

Wage and Price Standards— Can They Be Maintained?

By Dr. Eugene Friedberg

President Truman, in his speech of October 29th and in subsequent statements, has attempted to set down a policy of wage and price adjustments designed to maintain or raise our standard of living.

While a great deal of criticism has been directed against his plans, it is significant that most of the opposition is directed against the details rather than the principles of the President's policies. The chief concern of these critics seems to be how much wages should be raised, rather than whether wages can be raised at all by the methods proposed. The thinking by which their conclusions are reached seems for the most part to be of the type known as "wishful."

Sound economic thought, however, has demonstrated that in a system of free enterprise wages and prices must inevitably respond to certain laws. These laws and forces are immutable and it would be just as foolhardy to disregard them as it would be to ignore the laws of chemistry or physics. To overlook fundamental principles in any field is to invite failure.

In a system of free enterprise prices are set by the pressure of competition. As a result, prices are held to a level which usually nets

profits averaging 6 or 7 per cent. In the boom year of 1928, the rate of net return for all active corporations in the United States was only 7.2 per cent. As soon as the return drops to 4 or 5 per cent there is a marked tendency to cease operations. Any increase in the cost of production—higher wages, higher cost of material, higher taxes, etc.—must either narrow the percentage of profit or raise prices, if the same rate of profit is to be maintained. As the rate of profit decreases the incentive to invest tends to disappear, causing production to diminish. All the good will and political maneuvering in the world will not keep a firm in business if the investors do not get the desired return. They will think it preferable to liquidate.

The manipulation of wages and prices by politicians or pressure groups is comparable to a decision by the American Medical Association that as of a certain date only



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2 per cent of the population would be permitted to suffer from colds during the coming year.

Real wages are set by the number of bona fide jobs available and the number of workers seeking jobs. When there are many real jobs and few workers wages are high, and when there are few real jobs and many workers wages are low. It is true that wages may be raised artificially, but these rises are only on paper, because the forced wage rise is always taken up by an increased cost of living. Wages have been raised on paper time and time again during the past fifty years, but the average per capita income of the worker before the war was still close to subsistence level.

Some realization of the basic difficulties in raising wages by fiat is evidenced in the use of vague terminology in the phrasing of proposed legislation. Words such as "reasonable," "fair," and "decent" abound and seem to be the only known measurements. Various formulae are proposed, based on records of profits and other figures but there are so many exceptions and differences in interpretation that each new prescription only increases the confusion. An example of the prevailing illogical attitude toward wages is the demand for 48 hours of pay for 40 hours of

work. Those who make that request apparently feel that there is very little relationship between production and wages. Wages must be based on production, and an artificial formula will only result in artificial wages.

There is no doubt that the real income of the worker must be increased. The economic studies of Henry George, Herbert Spencer and others have demonstrated that it can be done. For milleniums man has been forging fetters which have prevented the great majority from producing to the best of their abilities and from keeping what they produced. In order to secure justice we have but to reverse this process; we must smash all restrictions such as private ownership of land, patents, taxes, political privilege and other monopolies so that production can expand to its maximum and each can receive what he produces. Greater production means more real jobs, and more real jobs mean a higher standard of living. Give a man the opportunity to apply himself to the best of his ability and he will raise his own wages. There is no need to pass contradictory laws and set up complex, wasteful bureaucracies to administer the unadministrable. Man should not have to beg his fellow man for a high wage.

A better future for civilization can be made certain only if it is based on opportunity and not importunity.

New York, N. Y.