*Ninth International Conference on Land-Value Taxation and Free Trade : St. Andrews, Scotland : August 15—20, 1955*

# False Paths to Higher Wages

V. H. BLUNDELL

*(Director of Studies, Henry George School of Social Science, Great Britain.)*

Few wage-earners know to what they are justly entitled. Ideas prevalent as to what constitutes a "fair" wage vary considerably, and those who set themselves up as judges in this matter are often no better informed than the workers themselves. The recent strikes in Great Britain produced in the press many articles and statements from leaders of industry and from economists. They revealed an attitude regarding wages which indicates the hold that the State-planned economy has on their minds. The idea that wages should be related to what is produced, and that there should be equality of opportunity to engage in production on equal terms, is perhaps too unsophisticated to receive their serious consideration. Or perhaps it is that such a solution would result in too great a disturbance of the *status quo* which benefits the few at the expense of the many. As for the wage-earner he seems content to leave the matter in the hands of his Trade Union, which must secure all it can for him, irrespective of the mechanics or economics of the matter.

Popular too in many quarters is the idea that it is the duty of the State to establish a minimum wage for everybody. Whoever dares to suggest that there is an economic law which determines wages and that this law must be allowed to function freely, is dismissed as a reactionary. He is brushed aside as a defender of the competition which, in that company, is regarded as the source of all the trouble. He is debarred any chance to explain what open competition really implies and involves when it can function under conditions free from monopoly and special privilege. The fundamental cause of the unequal distribution of wealth lies hidden or is ignored and intellectual laziness easily makes competition the scapegoat.

### *The Great Deception*

Confused thought and lack of guiding principles are poor equipment for reaching the right solution to any problem. We see that in the deceptive achievement of increased money wages which, because of overriding factors that are allowed to hold sway or are even engineered into position, give the workers no greater share of wealth produced, or even leave him with less. The worker is the traveller in the desert mocked by the mirage which raises hopes when seen from a distance, only to vanish when approached.

Before analysing the economics and the ethics of the wages question, let us look at the factor that has played more havoc than any. It is the inflation of the currency, the deliberate policy of governments, resorted to chiefly as a method of increasing revenue without using the usual method of taxation. Simply stated, inflation is caused by the continual issue of new paper money. The more that is put into circulation the lower falls its purchasing power together with that of all other money circulating in a country. Generally speaking the wage-earner does not understand the true nature of inflation and cannot separate its effects from those arising from other causes. In Great Britain, and to a greater or less degree in other countries, the general increase in wages since before the war has been cancelled out by the fall in the purchasing power of money. Where money wages have, for instance, trebled, it will be found that prices have done likewise. Inflation of the currency is certainly the biggest, though not the only, factor responsible for increases in the cost of living (all inflation causes an increase in the cost of living but not all increases in the cost of living are caused by inflation).

The following figures show the steady increase in the issue of new money in Great Britain side by side with the fall in the value of the pound (taking the pound in 1938 as having 100 per cent purchasing power).

INCREASES IN FIDUCIARY ISSUE AND FALL
IN THE VALUE OF THE POUND

| Year | Value of Pound | Unbacked money in circulation |
|---|---|---|
| 1939 | 97 | 580 million pounds |
| 1940 | 83 | 630 ,, ,, |
| 1941 | 75 | 780 ,, ,, |
| 1942 | 70 | 950 ,, ,, |
| 1943 | 68 | 1,100 ,, ,, |
| 1944 | 67 | 1,250 ,, ,, |
| 1945 | 65 | 1,400 ,, ,, |
| 1946 | 63 | 1,450 ,, ,, |
| 1948 | 55 | 1,325 ,, ,, |
| 1949 | 53 | 1,350 ,, ,, |
| 1950 | 52 | 1,375 ,, ,, |
| 1951 | 48 | 1,450 ,, ,, |
| 1952 | 45 | 1,575 ,, ,, |
| 1953 | 44 | 1,675 ,, ,, |
| 1954 | 42 | 1,725 ,, ,, |
| 1955 | 42 | 1,725 ,, ,, |

(Figures supplied by *The Economist*, London)

Inflation of the currency, as has been seen, causes a fall in the purchasing power of money. This in turn gives rise to demands for increases in wages and explains why there have been and still will continue to be, so long as inflation is practised, demands from all sections of the community for increases in wages.

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

Inflation of the currency affects the price of *all* goods so that there is a continual adjustment aimed at restoring the original economic relationship among those who participate in the fruits of production. As there is a time lag it is always the wage-earner who is at the greatest disadvantage, for he cannot raise the price of his labour as speedily as manufacturers and traders can raise the price of their goods. It is not within the scope of this Paper to deal with the effects of inflation on the several classes of the community, nor to deal with the additional motives that governments have for adopting inflation as part of economic policy. It is sufficient here to show the effect of inflation on wages. Inflation is, economically speaking, a separate and distinct problem from the age-old one of the share of the total production of wealth that is distributed as wages.

### *Higher Wages—Higher Prices*

Let us now look at the means usually adopted to increase real wages and see how they fail in their purpose. People will not turn to new remedies until their faith in old ones has been proved groundless.

No matter how increases in nominal wages for any section of wage-earners are secured, the economic consequences are the same. The increased cost is immediately passed on to consumers in higher prices. (Business men are familiar with the circular letter beginning: "Owing to a new wage agreement we regret we must increase our charges," etc.) In other words, when wage increases are given to workers in some industries, they are given at the expense of fellow workers in all other industries. Trade Unions are becoming increasingly aware of this, but their defence is that it is not their fault if the cost of their wage increases is passed on to the consumer. Wage rises, they say, should come out of "profits." They cannot however explain how this should be done, nor can they explain by exactly what methods the passing on of increased costs to consumers can be avoided. Battling against higher prices due to the higher wages of their fellow workers, who have indirectly passed the charge on to *them*, Trade Unionists become obsessed with their own problems, and forget the general interest. Each Union fights only for its own workers. Regardless of the effect upon the community generally, Unions often enter into bargains with employers whereby in return for an undertaking that their members will not work for concerns who sell below a fixed price, they get an undertaking that non-union labour will not be employed—this to keep out competition from other workers. To-day the unity of the workers is a sham, the closed shop and restrictive practices are products of fear and frustration—fear that wages may be lowered by competition from fellow workers, and frustration from the knowledge that they have found no real way of raising wages. The enemy is lost sight of. The privilege afforded to certain industries by tariffs is strengthened because these industries have the support of their workers who fear unemployment or lower wages. Trade Unions now fear fellow workers at home and abroad more than the once-hated employers!

The General Secretary of the Watermen, Lightermen, Tugmen, and Bargemen's Union, said in a recent statement to the press that there had been coercion, fighting, and razor-slashing among dockers in London, because of Union differences. Brother was fighting brother, families were divided, dockers were fighting in the streets, parading against each other, and trying to drag each other out of the docks, all because of the attitude of mind of the larger Unions to the smaller. "The Unions in Dockland are split from top to bottom."

### *Confusions as to "Profits"*

What is it that the ordinary man cannot see? It is what should determine the true reward of his labour, and the means of securing this reward. He does not understand the true nature of "profits" and is only vaguely aware of how he is being robbed of the fruits of his labour. He can see no further than his employer who becomes to him a symbol of exploitation. This short-sighted view prevents him from acquiring an understanding of the subtle forces behind the scenes which are responsible for his low wages.

Now it is on the meaning of the word profits and capital that an understanding of the wages question rests. Hidden in "profits" is often a return that is due to none of the three factors of production but to privilege, either deliberately given through legislation, or fostered and encouraged by it. Examples are tariffs, quotas, licences, subsidies, grants, monopolies and patents. Now given that the rent of land is rightly communal property we can see that its private appropriation, plus the tolls on labour extorted by the above-mentioned privileges, results in lower wages. Interest—the simple and just return to capital—is not separated from the profits of privilege. Defence of interest is interpreted as defence of profits of all kinds, no matter what their origin. Defence of capital or capital owners is taken as defence of combines and monopolies. The remedy for low wages does not lie in the sphere of profit-taxing or profit-sharing, but in the simple and just expedient of *removing the source of privileged profits.*

### *Tolls on Wages*

Wages are no higher, other things being equal, in a firm where large profits are made, than in a firm where low profits are made. They are no higher in businesses where there is an element of privilege or monopoly than in businesses where there is competition. Where productive power is enormously increased by the siting of shops or factories on extremely valuable land, wages are no higher for that reason. The productive capacity of land due to its mineral content, fertility or position varies enormously from place to place, yet wages remain throughout at a steady level (This is the demonstration of the law of rent and the law of wages). Then monopoly and privilege take their toll making the commodities the wage-earner buys higher in price than they need be. The heavy burden of taxation adds its quota. The result is that real wages tend to fall. The artificial economic system imposed on society by planners, with their subsidies, quotas, grants, tariffs, exchange controls, licensing, etc., acts as a brake on production. But even where production can be increased, that is to say, where it can rise above the pressure of an oppressive taxation system, the workers do not reap the benefits for long, for whatever temporary advantage labour and/or capital receives, the owners of land become the ultimate beneficiaries, for land values rise inexorably with increased productive power.

The mistake that Trade Unions make in their attempts to secure the greater share of wealth to which they are entitled, is that instead of trying to remove exploitation at its source they attempt to obtain a greater share *after* the primary division of wealth has taken place. They are tackling the problem at the wrong end.

Wage increases of the type we are considering do not come out of "profits" or rent, but out of the pockets of the consumer through higher prices. How does this happen? The answer can be found by reference to the marginal capitalist who, without special privileges and operating in free and open competition with his fellow capitalists does not get more than the normal rate of interest for his capital. The marginal capitalist cannot profit at the expense of the community generally. Advantages accrue to him if he is first in the field with a particular project, but such advantages are short-lived because of competition. Whatever the product, if the producer has not got the protection of a license, quota, import tariff, patent or some other instrument, then he must content himself with the competitive return to capital. Only skill, daring, enterprise, knowledge and sheer hard work (all attributes of labour) will secure for him greater rewards than his neighbour, but such rewards will not be at the expense of his neighbour; they will be rightly his wages the reward of his labour.

### *Key to the Problem*

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

For instance, take two shoe shops of the same size and in similar positions—one pays a ground rent and the other has a freehold. When wages in the boot trade go up—what happens? For the first man there is rent to pay as before—he cannot lower his own rent. He cannot lower the interest he might have to pay on borrowed capital, and if the capital be his own why should he accept less than it would be worth if invested elsewhere? What can he do but pass on this extra charge to his customers? His neighbour, however, can afford to take the wage increases out of his "profits" because, seeing the fact that he has no rent to pay, they are greater. That is to say, he can *afford* to pay the increases out of his "profits," but why should he? Seeing that his neighbour passes on the increased costs to customers he knows he can do likewise. That part of his profit that is economic rent remains untouched because costs are governed at the margin. A man who has special ability is not obliged to give his customers the benefit of it, and so it is with the artificially created "ability" of the monopolist, the landowner or the specially privileged. For this reason, when wage-earners hit at monopoly capitalism through demands for higher wages, their blows are always diverted.

The practical policies for raising real wages can now be summarised:—

(1) *Taxation of Land Values.* The collection of the rent of land as the primary source of public revenue would enable taxation to be removed from wages and from the products that wages buy. Real wages would thus be increased for all.

(2) *Free Trade.* The division of labour fully extended into the realms of international trade, would increase the sum total of wealth. Whether the benefits flowed directly to the

consumer by way of lower prices, or tended to enhance the value of land, the effect so far as the worker is concerned would be the same, participating as he would be in the rent of land. He would get it one way or the other.

(3) *Sound Money*. The effects of breaking land monopoly and freeing trade would give natural instead of artificial full employment. The government's revenue would be assured and there would be no reason, ostensible or otherwise, to inflate the currency.

*Repeal of Bad Laws*. Once land monopoly had been abolished many subsidiary monopolies would be broken. Nevertheless, there are many acts of Parliament that sustain monopolies and these should be repealed.

When free and equal competition is established; when one man cannot benefit himself at the expense of another in the field of production, distribution and exchange; when the rent of land flows to the public purse, then will there be no claims on production save those of labour and capital; then the path to permanently high real wages will have been well and truly laid.

No. C10 (1955). Price 1s. Published by the Land & Liberty Press, Ltd., for the International Union for Land-Value Taxation and Free Trade, 4 Great Smith Street, London, S.W.1. Printed in Great Britain by H. J. Rowling & Sons, Ltd. (T.U.), 36 York Road, Battersea, S.W.11.