

armed himself in Cleveland. As is generally known, Mayor Johnson has for two years led the movement in Cleveland for a 3-cent fare on street cars. Senator Hanna, who patriotically mixes shady politics with profitable street car franchises, fought Johnson at first in the city council, which he was unable to hold; then in the courts, which served him well; and then in the legislature, which he bodily owned. But now it all comes back again to the people of Cleveland, and Senator Hanna is organizing his "labor leader" outfit in readiness for the approaching municipal election. His success may be inferred from the fact that a committee of the local central body has recently reported that upon investigation it discovered (what Johnson not only denies, but the falsity of which has been demonstrated) that it costs three cents and eight and two-tenths mills to carry a street car passenger, without allowing anything for dividends.

Now, these labor leaders may be perfectly honest in their conclusions. They may think that it does cost nearly three cents to carry a passenger. But how did they find it out? Is there any Simple Simon so innocent as to suppose that they got their information elsewhere than from the offices of Mr. Hanna's companies? They have acted in this matter as a labor committee of monopoly white-washers. It does not follow, of course, that they have been bribed, and everyone is entitled to his own opinion as to their motives. But be their motives whatever they may be, the significant fact remains that a committee of labor men, without experience or special knowledge of the matter in hand, except such as they may have received from the street car ring, have put forth a labored argument in defense of that ring and dubbed their production a "labor report." So labored is this argument, and so spotted with thumb marks of a certain corporation law office in Cleveland, that Mayor Johnson, who knows that office pretty well

and is himself an expert in the street car business, openly charges that the substance of the report was prepared by Hanna's own lawyers. Of course the labor committee denies that charge. Yet there is much about the whole affair to indicate that influences are at work in "labor leader" circles in Cleveland similar to those that controlled the Chicago Federation of Labor until at the last election its outraged and indignant membership voted the "gang" out of office in the Federation.

Prof. Taylor, who holds the chair of political economy at Ann Arbor University, is as candid as a new convert at a Methodist experience meeting. Believing in plutocracy, he defends it without mental reservation or purpose of evasion. Rockefeller is our great tax farmer, as Prof. Taylor concedes, and a useful one as he contends. Moreover, the system is wise and good. As a private citizen with taxing power, Mr. Rockefeller is doing for this country what Lord Cromer, as a government servant, is doing for Egypt. Listen to this exceptionally candid professor:

When Egypt was under the khedives those rulers squandered the enormous taxes paid by their subjects. To-day, under Lord Cromer, Egypt pays just as much taxes to her English masters. Now, however, Egypt gets that money back. Witness the expansive dam on the upper Nile, which will make the whole desert country fertile. In this dam alone Egypt is likely to regain her tax money. In America we have a different method than taxation to secure money for large improvements. Private capital does it. When Mr. Rockefeller, for instance, raises the price of oil two cents he forces us to contribute money for the collection of a great body of productive capital. It is, of course, a system of voluntary despotism to which we Americans thus submit. Mr. Rockefeller has more money than he can use; so it is no effort for him to save his extra earnings in the form of productive capital. If the riches were divided equally none of us would have enough to induce us to form vast amounts of capital. We should want to use our money for ourselves.

In that naive fashion does this professor of political economy expose the economics which his confreres stand for, but the true inwardness of which

they, as a rule, bury in mazes of verbosity and parade in the guise of "science."

Here is an unreserved acknowledgment that the chevaliers d'industrie of whom Mr. Rockefeller is a type, hold and exercise khedival privileges. Note the innocence of Prof. Taylor's observation that we should waste our earnings if there were no Rockefellers to confiscate them and turn them into productive capital. He seems quite oblivious to the obvious truth that the use a man makes of his income is morally subordinate to the manner in which he obtains it. Very generous, for instance, was it of that embryonic type of Rockefellerism, Sixteen-String Jack, to make gifts to the poor. And the poor naturally praised him for it. But where did he get his gifts? That was the crucial question in his case, as it is in Rockefeller's.

AMERICAN WAGES AND CAPITAL

A distinguished newspaper writer, W. A. Croffut, of Washington, D. C., has recently undertaken to demonstrate statistically that the average American wages are but \$300 a year and that this is about equal to the average product, per wage earner, over and above necessary business expenses and a fair return upon invested capital. He argues, therefore, that the only way to increase the average wages is by increasing the average product. Consequently he strongly denounces, as enemies of the laboring man, those who favor restrictive methods adopted by trade unions for the purpose of limiting competition in the labor market.

It would be well to note that in fact a large proportion of our industrial class are compelled to live upon less than \$300 per worker. This does not mean, necessarily, that the average income of the family falls below, or even down to that amount, but that in many families there are two or more bread winners. This has a tendency to reduce the average wages to \$300 or below, even though the family receives a larger income.

But let us consider Mr. Croffut's principal proposition.

One objection to his conclusions is the fact that they are based upon statistics which, so far as they relate to the share of the product that goes to non producers, are absurdly fallacious, and also that he disregards the fact that free conditions, which do not now exist, are necessary to make it possible for producers generally to obtain increased earnings as the result of increased production coming from longer hours or increased efficiency of labor.

Of course, if it is true that labor now gets all that it produces over and above the amount necessary for expenses and a paltry 4 per cent. on the capital engaged in production, we must admit that Mr. Croffut' is correct in his conclusion and that trade unionists are hopelessly wrong in attempting to raise wages by limiting the hours of labor or by any other method that tends to limit production.

This is an important question. It is, in fact, the all important question of our time; for, if it be true, as it appears, that increased production inures chiefly or entirely to the benefit of non producers, and that producers can obtain an increased share of the product only by methods that limit production, there is then something radically wrong in existing economic conditions.

To deny that such a condition exists and to assent as does Mr. Croffut, that wage earners were never so well off in this country as at the present time, is an easier matter than to support such assertions by statistics that will bear careful analysis.

Before considering the statistics which Mr. Croffut presents let us look at the statistics of the industry in which there has been the greatest increase in production as the result of increased efficiency of labor. If the theory that increased wages results from increased production is a true theory, we should find a most decided increase in the earnings of those engaged in manufacturing and mechanical industry. Instead of this we find precisely the contrary.

During the last decade, which was one of enormously increased production, there has been a decrease in average earnings, and the most decided decrease has occurred in those particular industries in which there has been the greatest increase in the

efficiency of labor. Moreover, we find also that where there are exceptions to the general downward tendency, it is in those industries in which trade unions have been in a measure successful in their attempts to limit or regulate production.

In explanation of this downward tendency, we find the following remarks in the text of the present census, p. cxxiii., vol. vii.:

Labor as Affected by Machinery.—A factor that has had a real tendency to lower the actual average earnings of the wage earner in many industries, is the displacement of the skilled operative by machinery, which permits the substitution of a comparatively unskilled machine hand. This tendency is noticeable in many lines of industry. Its effect is twofold: to reduce the number of employes producing the same or an increased quantity of product, and hence to lower the total wage of the group; and to reduce the average rate of wages because of the lower degree of skill required. The effect of the introduction and improvement of machinery upon the condition of the skilled artisan is an economic question of the greatest importance.

In connection with table xlii., intended to show the effect of machinery in certain selected industries, among other remarks we find the following:

In the tanning of leather, by reason of improved machinery, there has been a constantly decreasing demand for skilled workmen. Women and girls are now performing work formerly done by men. In 1890 a shaver who had to serve an apprenticeship of several years before he became a skilled workman, received as high as \$6 per day at hand work. In 1900 he had been quite generally supplemented by the "handy man," who did the same work by machinery, accomplished four times as much, and received perhaps a third of the pay. . . . These statistics indicate that the increase in production has been accomplished very largely through the utilization of new and improved machinery, without a corresponding increase in the number of wage earners.

The statistics presented in the table to which the foregoing remarks refer, do not, however, show the full extent of the decline in average earnings, during the decade, and in some instances indicate a decided increase in earnings. This increase is, however, entirely fictitious. It illustrates the grossly misleading character of the statistics of the present census due to a change in census methods of computation that appears

to have been adopted for the purpose of concealing the disagreeable fact of a decline in average earnings during a period of wonderful development.

The census reports the average number of wage earners employed and the total amount of wages paid and it is from the relative increase of these items that we discover whether average earnings have increased or decreased. The change in methods consists in computing the average number of wage earners on the basis of 12 months, instead of for the period during which the various establishments were in actual operation as was the practice at former censuses.

The schedule of the present census called for a report from each establishment of the average number of wage earners employed each month and the average number for the year has been computed by aggregating these monthly averages and dividing the total by 12, the number of months in the year. The effect for an establishment furnishing employment six months of the year is to decrease the number reported as the average number by one-half and to double the apparent average earnings.

Regarding this change of methods we find it remarked in the text of the census, on p. cvii., vol. vii.:

It is obvious that the method adopted in 1900 tends to produce a smaller average number than the method employed in 1890.

A reduction in the number of wage earners used as the divisor of the total wages results, of course, in a corresponding increase in the amount computed as average earnings. Yet notwithstanding this change of methods having a most decided tendency to fictitiously increase the amount obtained as average earnings, the present census shows average earnings nearly 2 per cent. less than the census of 1890.

The figures as computed for the two censuses are \$444.83 for 1890 and \$437.83 for 1900.

This latter amount seems to have been accepted in some quarters as representative of the average earnings of wage earners in all industries. But, as was shown by the present writer in a previous contribution to *The Public* (p. 452) the statistics of agriculture of the present census show the average labor income of our largest industrial class, that engaged in agriculture, as very much less than \$300. The amount, \$437, does not

represent the actual average earnings even of those engaged in manufacturing industry, but an average of the amounts that might have been earned had every wage earner in that industry found employment for 12 months of the year instead of, as was the case in a large proportion of instances, for a much shorter period.

Regarding census computations of average earnings, S. N. D. North, Chief Statistician of Manufactures of the present census, in a contribution to a discussion of the census by members of the American Economic Association, published as No. 2, New Series of the Publications of the Association (May, 1899), said:

It formed the subject of one of the severest criticisms passed upon the eleventh census of manufacturers. That criticism rested upon the fact that the census schedule called for the average number of employes and the total amount paid in wages and secured its average wage by dividing the one into the other. That the result was not a perfect average is apparent; for the sum of total wages paid was not paid to the average number of employes, but to all who were employed throughout the year.

The criticism referred to was first made by the writer of the present article in a contribution to the *Journal of Political Economy* of Dec., 1895, and later in one of his contributions to the *Journal of Sociology*. The result of dividing the total wages by the average instead of the entire number of wage earners, is to obtain a larger amount as average earnings than that actually received. By the change in census methods, average earnings as computed at the present census are still further from the true amount than the computation of 1890.

It may be here remarked that one of the manifestations of the pernicious influence of combinations to control prices, known as trusts, is that which they exert over our statistical bureaus to which the public look for information. The fallacious character of official statistics, from which doubtless Mr. Croffut, like others, has drawn the conclusion of a great increase in wages, has been conclusively demonstrated by the writer of the present article in a series of articles, "Eccentric Official Statistics" in the *Journal of Sociology*, and in contributions to the *Journal of Political Economy*, publications of the University of Chicago, and recently in a pamphlet, "Our Juggled Census."

The writer's earlier criticisms, so far as they relate to the census, have been confirmed by eminent members of the American Economic Association in their discussion of the census previously referred to. There exist no statistics worthy of confidence which indicate that average earnings in this country are higher at present than they were thirty years ago (gold value). On the contrary, the most reliable data, when fairly analyzed, indicate that the only advantage which the producer has realized during a period of unparalleled increase of production, has come to him through a decrease in prices. This advantage, we are rapidly losing if we have not already lost it, through recent advances in prices resulting from industrial combinations known as trusts.

Let us now consider Mr. Croffut's figures. He says:

Let us look at figures; the United States makes the following showing:

Annual product.....	\$10,000,000,000
Deduct from this	
For taxes paid.....	\$700,000,000
For wear and tear.....	1,300,000,000
Profit to capital (4 per ct.).....	2,600,000,000
Total.....	4,600,000,000
To divide among producers.....	5,400,000,000
Total number of producers.....	18,000,000
Therefore average yearly wages	
—in dollars.....	800

This would seem to show that \$300 is the average yearly wage in America. Whoever gets more than this gets more than the average.

These figures, so far as they relate to the value of the product and the number of producers, are approximately correct. It should, however, be understood that \$10,000,000,000 is the value at the factory and the farm or mine, and that it is enormously increased before it reaches the final purchaser or consumer. It is, nevertheless, the value from which must be obtained the recompense of labor and capital engaged in direct production. Mr. Croffut's figures seem to indicate that he labors under the erroneous impression that all of the capital of the country, real and nominal, obtains its return directly from this ten billions, representing the first cost of the product. As a matter of fact, the larger proportion of capital obtains its return from other sources. At 4 per cent. a profit of \$2,600,000,000 represents an investment of \$65,000,000,000, which is more than double the nominal capital and four or five times the real capital engaged in production. By real capital is meant the product of labor applied

to natural resources and not natural resources themselves.

Of the ten billions of product, according to the census, considerably more than one-half is the product of manufacturing and mechanical industry, \$5,697,931,815, being the value added to raw material by manufacturing processes.

The amount of capital invested in the production of this value is reported as \$9,861,822,864, or, if we include the estimated value of rented property, \$11,013,787,624. The amount of capital reported is, however, greatly exaggerated through the census method of including debt as capital. That is, materials purchased on credit are reported as part of the capital of the concern owing for them, while the obligations given for them, or the open book accounts representing them, are included as part of the capital of the concern holding the accounts.

Regarding the resulting duplication of capital it is remarked in the text of the census, p. ci., vol. vii.:

This duplication and reduplication cannot be eliminated, as this report has attempted to do in the matter of products. It is embedded in the returns an indefinite and unknown amount, but, an enormous aggregate in a total of ten billions—and it vitiates conclusions drawn from the total.

A computation from census figures of product and expenses after every possible deduction for expenses not included in the census report shows a profit on this exaggerated capitalization at least three times the amount which Mr. Croffut has figured out as the profits of capital.

It should not be inferred, however, that manufacturing capital generally realizes a profit of 12 per cent. for the large average percentage of profit shown is unquestionably due to enormous profits in favored lines of industry. It may be remembered that Mr. Frick, Mr. Carnegie's partner, testified that Mr. Carnegie realized a profit of 24 millions in a single year. This must have been much nearer ⁴⁰ than 4 per cent. on his investment.

In agriculture, if we allow \$300 as wages for each farm proprietor and deduct the cost of labor and fertilizers and allow for repair and renewal of machinery, buildings and fences, and also deduct for other expenses, including taxes, we shall have left from the total product of \$3,764,177,706 enough to pay but little if any more than 4 per cent. on the nominal agricultural capital of \$20,574,001,835.

But then we must remember that the farmers have not yet been able to organize a trust.

It may be noticed that if we aggregate farm and manufacturing capital and products we have a total capital of but 31 or 32 billions, with a product of nearly 9½ billions. Where, then, does Mr. Croffut find the remainder of the 65 billions of capital engaged in producing 10 billions of product?

Of the capital of the country a very large amount is engaged in distribution and obtains its profit from the enhanced prices of products that are paid by the final purchasers. Much of this capital is invested in stores and warehouses and in the goods which they contain. Besides there is an immense amount of nominal capital which represents the value of business sites. In transportation, which is a part of distribution, there is invested in steam railroads alone an amount of nominal capital equal to that engaged in manufactures, with net receipts nearly half a billion of dollars, which is a return of 4½ per cent. in a capitalization the larger part of which is representative of no investment of capital whatever, but of franchises conferring special privilege. It is true likewise of the greater part of the nominal capital of the country, that it represents, not real capital which is the product of labor but some special privilege. The larger part of the nominal capital of the anthracite coal combine, for instance, represents no investment in machinery, buildings, or other actual capital, but only the value of the power to levy tribute upon industry. This tribute is imposed upon all real capital as well as upon labor. As is the case with all monopolies, it is measured by necessity and the ability to pay. Nominal capitalization being based upon profits, the longer the hours of labor of the miner and his children and the lower the wages the greater becomes the capitalization.

The capitalization of our street railways, amounting to over two billions, as is well known, is principally a franchise or monopoly valuation.

This high valuation has resulted not only from the low wages of employes, but from the willingness of the public to put up with inferior accommodations.

The selling value of the securities of telegraph companies, as estimated by Prof. E. W. Bemis, amounts to \$600,000,000; of express companies

to \$100,000,000; of private water companies, \$931,000,000; of street railways to \$2,113,000,000. None of these obtain their return from the ten billions of product except indirectly. Wage earners spend the wages which they have received for producing this ten billions of product, in car fares or in other ways that go to make up the return for capital invested in these concerns.

From the earnings of producers and other wage earners, there is a still larger return to capital, very much of which is tribute to monopoly, in the way of residential rents. These must amount to at least a billion of dollars.

Besides all this, there is an immense amount of normal capital representing vacant land and lots held for speculative purposes. The return for such investments goes in the way of increased prices which legitimate capital is compelled to pay for opportunities.

Mr. Croffut should revise his figures.

Existing conditions in the coal fields and among consumers of coal, and the very general inability to comprehend the cause and true remedy for existing evils suggests the query whether the monkeys from whom we are said to have descended, could they appear among us and be made acquainted with conditions, would not be ashamed to own their posterity? They were never so foolish as to allow a few of their number to monopolize the cocoanut and fruit trees of the grove and forest. Would they not be disposed to rejoice that they never evolved.

HENRY L. BLISS.

NEWS

At the time of our last report from the seat of the war between Venezuela and the debt-collecting powers of Europe (p. 662), a battle was raging between three German war vessels and the Venezuelan fort at San Carlos, a fort commanding the entrance to the Lake of Maracaibo, into which the Germans were endeavoring to force their way. It had then lasted four hours—from 10 a. m. to 2 p. m. of the 21st—and there were no signs of its termination. This battle was still in progress on the 22d. The German vessels had retired for the night at 6 o'clock the previous evening, but early in the morning they

renewed the fight. It continued through that day, when the Germans tried twice to land marines, but the marines were forced back to their ships. Since the 23d, however, nothing very certain about the battle has been reported. Through German sources it has been stated that the German ships succeeded in capturing the fort; and this statement derived some confirmation from a dispatch of the 26th from Porto Cabello to the New York Herald, to the effect that after a three days' bombardment the fort had been captured and blown up. It is noticeable, however, that no reports appear indicating that the blockaders have advanced into the Lake of Maracaibo, which they would likely have done had Fort San Carlos been silenced. This fact gives color to reports from Venezuelan sources to the effect that the German vessels, though they had badly damaged the fort, were on the 23d compelled to withdraw.

There seems to be no doubt that the village of San Carlos was totally destroyed by the German bombardment. This village consisted of 80 houses, built of wood and straw and inhabited by about 250 people—fishermen and their families. It was destroyed by fire caused by the explosion of shells from the bombarding ships. Many non-combatants are reported to have been killed.

Mr. Bowen, as the representative of the Venezuelan government (p. 662), has meanwhile been advancing negotiations at Washington with the European powers. He authorized this statement on the 24th: "I have good reason to believe that the pending controversy between the three allied powers and Venezuela will be settled soon and satisfactorily." On the 25th he was in conference separately with the British and Italian ambassadors and the German charge d'affaires; and on the 26th written declarations were exchanged. It was reported at that time, with apparent accuracy, that in these declarations the European powers had promised the raising of the blockade immediately upon the conclusion of an agreement upon terms proposed by Mr. Bowen and believed to have been provisionally accepted by the powers. The principal feature of the terms thus proposed and accepted is understood to be the hypothecation of 30 per cent. of the customs receipts of La Guayra and Porto Cabello for the