CHAPTER XXV

METHODS OF INCREASING WAGES

PROPOSALS for the reform of social conditions are important in proportion to the magnitude of the evils which they are designed to remove, and are desirable in proportion to their probable efficacy. Applying these principles to the labor situation, we find that among the remedies proposed the primacy must be accorded to a minimum wage. It is the most important project for improving the condition of labor because it would increase the compensation of at least one-third of the wage earners, and because the needs of this group are greater and more urgent than the needs of the better-paid two-thirds. The former are below the level of reasonable living, while the latter are merely deprived of the opportunities of a more ample and liberal scale of living. Hence the degree of injustice suffered by the former is much greater than in the case of the latter. A legal minimum wage is the most desirable single measure of industrial reform because it promises a more rapid and comprehensive increase in the wages of the underpaid than any alternative device that is now available. The superior importance of a legally established minimum wage is obvious; its superior desirability will form the subject of the pages that are immediately to follow.

The Legal Minimum Wage

Happily the advocate of this measure is no longer required to meet the objection that it is novel and utterly uncertain. For more than thirty years it has been in operation in Australasia. It was implicit in the compulsory

arbitration act of New Zealand, passed in 1894; for the wages which the arbitration boards enforce are necessarily the lowest that the affected employers are permitted to pay; besides, the district conciliation boards are empowered by the law to fix minimum wages on complaint of any group of underpaid workers. The first formal and explicit minimum wage law of modern times was enacted by the state of Victoria in 1896. In the beginning it applied to only six trades, but it has been extended at various legislative sessions, so that to-day it protects substantially all the laborers of the state, except those employed in agriculture. Since the year 1900 all the other states of Australia have made provision for the establishment of minimum wages. At present, therefore, the legal minimum wage in some form prevails throughout the whole of Australasia.

In 1909, the Board of Trade of Great Britain was authorized by Parliament to set up the minimum wage in four specified trades, and in 1913, to apply it to five additional trades. Under the Act of 1918 a further extension was authorized, so that by the end of 1922 the legal minimum wage covered thirty-nine trades and approximately 3,000,000 workers. In 1924, a minimum wage act was passed to apply to English agricultural laborers. Minimum wage legislation has been enacted in all the provinces of Canada except Prince Edward Island and New Brunswick. Laws have been passed applying the measure to certain groups of workers in several other foreign countries, for example, Norway, Sweden, Argentina and South Africa. The legislation in Australasia and Great Britain applies to men as well as women, while most of the other laws are restricted to women and minors.

The first minimum wage law in the United States was passed by Massachusetts in 1912. The other states and jurisdictions that enacted such legislation are: Arizona, Arkansas, California, Colorado, District of Columbia, Kansas, Minnesota, Nebraska, North Dakota, Oregon,

Porto Rico, South Dakota, Texas, Utah, Washington and Wisconsin. All these statutes were compulsory except that of Massachusetts, which imposes no penalty for violation of its provisions except the publication of the offenders' names in the newspapers. All of them, except those of Arizona, Arkansas, South Dakota and Utah, required the rates of wages to be determined by official commissions, assisted by advisory boards or conferences representing employers, employees and the general public. In the four states just specified the wage rates were established by the legislature in the statute itself. None of the statutes applied to adult males. The laws of Colorado, Nebraska and Texas were never put into full operation. Steps toward the legislation were taken by Louisiana and Ohio in the form of amendments to their constitutions, but these actions were not followed by statutes.

The effectiveness of the laws that have been put into operation is at least as great as their friends had dared to hope. According to Professor M. B. Hammond of Ohio, who investigated the situation on the spot in the winter of 1911-1912, the people of Australasia have accepted the minimum wage "as a permanent policy in the industrial legislation of that part of the world." Professor Hammond's observations, and the replies of the Chief Factory Inspector of Melbourne to the New York Factory Investigating Commission, show the main effects of minimum wage legislation to be as follows: sweating and strikes have all but disappeared; the efficiency of the workers has on the whole increased; the number of workers unable to earn the legal minimum has not been as great as most persons had feared, and almost all of them have obtained employment at lower remuneration through special permits; the legal minimum has not only not become the actual maximum, but is exceeded in the case of the majority of workers; no evidence exists to show that any industry has been crippled, or forced to move out of the country; with the

exception of a very few instances, the prices of commodities have not been raised by the law.[1]

In the four trades of Great Britain which were first brought under the operation of the Trade Boards Act, and which presented some of the worst examples of economic oppression, the beneficial effects of the minimum wage have been even more striking than in Australasia. Wages have been considerably raised, in some cases as high as one hundred per cent; dispirited and helpless workers have gained courage, power, and self-respect to such an extent as to increase considerably their membership in trade unions, and to obtain in several instances further increases in remuneration beyond the legal minimum; the compensation of the better paid laborers has not been reduced to the level fixed by the trade boards; the efficiency of both employees and productive processes has been on the whole increased; the number of persons forced out of employment by the law is negligible; no important rise of prices is traceable to the law; and the number of business concerns unable to pay the increase in wages is too small to deserve serious consideration. All these results had been established before the outbreak of the war.[2]

In a work published in London in 1923, we read this summary statement:[3] "The British Trade Boards System has been in operation for more than thirteen years, and during that time profound changes, political, economic and social, have occurred. It has defects, but a careful study of its operation over that period of years can hardly fail

[1] See articles by Hammond in the *American Economic Review,* June, 1913, and in the *Annals of the American Academy of Political and Social Science,* July, 1913; and page 62 of the Appendix to the third volume of the Report of the New York State Factory Investigating Commission.

[2] See the replies of the London Board of Trade to the N. Y. Factory Investigating Commission, on pages 77, 78 of the volume cited above; and especially the two monographs by R. H. Tawney, "The establishment of Minimum Rates in the Chain-Making Industry," and "The Establishment of Minimum Rates in the Tailoring Industry." London; 1914 and 1915.

[3] Sells: "The British Trade Boards System."

to convince the unprejudiced that its merits greatly outweigh its faults, and that what is required is not repeal of the acts, nor alteration of the general principles embodied in the act of 1918, but rather amendment to improve the machinery for wage fixation, and some changes in the policy of administration and the methods of the boards."

The effects of minimum wage legislation in the United States are fairly described in the following excerpts. "The minimum wage laws of certain of our states caused the wages of women to rise by as much as eighty per cent, without affecting the prices of their products or causing unemployment. That such a change as this could have occurred without being followed by one or both of these consequences can argue only that these workers were receiving less than their economic worth prior to the passing of the laws." [1]

"As to the results of minimum wage legislation, it can not be gainsaid that there have been general wage increases as the initial result of every order or piece of legislation. Orders have been outgrown and legislative rates left behind as a result of industrial changes, but this only indicates that a more efficient administration of the law with prompt adjustment methods was needed, as higher costs have regularly accompanied higher wage rates and even advanced beyond them. The fear that the minimum fixed by law would become the maximum in practice has been unrealized thus far, and some experience under a falling labor market is in the records; however, the experience of wider application and more varied conditions will be of interest, though there would seem to be no danger of such a development.

"The disinclination of employers to submit to public regulation in such matters as wage rates, hours of labor, and the number of days women may be employed per week is the survival of the individualistic attitude that has been compelled to give way to a large body of legislation affecting other fields throughout a number of years, though more recently coming into action in regard to these particulars.

[1] Fairchild, Furness, Buck, op. cit., ii, p. 217.

However, many employers have given hearty approval to both principle and results, following experience under minimum wage laws. They adopt the position that the regulation of competition is desirable and that the benefit is not to the workers alone, who are guaranteed by the law at least a minimum living cost and a sense of stability in their positions as against cheap, underbidding workers, but they are themselves likewise safeguarded against competitors who are disposed to make use of the least expensive types of woman labor or to underpay that employed." [1]

The Constitutional Aspect

When the first American laws were enacted, grave and numerous doubts were expressed of their constitutionality. The fifth and fourteenth amendments to the Federal Constitution forbid, respectively, the Congress and the states to deprive any person of "life, liberty, or property without due process of law." It was clear that a legal requirement that women workers should be paid a certain fixed minimum wage would deprive both employers and employees of some liberty of contract and also might deprive the former of some property, in so far as it increased their wage bills. On the other hand, the legislation seemed to be in accord with due process of law as a valid exercise of the police power. Laws reducing the hours of labor of women (and in two states of certain groups of adult male workers) had been upheld by the courts, even though they lessened freedom of contract and possibly reduced employers' profits. The legislation was unsuccessfully attacked in the courts of Oregon, Minnesota, Arkansas, Washington and Massachusetts. Only two of the twenty-nine state judges who passed upon the legislation saw in it a violation of the "due process" clause of the Constitution. On appeal to the Supreme Court of the United States, the Oregon law was upheld, April 9, 1917, by a vote of four to four.

[1] Lindley D. Clark, "Minimum Wage Laws of the United States: Construction and Operation," Washington; 1921.

In consequence of these decisions the friends of the legal minimum wage were fairly confident that its constitutionality was assured. For example, Lindley D. Clark wrote in 1921: "The foregoing cases may be said to establish the principle of the constitutionality of laws of this class, and to discount the probability of the success of any further efforts along this line of action. . . ." [1] Six years to the day after the Supreme Court had refused to nullify the Oregon statute, it affirmed the sentence of extinction pronounced by the Court of Appeals of the District of Columbia, upon the minimum wage law of that jurisdiction.[2] The decision was by a vote of five to three, with Justice Brandeis again refraining from participation. Had he taken part the unfavorable vote would have been five to four. Had the case not come before the Court until a year later and had Justice Brandeis participated, probably the law would have been *upheld* by the same vote, owing to a change in the Court's personnel. The verdict of unconstitutionality was based upon the fifth amendment, which forbids Congress to deprive any person of life, liberty or property without due process of law. A year and a half later the Supreme Court invalidated the minimum wage law of Arizona, as contravening the fourteenth amendment, which puts the same restriction upon the states that the fifth amendment imposes upon Congress. In consequence of these two decisions all the compulsory minimum wage laws in the United States have been swept away. Whether the non-mandatory Massachusetts statute will meet the same fate cannot be known until a decision comes from the Supreme Court in the case which is now before it on appeal from a favorable decision by the highest court of Massachusetts.

The majority of the Court in the Adkins case distinguished regulation of wages from regulation of hours, which had been sustained in several decisions. They seem

[1] Op. cit., p. 48.
[2] *Adkins* vs. *Children's Hospital.*

to have based their distinction upon an argument which had been offered by opposing counsel in the first attack upon the legislation (before the Supreme Court of Oregon) and which had been repeated in the majority of subsequent judicial hearings. It is in substance this: A shorter-day law aims to protect the worker from some harmful effects arising out of the employment itself; for example, an injury to health through labor carried on for too many hours in one day; a minimum-wage law endeavors to safeguard the workers against an evil, namely insufficient means of living, which does not arise out of the employment but rather out of the employee's own needs, which exist independently of any employment. In other words, the employment produces the evil conditions to be prevented by a shorter-day law, but does not produce the evil condition to be prevented by a minimum wage law. This condition, the needs of a livelihood, said the majority of the Court, has "no causal connection with the business or the contract or the work"; it is "an extraneous circumstance." Hence, the logic of the favorable decisions in the hours of labor cases was not accepted as applying to minimum wage legislation.

This sophistical and artificial argument had been answered more than eight years earlier by counsel for the Oregon law in these words: "Stettler is Simpson's employer, and no other person is, who alone has the use of her working energy, to maintain which a cost of not less than $8.64 per week is essential. This personal and exclusive relation," continued counsel, "differentiates the employer from any other citizen and justifies imposing upon him the minimum cost of his employee's livelihood, which is the minimum cost of her labor, given exclusively for the benefit of her employer, so that he alone should meet the essential cost. The State does not compel him to use it; all that it says to him is that if he chooses to take its benefit he must pay at least its cost."

The harm suffered by an employee whose wages do not suffice for a decent livelihood does not, indeed, originate

formally in the employment or in the contract. The fact that a woman receives a wage inadequate to proper maintenance does not create the need of such maintenance; it does not always render her unable to supply that need, since she may have outside resources. Nevertheless, a contract for insufficient wages is the indirect cause of the evil condition experienced by a worker who has no other source of livelihood than labor. Inasmuch as the contract requires her to give all her reasonably available working time in return for a wage inadequate to a decent livelihood, it sets up a practical and economic obstacle to the attainment of that object. Contrary to the assertion of the majority of the Supreme Court, there is a "causal connection" between the wage contract and the employee's subsistence. It is not quite as immediate as the causal relation between a labor contract imposing an excessively long working day and her health, but it is quite as real, as effective and as injurious.

In his dissenting opinion, Chief Justice Taft flatly rejected the distinction drawn by the majority of the Court between a maximum hour law and a minimum wage law. "In absolute freedom of contract the one term is as important as the other, for both enter equally into the consideration given and received, a restriction as to one is not any greater in essence than the other, and is of the same kind. One is the multiplier and the other the multiplicand." His argument on this point is summed up thus: "I do not feel, therefore, that either on the basis of reason, experience or authority, the boundary of the police power should be drawn to include maximum hours and exclude a minimum wage."

At any rate, the distinction has no basis in economic or practical considerations. The employer may suffer quite as great pecuniary hardship through legal reduction of the working day as through a legal increase of wages. The employee may suffer quite as much injury to health through an insufficient wage as through an excessively long working day. The exercise of the police power is as normal

and legitimate in the one situation as in the other; and the artificial distinction between direct and indirect causality is entirely devoid of either rational or constitutional warrant.

Through the unjustified distinction between an hour-law and a wage-law, the majority of the Court got rid of the judicial precedents which called for a favorable decision. But this was no more than a negative achievement. Upon what positive ground did they find the minimum wage law in conflict with the Constitution? They pronounced it to be an arbitrary and unreasonable interference with that liberty which is protected by the "due process" clause of the fifth amendment. Their argument in support of this proposition will be noticed a little later. At present it will be helpful to consider how these general terms in the Constitution have been transmuted into the specific rule, "reasonable freedom of contract."

The fifth and fourteenth amendments to the Federal Constitution forbid the legislature (respectively, Congress and state law-making bodies) to "deprive any person of life, liberty or property without due process of law." Through a series of decisions which began less than half a century ago, the naked and general term, "liberty", has acquired the meaning, "liberty of contract." Mr. Justice Holmes tersely and neatly characterized the development in his dissenting opinion: "The earlier decisions construing this clause began within our own memory and went no further than the unpretentious assertion of the liberty to follow the ordinary callings. Later that innocuous generality was expanded into the dogma, liberty of contract."

Nevertheless, the Supreme Court has frequently declared that constitutional freedom of contract is not unlimited. Even in the present case, the majority of the Court said: "There is, of course, no such thing as absolute freedom of contract. It is subject to a great variety of restraints." What are these restraints and how are they determined? The judicial doctrine and the judicial development concerning lawful restraints upon freedom of contract involve the

words, "due process of law." The men who put that phrase into the fifth and fourteenth amendments, understood it as merely judicial process, a regular proceeding in court. Through a series of decisions, starting about the year 1890, the Supreme Court has construed these words to mean also "reasonable legislation." [1]

Owing to these two courses of judicial construction and expansion, the entire "due process" clause has, at least in relation to industrial legislation, virtually assumed this form: "the legislature shall not deprive any person of liberty of contract except by a law which is reasonable."

Now we can return to the question suggested a few paragraphs back. Upon what basis did the majority of the Court conclude that the minimum wage law was arbitrary and unreasonable? Upon their general notions and theories about economics, ethics, and politics. The last six pages of the majority opinion make this fact abundantly clear. Replying to the economic objections set forth in the opinion, Chief Justice Taft made this somewhat sharp observation: "But it is not the function of this Court to hold congressional acts invalid simply because they are passed to carry out economic views which the Court believes to be unwise or unsound." The political theory set forth in the argument of the majority differs but little from eighteenth century individualism or the discredited doctrine of *laissez faire*. Their ethical theory is that wages should equal "the value of the service rendered," instead of being determined by such an "extraneous circumstance" as "the necessities of the employee." Passing over the question-begging phrase, "the value of the service," which the majority opinion carefully refrains from attempting to define, let us set over against this ethical opinion the principle laid down by Pope Leo XIII, that a wage is unjust which does not provide the worker with at least a decent livelihood. In the doc-

[1] Cf. Holcombe, "The Foundations of the Modern Commonwealth," pp. 307-327. See also the first paper in my book, "Declining Liberty and Other Papers." Macmillan, 1927.

trine of the majority of the Court, the needs of the employee are an "extraneous circumstance," having no bearing upon the justice of the wage. In the doctrine of Leo XIII the worker's needs are so vital to the justice of the labor contract that if he is required by an employer to accept a wage inadequate to supply them, he is "a victim of force and injustice." All the ethical authorities of the Western world agree with the Pope and disagree with the Court. [1]

From the foregoing paragraphs it should be fairly clear just what is involved in the statement that minimum wage legislation is prohibited by the Constitution. A minimum wage law may or may not be in conflict with the theories of "freedom of contract" and "due process of law" which have been judicially construed into certain clauses in the fifth and fourteenth amendments. Whether it will be found to exhibit such a disagreement, depends upon the social and ethical philosophy of a majority of the Court. In the case, *Adkins* vs. *Children's Hospital,* a bare majority were moved by an individualistic social and ethical philosophy.

Is there no remedy? Must the government of the United States and the governments of the several states continue forever to be deprived of legislative power which is within the competence of every other government on earth? Must this most effective and most comprehensive means of increasing the remuneration of the underpaid workers remain forever unutilized in the United States of America?

There are four possible ways along which a remedy may be sought. First, the Federal Constitution could be amended so as to enable Congress and the state legislatures to enace minimum wage laws. This is a very tedious process and probably could not be carried through within the next twenty-five years. Second, the members of the Supreme Court might undergo a course of education that

[1] Probably a majority of American authorities on constitutional law regard the decision as unsound from the legal viewpoint. See "The Supreme Court and Minimum Wage Legislation." Comment by the Legal Profession on the District of Columbia Case. New York; 1925.

would so change their social and ethical philosophy as to persuade them that a minimum wage law is not an arbitrary or unreasonable interference with freedom of contract. This method might prove slower even than that of amending the Constitution. Two of the Justices who voted against the constitutionality of the District of Columbia law were Catholics; nevertheless, they acted upon the ethical principles of Utilitarianism instead of the ethical principles authoritatively set forth by Pope Leo XIII. Third, in the course of time changes in the personnel of the Court may give it a majority having the required social and ethical philosophy. This method might not be as slow as the preceding two, but it is quite as uncertain.

Finally, there is the remedy proposed by ex-Justice Clarke.[1] In the District of Columbia case the majority opinion pointed out that: "This Court, by an unbroken line of decisions from Chief Justice Marshall to the present day, has steadily adhered to the rule that every possible presumption is in favor of the validity of an act of Congress until overcome beyond rational doubt. But if by clear and indubitable demonstration a statute be opposed to the Constitution we have no choice but to say so." Commenting on this passage, Mr. Clarke says, "it is difficult for men not steeped in legalistic thinking and forms of expression to understand how five judges can agree that an act of Congress is unconstitutional 'beyond rational doubt' and that by clear and indubitable demonstration they have shown it to be so, when four of their associates, equally able and experienced judges, who have heard the same arguments on the same record, declare that to them 'upon the basis of reason, experience and authority' the validity of the act 'seems absolutely free from doubt.'" It is his opinion, therefore, that "if the Court would give real and sympathetic effect to this rule by declining to hold a statute unconstitutional whenever several of the Judges conclude that it is valid—by conceding that two or more

[1] *American Bar Association Journal*, Nov. 1923, p. 689.

being of such opinion in any case must necessarily raise a 'rational doubt'—an end would be made of five to four constitutional decisions and great benefit would result to our country and to the Court."

Had the Court given "real and sympathetic effect to this rule" in the District of Columbia case, the minimum wage legislation would to-day be constitutional and the women wage earners of the District of Columbia and of some ten or twelve states would still be enjoying the benefit of living wages secured by law.

Mr. Clarke's proposal is obviously in accord with logic and reason. How can five judges persuade themselves that the unconstitutionality of a statute is "beyond reasonable doubt" when three or four of their judicial brethren not merely deny the proposition but hold that the constitutionality of the act "seems absolutely free from doubt"?

Nevertheless, it is quite unlikely that the Court will accept Mr. Clarke's suggestion and adopt a rule to the effect that no law will be declared unconstitutional if two or more of the justices think it is constitutional, or doubt its unconstitutionality. It will continue to construe "rational doubt" subjectively instead of objectively.

Hence, it has been suggested that this rule should be imposed upon the Supreme Court by Congress. Authority for such congressional action is thought to exist in Article III, Section II, paragraph 2 of the Federal Constitution, which reads: "In all the other cases before mentioned, the Supreme Court shall have appellate jurisdiction, both as to law and fact, with such exceptions, and under such regulations, as the Congress shall make." Would the phrase, "under such regulations," authorize Congress to require a decision of unconstitutionality to have the assent of all the justices but one? Possibly the Court would return a negative answer and declare such an act beyond the constitutional power of Congress.

At any rate, no serious harm would come from such congressional action. If the act were declared void by the

Supreme Court the same end could be sought through a constitutional amendment. In either case, the measure should be made applicable to state laws as well as acts of Congress; for the vast majority of statutes whose constitutionality is challenged are enacted by the states.[1]

While awaiting the day when a compulsory statute shall again become constitutional, all believers in the legal minimum wage should strive for the enactment of non-mandatory laws, such as that of Massachusetts. This kind of law is, indeed, inferior to the mandatory type, but it has proved to be well worth while. And there is some hope that it will not be declared unconstitutional.

The Political Aspect

Whether it be considered from the viewpoint of ethics, politics or economics, the principle of the legal minimum wage is impregnable. The State has not only the moral right but the moral duty to enact legislation of this sort, whenever any important group of laborers are receiving less than living wages. One of the elementary functions and obligations of the State is to protect citizens in the enjoyment of their natural rights; and the claim to a living wage is, as we have seen, one of the natural rights of the person whose wages are his only means of livelihood. Therefore, the establishment of minimum living wages is not among the so-called "optional functions" of the State in our present industrial society. Whenever it can be successfully performed, it is a primary and necessary function. So far as political propriety is concerned, the State may as reasonably be expected to protect the citizen against the physical, mental, and moral injury resulting from an unjust wage contract, as to safeguard his money against the thief, his body against the bully, or his life against the assassin. In all four cases the essential welfare of the

[1] The various aspects of the constitutional problem are treated in my pamphlet, "The Supreme Court and the Minimum Wage." The Paulist Press, New York.

individual is injured or threatened through the abuse of superior force and cunning. Inasmuch as the legal minimum wage is ethically legitimate, the question of its enactment is entirely a question of expediency.

The Economic Aspect

Now the question of expediency is mainly economic. A great deal of nonsense has been written and spoken about the alleged conflict between the legal minimum wage and "economic law." Economists have used no such language, indeed, for they know that economic laws are merely the expected uniformities of social action in given circumstances. The economists know that economic laws are no more opposed to a legal minimum wage than to a legal eight-hour day, or legal regulations of safety and sanitation in work places. All three of these measures tend to increase the cost of production, and sometimes carry the tendency into reality. A minimum wage law is difficult to enforce, but not much more so than most other labor regulations. At any rate, the practical consideration is whether even a partial enforcement of it will not result in a marked benefit to great numbers of underpaid workers. It may throw some persons, the slower workers, out of employment; but there, again, the important question relates to the balance of good over evil for the majority of those who are below the level of decent living. At every point, therefore, the problem is one of concrete expediency, not of agreement or disagreement with a real or imaginary economic law.

Some of those who oppose the device on the ground of expediency set up an argument which runs about as follows: the increase in wages caused by a minimum wage law will be shifted to the consumer in the form of higher prices; this result will in turn lead to a falling off in the demand for products; a lessened demand for goods means a reduced demand for labor; and this implies a diminished volume of employment, so that the last state of the workers

becomes worse than the first. Not only is this conception too simple, but it proves too much. If it were correct every rise in wages, howsoever brought about, would be ill advised; for every rise would set in motion the same fatal chain of events. Voluntary increases of remuneration by employers would be quite as futile as the efforts of a labor union. This is little more than the old wages fund theory in a new dress.

The argument is too simple because it is based upon an insufficient analysis of the facts. There are no less than four sources from which the increased wages required by a minimum wage law might in whole or in part be obtained. In the first place, higher wages will often give the workers both the physical capacity and the spirit that make possible a larger output. Thus, they could themselves equivalently provide a part at least of their additional remuneration. When, secondly, the employer finds that labor is no longer so cheap that it can be profitably used as a substitute for intelligent management, better methods of production, and up to date machinery, he will be compelled to introduce one or more of these improvements, and to offset increased labor cost by increased managerial and mechanical efficiency. This is what seems to have happened in the tailoring industry of England. According to Mr. Tawney, "the increased costs of production have, on the whole, been met by better organization of work and by better machinery." [1] In the third place, a part of the increased wage cost can be defrayed out of profits, in two ways: through a reduction in the profits of the majority of business concerns in an industry; but more frequently through the elimination of the less efficient, and the consequent increase in the volume of business done by the more efficient. In the latter establishments the additional outlay for wages might be fully neutralized by the diminished managerial expenses and fixed charges per unit of product. This elimination of

[1] "Minimum Rates in the Tailoring Industry," p. 161.

unfit undertakers would not only be in the direction of greater social efficiency, but in the interest of better employment conditions generally; for it is the less competent employers who are mainly responsible for the evil of "sweating," when they strive to reduce the cost of production by the only method that they know; that is, the oppression of labor. Should the three foregoing factors fall short of providing or neutralizing the increased wages, the recourse would necessarily be to the fourth source; namely, a rise in the price of products. However, there is no definite reason for assuming that the rise will in any case be sufficient to cause a net decrease of demand. In the case of possibly the majority of products, the lessened demand on the part of the other classes might be entirely counterbalanced by the increased demand at the hands of the workers whose purchasing power had been raised through the minimum wage law. The effect upon sales, and hence upon business and production, which follows from an increase in the effective consuming power of the laboring classes is frequently ignored or underestimated. So far as consumers' goods are concerned, it seems certain that a given addition to the income of the wage-earning classes will lead to a greater increase in the demand for products than an equal addition to the income of any other section of the people.

Labor Unions

The benefits obtained by the laboring class through the trade union and other forms of organization are so great and so conspicuous that they are no longer denied by any impartial person. Higher wages, shorter hours, better working conditions, widespread and successful efforts for protective labor legislation, invaluable training in self-reliance and in the processes of democracy, a vast improvement in the attitude of other classes toward the wage earners,—are the main achievements. The historical rôle of

the labor union has never been more graphically summed up than in the following passage:

"In the last six centuries the laboring population has risen from a condition of serfdom to a state of political freedom. In this struggle for economic equality, the victories have been won by the wage earners themselves. When they did not pursue their interest, they lost their interest. When they forgot to demand their full reward, they failed to receive their full reward. They had occasional encouragement, and even an occasional leader, from the employing classes, but in the main they fought their way against the opposition, and not with the assistance, of their employers. Their weapons were the strike and the trade union. When the ponderous machinery of supply and demand was ready to give them a lift, its inertia and initial friction had to be overcome with a strike. When it had begun to thrust wages down, it was prevented from entirely degrading the wage earner by the trade union. Always and everywhere the salvation of the working class has been collective action; and while the wage system remains, their progress will continue to depend upon collective action." [1]

Nevertheless, the union's power to raise wages is considerably hindered by two conditions. The first is the relatively small proportion of the wage earners that has entered the organizations. In 1910 it was less than eleven per cent, and in 1920, less than twenty-one per cent of the non-agricultural wage earners.[2] Inasmuch as the total number of organized workers is now less than four-fifths as large as it was in 1920 (under 3,700,000, as against 4,881,200) the proportion is smaller than it was seven years ago. Moreover, there are certain large fields that have obstinately and successfully resisted organization, for example, steel and automobile manufacture, particularly the establishments controlled by the largest corporations.

[1] Adams and Sumner, "Labor Problems," p. 205.
[2] Wolman, "Growth of American Trade Unions," p. 85.

The second obstacle is the fact that only a small minority of the members of labor unions are drawn from the unskilled and underpaid classes, who stand most in need of organization. The per cent of those getting less than living wages that is in the unions is almost negligible. With the exception of a few industries, the unskilled and the underpaid show very little tendency to increase notably their organized proportion. The fundamental reason of this condition has been well stated by John A. Hobson: "The great problem of poverty . . . resides in the conditions of the low-skilled workman. To live industrially under the new order he must organize. He cannot organize because he is so poor, so ignorant, so weak. Because he is not organized he continues to be poor, ignorant, weak. Here is a great dilemma, of which whoever shall have found the key will have done much to solve the problem of poverty." [1]

The most effective and expeditious method of raising the wages of the underpaid through organization is by means of the "industrial," as distinguished from the "trade," or "craft," union. In the former all the trades of a given industry are united in one compact organization, while the latter includes only those who work at a certain trade or occupation. For example: the United Mine Workers embrace all persons employed in coal mines, from the most highly skilled to the lowest grade of unspecialized labor; while the craft union is exemplified in the engineers, firemen, conductors, switchmen and other groups having their separate organizations in the railroad industry. The industrial union is as much concerned with the welfare of its unskilled as of its skilled members, and exerts the whole of its organized force on behalf of each and every group of workers throughout the industry which it covers. The superior suitability of the industrial type of union to the needs of the unskilled laborers is seen in the fact that more of them are organized in the coal min-

[1] "Problems of Poverty," p. 227. London, 1891.

ing than in any other industry, and have received greater benefits from organization than their unskilled fellow workers in any other industry. Were the various classes of railway employees combined in one union, instead of being organized along the lines of their separate crafts, it is quite improbable that the unskilled majority would be getting, as they now are getting, less than living wages. While it is true that the various craft unions in an industry are often federated into a comprehensive association, the bond uniting them is not nearly so close, nor so helpful to the weaker groups of workers as in the case of the industrial unions.

Human nature being what it is, however, the members of the skilled crafts cannot all be induced or compelled to adopt the industrial type of organization. The Knights of Labor attempted to accomplish this, and for a time enjoyed a considerable measure of success, but in the end the organization was unable to withstand those fundamental inclinations which impel men to prefer the more narrow, homogeneous, and exclusive type of association. The skilled workers refused to merge their local and craft interests in the wider interests of men with whom they had no strong nor immediate bonds of sympathy. Among laborers, as well as among other persons, the capacity for altruism is limited by distance in space and occupational condition. The passion for distinction likewise affects the wage earner, impelling the higher groups consciously or unconsciously to oppose association that tends to break down the barrier of superiority. Owing to their greater resources and greater scarcity, the skilled members of an industrial union are less dependent upon the assistance of the unskilled than the latter are dependent upon the former; yet the skilled membership is always in a minority, and therefore in danger of being subordinated to the interests of the unskilled majority.

For these and many other reasons it is quite improbable that the majority of union laborers can be amalgamated

into industrial unions in the near future. The most that can be expected is that the various occupational unions within each industry should become federated in a more compact and effective way than now prevails, thus conserving the main advantages of the local and craft association, while assuring to the unskilled workers some of the benefits of the industrial union.

Organization Versus Legislation

In the opinion of some labor leaders the underpaid workers should place their entire reliance upon organization. The arguments for this position are mainly based upon three contentions: it is better that men should do things for themselves than to call in the intervention of the State; if the workers secure living wages by law they will be less likely to organize, or to remain efficiently organized; and if the State fixes a minimum wage it may some day decide to fix a maximum.

Within certain limits the first of these propositions is incontestable. The self-education, self-reliance, and other experiences obtained by the workers through an organized struggle for improvements of any kind, are too valuable to be lightly passed over for the sake of the easier method of State assistance. Indeed, it would be better to accept somewhat less, or to wait somewhat longer, in order that the advantages might be secured through organization. However, these hypotheses are not verified as regards the minimum wage problem. The legal method could bring about universal living wages within ten or fifteen years. The champions of organization can point to no solid reasons for indulging the hope that their method would achieve the same result within a half a century. Therefore, the advantages of organization are much more than neutralized by its disadvantages.

The fear that the devotion of the workers to the union would decline as soon as living wages had been secured by law, seems to have no adequate basis either in experience

or in probability. Speaking of the establishment of minimum wages in the tailoring industry of Great Britain, Mr. Tawney declares that it "has given an impetus to trade unionism among both men and women. The membership of the societies connected with the tailoring trade has increased, and in several districts the trade unions have secured agreements fixing the standard rate considerably above the minimum contained in the Trade Board's determination." [1] Similar testimony comes from Australasia. Indeed, this is precisely what we should be inclined to expect; for the workers whose wages had been raised would for the first time possess the money and the courage to support unions; and would have sufficient incentives thereto in the natural desire to obtain something more than the legal minimum, and in the realization that organization was necessary to give them a voice in the determination of the minimum, and to enable them to coöperate in compelling its enforcement. Indeed, general experience shows that organization becomes normally efficient and produces its best results only among workers who have already approximated the level of living wages.

To be sure, the State could set up maximum instead of minimum wages,—if the employing classes were sufficiently powerful. But all indications point to a decline rather than an increase in their political influence, and to a corresponding expansion in the governmental influence of the laboring classes and their sympathizers. Moreover, the labor leaders who urge this objection are inconsistent, inasmuch as they advocate other beneficial labor legislation. The distinction which they profess to find between laws that merely remove unfair legal and judicial disabilities and laws that reduce the length of the working day or fix minimum wages, has no importance in practical politics or in the mind of the average legislature. If the political influence of labor should ever become so weak and that of capital so strong as to make restrictive labor

[1] "Minimum Rates in the Tailoring Industry," p. 96.

legislation generally feasible, legislators would not confine their unfriendly action to the field of positive measures. They would be quite as ready to pass a law prohibiting strikes as to enact a statute fixing maximum wages. The formal legalization of strikes, picketing, and the primary boycott which is contained in the Clayton Act, and for which the labor unions worked long and patiently, could conceivably be seized upon by some future unfriendly Congress as a precedent and provocation for legislation which would not only repeal all the favorable provisions of the Clayton Act, but subject labor to entirely new and far more odious restraints and interferences. The fact that governments passed maximum wage laws in the past is utterly irrelevant to the question of wage legislation to-day. A legal minimum wage, and a multitude of other protective labor laws are desirable and wise in the twentieth century for the simple reason that labor and the friends of labor are sufficiently powerful to utilize this method, and because their influence seems destined to increase rather than decrease.

The conclusions that seem justified by a comprehensive and critical view of all the facts of the situation are that organization is not of itself an adequate means of bringing about living wages for the underpaid, but that it ought nevertheless to be promoted and extended among these classes, not only for its direct effect upon wages, but for its bearing upon legislation. The method of organization and the method of legislation are not only not mutually opposed, but are in a very natural and practical manner complementary.

Social Insurance

A form of labor legislation which does not directly increase wages but indirectly supplements them, is that which provides for social insurance. It covers the main unfavorable contingencies of life, namely, sickness, accident, invalidity, old age and unemployment. While the

normal and ideal situation would be that in which the worker could himself provide for all these needs through savings, even the living wage, as ordinarily conceived in minimum wage legislation, would be less than adequate. For the millions of workers who fail to receive even this amount of remuneration social insurance legislation is indispensable. Concerning its general nature and conditions, the following sentences from "the Bishops' Program of Social Reconstruction" are worth quoting:

". . . So far as possible the insurance fund should be raised by a levy on industry, as is now done in the case of accident compensation. The industry in which a man is employed should provide him with all that is necessary to meet all the needs of his entire life. Therefore, any contribution to the insurance fund from the general revenues of the State should be only slight and temporary. For the same reason no contribution should be exacted from any worker who is not getting a higher wage than is required to meet the present needs of himself and family. Those who are below that level can make such a contribution only at the expense of their present welfare. Finally, the administration of the insurance laws should be such as to interfere as little as possible with the individual freedom of the worker and his family. Any insurance scheme, or any administration method, that tends to separate the workers into a distinct and dependent class, that offends against their domestic privacy and independence, or that threatens individual self-reliance and self-respect, should not be tolerated. The ideal to be kept in mind is a condition in which all the workers would themselves have the means and the responsibility of providing for all the needs and contingencies of life, both present and future. Hence all forms of State insurance should be regarded as merely a lesser evil, and should be so organized and administered as to hasten the coming of the normal condition." [1]

[1] Ryan and Husslein: "The Church and Labor," pp. 233, 234. Macmillan; 1920.

Toward Industrial Democracy

Neither the minimum wage nor the labor unions, nor social insurance, nor all of them together, are capable of giving the laborer satisfactory conditions, or society a stable industrial system. Even though all the workers were receiving living wages and a continuously increasing proportion of them something more; even though all were enrolled in effective labor unions; even though all were amply protected against the major hardships and hazards of life, neither their status nor the condition of industrial society would be satisfactory. The defects inherent in the system may be summed up thus: the worker is not interested in his work and he has not sufficient control over his economic life. Indeed, the former evil is ultimately reducible to the latter.

The worker is not interested in his work for very simple reasons. In the great majority of occupations and tasks his creative faculties are not sufficiently called into action to give him a technical or artistic interest. This is all but universally true of machine operations. In the second place, his directive faculties are not permitted to function sufficiently to arouse in him the interest which results from control over the processes of production. Finally, the fact that his income (except when he is paid by the piece) is not closely dependent upon the quantity or quality of his product deprives him of adequate economic interest. His efficiency is only that which is necessary to retain his job; his interest is mainly that of getting the best obtainable working conditions.

The industrial population is to-day rather sharply divided into two groups. A small number of persons own and direct the instruments of production. The great majority neither own nor direct. They merely carry out orders. As a natural consequence of this unnatural division of functions, we get lack of interest and lack of efficiency.

It is obvious that neither the injury to the workers nor

the limitation upon social efficiency which are inherent in this situation can be remedied by mere increases in the remuneration and the economic security of the employees. What they require is nothing less than a change of status.

The most effective change in status would be achieved if the workers were owners of the instruments of production. Individual ownership of the tools with which a man works is the best means yet devised for making him interested in his work and its results. In our system of large industrial units this is no longer possible for more than a small proportion of the wage earners. The industrial units, concerns, businesses, are too few and they cost too much.

Nevertheless, it is entirely feasible to introduce the great majority of the workers to the functions and advantages of ownership by a gradual process. All the elements of ownership fall under management, profits and relative independence. The methods by which these goods may be obtained are, respectively, labor sharing in management, labor sharing in profits, and labor sharing in ownership.

Labor sharing in management does not mean that labor should immediately take part in either the commercial or the financial operations of a business. Such activities as the purchase of materials, the marketing of the product, the borrowing of money and many others of a commercial and financial character are at present beyond the competence of the great majority of wage earners. On the other hand, labor sharing in management means something more than helping to determine the labor contract. That is already a recognized function of labor unions.

In a general way, the phrase denotes participation by labor in the productive side of industrial management. Men who spend their entire working time in a factory or shop or store or mine or on a railroad, naturally and necessarily come to know something about the processes upon which they are engaged. If they have ordinary intelligence they sometimes desire to exercise some control over these processes, to suggest improvements, to recommend ways of

eliminating waste. After all, the vast majority of persons would like to determine their immediate environment. In every normal human being there exists some directive, initiative, creative capacity. Those who are engaged in industry are not sharply divided into two classes, the one possessing all the directive ability, the other being unable to do anything but carry out orders. The wage earners have some directive ability, some capacity for becoming something more than animated instruments of production.

A considerable number of industrial concerns have adopted under one form or another the principle of labor sharing in management. Some of them are frankly paternalistic, operated by the employer through a "company union" or some other kind of organization dominated by himself. Others exemplify equality of coöperation between employer and employee. Some have achieved considerable success; others have failed. In this place, only one such enterprise will be set forth in any degree of detail. This is the plan which has been in operation for more than three years in the shops of the Baltimore and Ohio Railroad, and which has more recently been adopted by three other roads, namely, the Canadian National Railways, the Chicago and Northwestern Railroad, and the Chesapeake and Ohio Railroad. Three-fourths of a million railway employees have endorsed this form of employer and employee coöperation.

Space is wanting for an adequate description of the things which labor does in this arrangement. Some idea of the reality of labor's participation may be obtained from the fact that on three of the railroads concerned some 20,000 suggestions relating to shop operations have been made at the bi-weekly meetings of the joint committees of workers and management. A very large proportion of these came from the employees. A fundamentally important feature of the arrangement is that it recognizes the established unions of the workers. The labor members of the joint committees are chosen by the regular shop unions. Among

the matters and problems considered by the joint committees are: employee grievances, employee training, better conditions of employment in respect to working facilities, sanitation, lighting and safety, conservation of materials, increased output, improved quality of workmanship, recruiting of new employees, stabilizing employment, and employees sharing in the gains due to coöperation.

The principles and methods of the B. & O. Plan can be applied to every variety of industry. Of course, modification of detail will be necessary to meet the needs of the particular industry into which the arrangement is introduced. In every case where sincere and sustained effort is made to give the plan a fair trial the following gains may reasonably be expected: the workers will have greater consciousness of their dignity, greater self-respect, greater interest in their work and a feeling of responsibility for the results of their work; the merely business relation between employer and employee will be supplanted by a human relation which will cause the employee to look upon himself more as a partner than as a mere hired man, while both the employer and community will be benefited through a larger and better product.[1]

A more ambitious form of labor sharing in management has been proposed for large industries, particularly if they were under government ownership, for example, the railroads and the anthracite coal mines. According to this proposal, the board of directors would comprise representatives of the government, the consumers and the employees. Obviously this should increase the interest and the efficiency of the workers.

The second element of ownership which could be made available to the workers, is a share in the profits of the concern that employs them. In a sense this may be regarded as the most vital element in the system of private industry.

[1] For a full description of the various plans of labor sharing in management now operating in the United States, see, Lauck, "Political and Industrial Democracy." New York; 1926.

It rests upon the theory that when men enter into competition with one another, attracted by the lure of indefinite gains, their energy and inventiveness will be aroused to such an extent that they will find and apply new methods of production and of labor organization, with the result that the cost of production will be constantly lowered. In this way the whole community will be benefited. Until competition became so widely supplanted by combination, this theory was verified in practice. To the extent that competition prevails, and will continue to prevail in industry, the theory is sound. Now the method of profit-sharing by the employees simply extends this general principle of indefinite gains to the wage-earning classes. If it is desirable to permit the directors of industry to obtain indefinitely large gains as a result of hard work and efficiency, why is it not equally desirable to hold out this hope to the rank and file of the workers?

Profit-sharing gives to the workers, in addition to their, wages, a part of the *surplus* profits. So long as the régime of private capital obtains, the owners of capital will have to be assured the prevailing rate of interest. Therefore, it is not feasible to give any part of the profits of a concern to the workers until the owners of capital have obtained this prevailing rate. If 6 per cent, for example, is the rate of interest that can generally be obtained on investments of normal security, then the owners of the capital in a concern should be guaranteed that amount before the process of profit-sharing is put into operation.

How much of the surplus which remains after the payment of normal and necessary interest and dividends should go to the workers? Various proportions have been allotted in various profit-sharing arrangements. Nevertheless, the most scientific method would be that which awarded the surplus profits to the workers exclusively; that is, to all persons who do any work in the concern in any capacity, whether subordinate or directive. Why should the non-working stockholders receive any part of a surplus to the

production of which they have contributed neither time nor thought nor labor? No one proposes that the bond holders of a corporation should share in the surplus profits. With the exception of the Board of Directors, executive officers, and a few others, the stockholders, so far as work is concerned, are in exactly the same position as the bond holders. If matters are so arranged that they are certain to receive the prevailing rate of interest each year, and if a sufficient reserve is set aside to protect them against losses, they are receiving all that seems to be fair and all that is necessary to induce men to invest their money in a concern of this sort. Therefore, the surplus profits should all be distributed among those who perform any function in the industry, from the president of the company down to the office boy. And the distribution should be in proportion to their respective salaries and wages.

The third advantage of ownership, relative independence, is obtainable only through ownership itself. Since only a few wage earners can hope to become individual, or dominant, owners of an entire business, the great majority will have to be content with partial ownership. At this point we must be on our guard against an insidious theory which has had the benefit of much propaganda in recent years. It is generally advanced under the designation, "employee ownership." Impressive totals are marshalled, describing the vast increase in the number of workers who own shares in the corporations that employ them, or in some other corporation. The climax of perfection is assumed to be reached when the majority of the employees of a concern are numbered among its stockholders.

As a method of providing the employees with those advantages of ownership which will at once make them interested in their work and give them an adequate status in the industrial system, mere proprietorship of securities, even though individually large, is fatally inadequate. For it fails to give the workers *control.* It confers upon them no share in management, whether of the productive processes or of

commercial and financial policies. Even in the most attractive descriptions of the most nearly complete participation in stock ownership, we find no statement of the *proportion of the total stock* which is held by the employees. As a matter of fact, it is always far less than a majority.[1]

Lacking this measure of ownership, the employees lack control. Lacking control, their share in the stock of the corporation which employs them has no more practical significance than an equal amount of property in some other corporation, or an equivalent quantity of deposits in savings banks.

The "relative independence" (security, self-respect, social power, adequate control over their own economic lives and environment) which the workers can obtain through sharing in industrial ownership includes some measure of industrial control. It is attainable in only two forms. The more desirable, though not the easier, is coöperative enterprise, through both consumers' and producers' societies. The second form is copartnership as substantially exemplified in Philadelphia Rapid Transit.[2]

Either method would end the unnatural divorce that now exists between the owners of capital on the one hand and the users of it on the other. It would be the most effective obstacle to and preventive of Socialism. The instinct which urges men into the Socialist movement is entirely natural, for it is based upon the fundamental fact that in a democratic society men will not be content to be mere executers of the orders issued by feudal lords of industry. This instinct can be satisfied to a greater degree and in a much more beneficial way through coöperation than through

[1] "National Wealth and Income," Report of Fed. Trade Commission, p. 160.

[2] See above. p. 195. The Labor Co-Partnership Act of New Zealand authorizes business corporations to issue "labor shares," having no nominal value and not transferable, but entitling the holders "to attend and vote at meetings of shareholders, and to share in the profits of the company, or in its assets in the event of its being wound up, to such extent and in such manner as may be determined by the memorandum or articles of association of the company."

Socialism. The difference between the two forms of ownership is the difference between a man's proprietorship of his front lawn and his interest in a public park. Through coöperation and copartnership the workers would be compelled to develop their own powers of self-control and management, instead of trusting to a mere social and industrial mechanism. They individually and collectively would have to bear the responsibility for the success or failure of the enterprise. The influence of this condition in contributing to the development of the individual is obvious. A society in which the majority of the workers were owners of capital, as well as wage-earners, would be an infinitely more progressive and more enlightened society than either Socialism or modern capitalism.

Our industrial system as now constituted is well-nigh bankrupt. It is fast becoming an industrial feudalism, and the day of feudalism, whether in politics or in industry, has gone forever. There are only two conceivable alternatives: one is Socialism; the other is coöperative control and ownership by the workers of the greater part of industry. Reforms which will merely better the conditions of life and labor of the wage earner, leaving him in his present position of entire industrial dependence, with no participation either in management, profits or ownership, will have no permanent value. What the worker needs is a change of status. In the days of slavery there were many masters who gave to their slaves all the advantages of humane living except economic freedom. Yet that status was not normal, and was not satisfactory. Industrial dependence cannot endure permanently, no matter how well off the worker may be in the material conditions of existence. "Not by bread alone doth man live."

Undoubtedly the changes called for in the foregoing pages must be brought about gradually. The element of time is not important. What is important is to recognize that some such changes are indispensable and inevitable. When our society recognizes this fact and becomes per-

meated with this spirit, the problem of ways and means of effecting the change will become comparatively simple.

There was a time when men believed that only a few persons, the supermen of that day, were capable of managing political government. That belief no longer survives. Its counterpart in the world of industry, the theory that the functions of owning and directing economic institutions must be performed by a few supermen, is equally false and equally doomed to disappear.[1]

[1] Several of the preceding paragraphs have been adapted from the author's "Declining Liberty and Other Papers." Macmillan; 1927.

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