judicial protection of the individual against the arbitrariness of government officers and the planter aristocracy prevented the emergence of a sufficient supply of free labor and the development of a class of independent farmers. In Eastern Europe the caste system made it impossible for outsiders to enter the field of agricultural production. Big-scale farming was reserved to members of the nobility. Small holdings were reserved to unfree bondsmen. Yet the fact that the enterprises employing unfree labor would not be able to stand the competition of enterprises employing free labor was not contested by anybody. On this point the eighteenth and early nineteenth-century authors on agricultural management were no less unanimous than the writers of ancient Rome on farm problems. But the abolition of slavery and serfdom could not be effected by the free play of the market system, as political institutions had withdrawn the estates of the nobility and the plantations from the supremacy of the market. Slavery and serfdom were abolished by political action dictated by the spirit of the much-abused *laissez faire, laissez passer* ideology.

Today mankind is again faced with endeavors to substitute compulsory labor for the labor of the freeman selling his capacity to work as a "commodity" on the market. Of course, people believe that there is an essential difference between the tasks incumbent upon the comrades of the socialist commonwealth and those incumbent upon slaves or serfs. The slaves and serfs, they say, toiled for the benefit of an exploiting lord. But in a socialist system the produce of labor goes to society of which the toiler himself is a part; here the worker works for himself, as it were. What this reasoning

overlooks is that the identification of the individual comrades and the totality of all comrades with the collective entity pocketing the produce of all work is merely fictitious. Whether the ends which the community's officeholders are aiming at agree or disagree with the wishes and desires of the various comrades, is of minor importance. The main thing is that the individual's contribution to the collective entity's wealth is not required in the shape of wages determined by the market. A socialist commonwealth lacks any method of economic calculation; it cannot determine separately what quotas of the total amount of goods produced are to be assigned to the various complementary factors of production. As it cannot ascertain the magnitude of the contribution society owes to the various individuals' efforts, it cannot remunerate the workers according to the value of their performance.

In order to distinguish free labor from compulsory labor no metaphysical subtleties concerning the essence of freedom and compulsion are required. We may call free labor that kind of extroversive, not immediately gratifying labor that a man performs either for the direct satisfaction of his own wants or for their indirect satisfaction to be reaped by expending the price earned by its sale on the market. Compulsory labor is labor performed under the pressure of other incentives. If somebody were to take umbrage at this terminology because the employment of words like freedom and compulsion may arouse an association of ideas injurious to a dispassionate treatment of the problems involved, one could as well choose other terms. We may substitute the expression *F* labor for the term free labor and the term *C* labor for the term compulsory labor. The crucial problem cannot be affected by the choice of the terms. What alone matters is this: What kind of inducement can spur a man to submit to the disutility of labor if his own want-satisfaction neither directly nor—to any appreciable extent—indirectly depends on the quantity and quality of *his* performance?

Let us assume for the sake of argument that many workers, perhaps even most of them, will of their own accord dutifully take pains for the best possible fulfillment of the tasks assigned to them by their superiors. (We may disregard the fact that the determination of the task to be imposed upon the various individuals would confront a socialist commonwealth with insoluble problems.) But how to deal with those sluggish and careless in the discharge of the imposed duties? There is no other way left than to punish them. In their superiors must be vested the authority to establish the offense, to give judgment on its subjective reasons, and to mete out punishment accordingly. A hegemonic bond is substituted for the contractual bond. The worker becomes subject to the discretionary power of his superiors, he is personally subordinate to his chief's disciplinary power.

In the market economy the worker sells his services as other people sell

their commodities. The employer is not the employee's lord. He is simply the buyer of services which he must purchase at their market price. Of course, like every other buyer an employer too can take liberties. But if he resorts to arbitrariness in hiring or discharging workers, he must foot the bill. An employer or an employee entrusted with the management of a department of an enterprise is free to discriminate in hiring workers, to fire them arbitrarily, or to cut down their wages below the market rate. But in indulging in such arbitrary acts he jeopardizes the profitability of his enterprise or his department and thereby impairs his own income and his position in the economic system. In the market economy such whims bring their own punishment. The only real and effective protection of the wage earner in the market economy is provided by the play of the factors determining the formation of prices. The market makes the worker independent of arbitrary discretion on the part of the employer and his aides. The workers are subject only to the supremacy of the consumers as their employers are too. In determining, by buying or abstention from buying, the prices of products and the employment of factors of production, consumers assign to each kind of labor its market price.

What makes the worker a free man is precisely the fact that the employer, under the pressure of the market's price structure, considers labor a commodity, an instrument of earning profits. The employee is in the eyes of the employer merely a man who for a consideration in money helps him to make money. The employer pays for services rendered and the employee performs in order to earn wages. There is in this relation between employer and employee no question of favor or disfavor. The hired man does not owe the employer gratitude; he owes him a definite quantity of work of a definite kind and quality.

That is why in the market economy the employer can do without the power to punish the employee. All nonmarket systems of production must give to those in control the power to spur on the slow worker to more zeal and application. As imprisonment withdraws the worker from his job or at least reduces considerably the value of his contribution, corporal punishment has always been the classical means of keeping slaves and serfs to their work. With the abolition of unfree labor one could dispense with the whip as a stimulus. Flogging was the symbol of bond labor. Members of a market society consider corporal punishment inhuman and humiliating to such a degree that it has been abolished also in the schools, in the penal code, and in military discipline.

He who believes that a socialist commonwealth could do without compulsion and coercion against slothful workers because everyone will spontaneously do his duty, falls prey to the illusions implied in the doctrine of anarchism.