

THE DYNAMICS OF THE WAGES QUESTION— DISCUSSION

JOHN A. HOBSON: I shall not dwell upon the large portion of the paper in which I am thoroughly in accord with Professor Clark, but shall confine myself to certain points upon which I differ from his interpretation. I am very strongly tempted to spend my ten minutes upon the question whether it is possible or not to make any estimate of the specific measure of the value of the labor of any individual working in coöperation with his fellows. Personally I am unable altogether to accept the view that it is possible, even with perfect fluidity of capital and labor, to say that the "marginal" laborer will get as his pay the amount which he actually produces, or that we have any means whatever of measuring what he does actually produce as an individual in a society so highly organized as that in which he finds himself to-day. My point is, to put it briefly, that we have no means of specific measurement. Professor Clark here and elsewhere bases his idea of this measurement upon the condition of marginal labor, and he says you can measure the productivity of that marginal labor. I am unable to accept that point of view. I do not think that the productivity and pay of the marginal laborer can be measured. In the first place we have to decide what determines that margin itself. Supposing the margin to be determined, we have, I think, no means of imputing a specific product to that margin; and assuredly if we could impute a specific product to that margin, we could not ascertain its value except by recourse again to the social forces

which determine this value, and which, therefore, determine the real pay of the laborer.

A slight example will make it clear. Suppose there are two men who are able to produce. *A* working alone can produce a product which we will call 2 in size. *B* can produce 2 working alone. If *A* places his labor coöperatively with *B* they may be able to produce 6. Now then either *A* or *B* may be treated as the marginal laborer, for it may not be profitable for them to attach to them a third man; and it is suggested that if you take away the marginal laborer, then the diminution of the product will measure his profits—his pay. *A* and *B* individually can each produce 2, but collectively they can produce 6. Treat *A* as the marginal laborer and take him away, you will reduce by 4 the product. Then, according to the theory under discussion, the marginal laborer produces 4. The same result will follow if you take away *B* instead of *A*. And if you add the two marginal products they will make not 6 but 8, which is absurd. If the argument is carried still further and applied to a more extensive organization of society, it seems to carry with it the result that you cannot compute the separate product of any skilled labor and that you cannot say its rate of pay, still less the rate of wages in the trade, is determined by the specific product of marginal labor. Business from the scientific point of view, I would suggest, is to be looked upon as an organic compound of capital and labor.

I would also like to say something about the claim on behalf of the entrepreneur. Is it a fact that the entrepreneur makes the great body of inventions? He certainly has the habit of collecting and utilizing them, but he does not as entrepreneur make the main body of inventions. Neither does he make the main body of

other industrial improvements. He is a middle-man in regard to these matters. Of course I do not pretend that the entrepreneur does not play an important part and does not deserve a certain share of the resultant gains, but he certainly does not in my judgment do all that is imputed to him here. The great accessions to our wealth are due not so much to monopoly of capital and labor and the organization of it as to specific applications of the natural sciences to methods of industry. That is to say, the work is commonly done by the servants of the entrepreneur who get a very small proportion of what would be equal in this theory to the actual value of the increased productivity which their labor creates. A great many inventions, including the greatest inventions of all, are not made for profit, and would be made if no profit attached to them. Those which do require some incentive of profit do not require the enormous profit which the entrepreneur is often able to take for them.

What Professor Clark has said upon the subject of monopoly and restriction I very largely agree with, and I am glad of the emphasis which he laid upon the fact that monopolies do tend to reduce general production; that it is essential to the man who wields the power of a monopolist that he shall reduce the total amount of wealth which is made and distributed in a community. Unless he can restrict the output in some way he is not able to raise prices and therefore make his monopoly good for his own profit.

I thoroughly agree with Professor Clark in his assumption that capital and labor are trying to do the same thing. Labor organized in trade unions has in itself a definite object of securing a monopoly of the particular labor market. It occupies itself in doing the

same thing largely by the same means as does the capitalist who desires to corner and hold for his profit a monopoly in a stated commodity. Of course the most important practical use of this paper turns upon the suggestion of Professor Clark's, and I think it a fruitful one, that we may be confronted with a joint combination of capital and labor.

It is not a mere theory, as Professor Clark has shown ; in England it has been in practice for a number of years with a certain degree of success in some trades. There you will find a combination of masters formally agreeing with labor unions to restrict the output, to raise prices, to distribute wages in proportion to profits, allowing the labor unions to have their own accountants to examine the books. Moreover the employees—and here is a most essential point—build up a fighting fund to keep outsiders from coming in. That has not always succeeded. In the trade where it started it failed after a long and very successful career, but in other trades it has been tried, and it has been suggested in the coal trade in England that the Employers' Federation and the Coal Miners' Union be organized upon that basis. If you consider that principle applied to one of the fundamental industries of the country, you will realize the significance of what I think is to be the next stage in the evolution of industrial order.

Favorable as I am to all these combinations, favorable as I am to the joint agreement which is suggested here in America as the most important means of harmonizing capital and labor, I want in concluding to say I do not quite understand what remedies Professor Clark really provides against the dangers involved in these trade monopolies. He suggests in one passage that state regulation may have some place, but later on towards

the end of his paper he suggests that there is some natural limit to the power of monopoly, viz., that outside capital and labor will be strong enough to break the barriers. It may and it may not. As the art of combination becomes better understood, it may become more difficult for outside labor to enter and get the highest profits and wages existing in the chartered area.

Finally, says Professor Clark, labor may pay a steady tribute to monopoly and yet contain in itself a standard of living encouraging and inspiring. Not by virtue of economic law will it be able to do this. Combinations do not ultimately make for progress. When they are perfected they check industrial progress. There are numerous examples to show the way in which a perfected combination will find it to its interest to keep out further inventions.

THOMAS N. CARVER: I am in rather a difficult position, feeling called upon both to defend the productivity theory against the criticism of Mr. Hobson and to attack it from another standpoint. If, for example, *A* working alone can produce 3 and *B* alone can produce 3, but working together they can produce 2, where is the marginal theory? Take away either one and you will increase the product. Now I do not conceive of this as in any way an argument against the productivity theory, for the simple reason that the conditions which I have assumed do not exist. That is, there is no community where the addition of one more worker would reduce the total production of the community. Neither do I conceive it to be a successful attack upon the productivity theory to point out that where *A* working alone can produce 2, and *B* working alone can produce 2, *A* and *B*, working together, can produce 6. This

illustration has no application to the question because these conditions do not exist in industrial society as we know it. There is no society to-day, so far as any of us know, where the doubling of the number of laborers would more than double the product. My understanding of the productivity theory is not that it is an explanation of everything that may possibly take place in the universe, but that it is an explanation of the wage system—an explanation of wages under existing industrial conditions, where the point of diminishing returns has long been passed, and where additional increments of labor produce less. Where these conditions do not exist I do not understand the productivity theory applies at all.

However, it seems to me that it is only by an unwarranted use or expansion of the term "productivity" that it can be adopted as a complete explanation under the present system. It requires too much refinement to reduce the wages of teachers or of street sweepers to a productivity basis. I would rather put it on the general ground that the price of any individual unit of labor depends, as does the price of almost everything else, upon the demand for it. One reason why the unit of labor may be wanted is because of the immediate utility of that labor, as in the case of the teacher, the singer, or the street sweeper. Another reason why the unit of labor may be wanted is because it will add to the value of the piece of material upon which it is expended. It is in such cases alone that the productivity theory in strictness applies. The more value a given unit of labor can add to the material upon which it is expended, the more it will be wanted; and the less value it can add, the less it will be wanted; and consequently the more it can add, the higher price it will demand in the market.

It seems to me that when we consider that there are other shares in distribution besides wages, there may remain profits even though the wages do actually correspond to the standard which determines them under static conditions—that is, provided other shares lag behind, provided the share of capital, as the share of the owner as distinguished from that of the manipulator of capital, lags behind.

Again I am by no means certain that the tendency of inventions and improvements in production will necessarily increase the marginal productivity of labor or increase its value. Statisticians have attempted to show that wages have actually increased in the last fifty years, and with some degree of success, though even here I believe the increase is not so apparent in the lower grades as in the higher grades of labor. I do not know of any one who has thought it worth while to show by statistics that the welfare of the capitalist class has improved in the last fifty years. The tendency of improvements, I should say, is primarily in the interest of the owners of capital. They get the chief benefit in the end. The manipulators, those who handle the capital, get the profit in the first place, which gradually distributes itself, an almost microscopic part going to increase wages and the main part going to increase the general income of the owners of capital.

What is a labor-saving device except an opportunity for the use of more capital than could have been used before? It is sometimes urged that the labor-saving device lessens employment, but it is also a product-increasing invention, as has often been shown, for when a labor saving device has come in and a product has been cheapened, much more is used; and therefore, though it

takes less labor to produce a given unit of product, so many more units will be used that really more labor is employed in the long run. That is true in a much greater degree of capital. That is, if the enlargement of the consumption of the article increases the employment of labor somewhat, it increases the employment of capital in a much greater degree.

These inventions and improvements have made possible the employment of vast funds of capital which could not have been employed at all if the inventions had not been made. Those who are in the best position to avail themselves of the opportunity which inventions create for using more capital are those who are in a position to supply capital, that is, those whose incomes are sufficiently large to enable them to save and furnish that supply. So here, as elsewhere, the tendency is to give to those who already have.

It seems to me that one very important feature of the dynamics of the wages question lies here. The tendency is, as I have said, sometimes to crowd the man who competes with a machine and does the kind of work that a machine can do. When he is crowded by the introduction of a new machine, he may be forced in a sense out of that trade into a higher kind of labor. When thrown *out of a job he may take the trouble to acquire a higher kind of skill*. If he can he is benefitted. If he can not he is crowded downward rather than upward. Laborers will gain more in the long run, I should say, by following this line of least resistance upward and getting out of those occupations and trades where they are coming into competition with machinery and getting into those which compete less with machinery. In the long run, when the general trend of labor is upward, when they are continually learning to do a higher kind of

work, then we can expect better conditions for the laboring classes. I have much more hope for labor from this direction than from any other.

EDWARD A. ROSS: I am very glad that Professor Carver brought out the fact that a labor-saving machine is a machine that saves labor and therefore diminishes the demand for labor of a certain kind. Along with the technical progress of our time there has been an unquestionable improvement in the condition of those who furnish labor; but I am not sure that the one is a cause of the other. The real cause is, in my judgment, the *extensive* progress that has so characterized the latter half of the nineteenth century. There have been drawn into the circle of exploitation of civilization enormous quantities of new lands which have been occupied by thousands of men, who, without the intervention of an entrepreneur, have raised the standard of wages, first for themselves, and later for those who stayed at home. There is no doubt that the settlement of Australia, New Zealand, western America, and Argentina have cut down the rentals of European landlords and raised the wages of even those laborers who remained in Europe. The effect of intensive progress, *i. e.*, labor-saving inventions, upon the status of labor is not clear, because in the last two generations the extensive progress has been even *more marked than the intensive progress*. If, as seems likely, the enlargement of the circle of opportunity by the occupation of new lands is to slacken ere long, we shall soon see whether or not the enlargement of labor-saving inventions will inure to the benefit of the man who has nothing but his labor to dispose of. There is hardly any doubt that laborers are prudent when they object to the importation of coolies in large numbers.

They would be prudent in objecting to the importation of slaves in large numbers; and from a class point of view it might be quite rational for them to deplore the introduction of iron slaves in large numbers, that is, of machines. It seems to me that we are a little hasty in assuming that necessarily and as a matter of course the mechanical improvements which lessen the labor cost of production benefit the man who has nothing to sell but that kind of labor, and who is not an owner of capital.

JOHN B. CLARK: I will accept Professor Carver's defense of the productivity theory, adding that even in the case suggested the test which the theory applies gives an approximately accurate result, since it measures the amount of the possible error. Profits are a lure to inventions, and it is not necessary that they should accrue to the persons who make them. Even though they go to others the fact that these other persons can utilize them creates a market for the inventions, and, in a secondary way, furnishes an incentive to the inventor.

I have not ventured in my thirty minute paper to try to prove my most comprehensive conclusions, and shall not discuss general remedies for monopoly, though I have some of them in mind. I have concluded, though, that labor *may* get a rate of wages that is encouragingly high, provided that certain effective remedies are applied. I do not say that it certainly *will* get such wages. Much depends on public policy and on the successful application of certain measures which I have not time to hint at. The claim that profits might exist if labor moved so quickly to the point at which wages were exceptionally high as to take from the entrepreneur the fruits of its own productive power,

provided that capital did not move with corresponding rapidity, I will concede. The entrepreneur would then transiently hold, as profit, a part of the product attributable to capital. What I had in mind, in the brief statement I made, was that circumstances which would enable labor instantly, as if by the touch of a button, to be transferred from a point of low productivity to a point of high productivity would also transfer capital with equal rapidity.