# The Menace of Labor Monopoly

THE open letter of Editor Miller to Samuel Gompers, published in the REVIEW, was a praiseworthy attempt to open the whole question of the relation of modern labor-unions to social reform. In view of the great interest that Henry George took in the trade-union movements of his time, inspiring some of his most noted essays, such as the "Condition of Labor" and the "Crime of Poverty," and his various political candidacies in New York, it seems advisable for Single Taxers to keep themselves up to date in the policies of trade unionism. As a mining engineer, practising in most states of the Union and in several foreign countries, I have favorable opportunities for the observation of this class of phenomena.

Wages and hours have been the chief concern of the modern labor movement, which may be said to have begun with the legalization in England of trade unions about a century ago. In the simple days of production by hand labor, which prevailed everywhere till the late 18th century, the question of a fair wage was easy to answer, for it was self evident that no worker could hope for a greater wage than the value of his own output. If one cobbler could make two pair of shoes daily while his mate made but one, even an apprentice might calculate that while the first deserved just twice the wages of the other, even the first could not hope for a day's pay larger than the selling price of two pairs of shoes less the cost of the material to make them. But in a modern shoe factory, organized to realize on the economy of machine production by a minute division of labor, the problem of apportioning to each worker his rightful share of the total output is far from simple; to solve it requires both a practical knowledge of shoemaking and intimate acquaintance with political economy and social ethics.

Modern industry is nominally conducted on the competitive system. The price of commodities is fixed by competition between the various producers in the market place, the price of labor is set by the competition between several workmen for the same job. Similarly, the interest on capital is fixed by competition between its owners for the notes of an *entrepreneur*. In the many industries where this basis, of a fair field and no favor for all competitors, actually prevails, the problem of an equitable division of the annual gain between masters and men is greatly simplified. If the owners be allowed the competitive rate of interest on their capital, and the men be granted the competitive rate of wages for each class of work they do, it is clear that any surplus remaining, after making proper allowances for the insurance, depreciation and amortization of the capital, can easily be divided between masters and men on some mutually satisfactory basis wherever both sides are sufficiently intelligent and fair minded. That such is the case has been proved by many profit-sharing experiments in both Europe and America. Two of the most successful recent examples of such practice have been described: the first is a large cotton-print factory at Wappinger Falls, N. Y. (1), the second is the Hydraulic Pressed Steel Co., of Cleveland, Ohio (2).

Unfortunately for the industrial peace and the attainment of an ideal society, the profits of many enterprises are not limited strictly by free competition, notwithstanding the opinion to the contrary of many superficial economists. Therefore, the Cleveland factory policy of "telling the truth and sharing the profits" has only a limited range as a social palliative, for it is clear that the mere sharing of unearned profits with the workmen will not right the wrongs of those mulcted by such an enterprise. Moreover, the less the profits are earned by industrial efficiency, the less the owners have need for the enthusiastic co-operation of their employees, and the less liable will the former be to make the latter the sharers of their financial secrets.

It is the prevalence of this anachronism—vast quantities of unearned profits in a supposedly competitive society—that has often made the militant labor unions useful and even essential for gaining for the workers some share in the wealth due to improved methods of production. In spite of considerable success in raising the nominal rates of wages for their followers, few labor leaders understand political economy, and they therefore are liable to make impossible demands on employers, or else to gain an increase of wages at the expense of an increase of commodity prices, and thus perhaps injure the workers more in their consuming capacity than they benefit as wage earners. For scrutinizing the possibility of raising wages by union effort, all industries may be divided into six classes: I, universally-competitive; II, nationally-competitive; III, locally-competitive; IV, legally-monopolistic with competitive prices; V, legally monopolistic with monopoly prices; and VI, artificially or illegally monopolistic.

*Class I.—Universal competition* may be illustrated by cotton-cloth manufacture, in any free-trade country like England, where a world-wide competition keeps the difference between the cost and the selling price of the product so small that the employer has little or no surplus above the necessary cost for his capital and supervision, for by increase of wages, if he raises the selling price of his cloth, he will lose his customers. Unions therefore must increase the daily output of their members if they wish higher wages in this class of industry. As in such an endeavor the financial interests of the employer coincide with those of the men and the community, we have here no natural obstacle either to the introduction of industrial democracy or to the openings of the books to the general public.

*Class II.—National competition* may be illustrated by woolen-cloth manufacture in any country protecting it from foreign competition by an import duty, like the United States. In this class the possible surplus for raising wages would be the difference between the existing cost of production, and the foreign price plus transportation and import duty; because a combine of all the employers could advance the selling price of their cloth to this latter sum without danger of losing their home market. As soon as our woolen mills have sufficient capacity to supply the domestic demand, their selling price will be set by competition among themselves and tend to fall below the price of imported cloth. While the status of free competition prevails, our protected manufacturers will have just as much to gain by industrial democracy and no more to fear from their balance-sheets becoming public property than have their counterparts in free-trade England. It is only when they abandon competition and combine so as to fix their price with reference to the protective tariff-wall, that they can acquire an unearned profit, and must needs become autocratic and mysterious, in order to defend themselves from prying labor leaders on the one hand and from tariff-revising statesmen on the other.

*Class III.—Local competition* is illustrated by the building trades of a city, where the only limit to an advance in the prices for construction is the danger that contractors and workmen will be brought in from a nearby city to do the work. There is therefore a strong temptation for local contractors to form a combine, so as to advance their prices to the natural limit and thus gain an unearned or monopoly profit. Such a combine, in order to better defend itself from underbidding by "scab" contractors and hold-up strikes by labor-leaders, has found it usually advantageous to establish the closed shop and divide its loot with its union workmen. In some cases, especially plumbing, the supply houses are also in the combine and will sell their goods only to its members. Among our big cities, Chicago and San Francisco have been notorious for such building-rings, which have stopped at no means, fair or foul, to maintain this monopoly. As such a ring greatly increases the cost of houses, it means higher rents for everyone, including the workmen, of whom only a small fraction belong to the building unions and get a compensatory wage. As a contractors' combine shares both its profits and its secrets with its workmen, it may be considered as the application of industrial democracy to predacity, the public being the prey.

*Class IV.—Legal monopoly with competitive prices* is based on the ownership of all classes of land except that of public utilities. In the popular concept, nothing is a monopoly that cannot set the price of its product; but technically, the exclusive possession of natural resources, conferred by land title, represents a monopoly irrespective of the land's relation to commodity markets. (3) Economic rent, or the income arising from the land itself apart from its improvements, is unearned by the individual landowner, for it arises solely from some quality inherent in the valuable land that enables it to yield a residuum after all the necessary costs for the use of labor and capital to render it productive have been paid. While large areas of privately-owned land are so lean as to be rentless, the superior lands yield an income of economic rent, which comprises the bulk of the wealth engendered by a community working as a social unit. Any enterprise of this class, therefore, which owns superior land and employs many workmen—such as numerous mining and lumber companies—is sure to yield a monopoly profit (rent) which will arouse the cupidity of labor-leaders if they discover its existence. Any share of this profit that a labor-leader can secure for his followers will mean a net increase in wages, since here the profit (rent) is not due to a monoploy price but to the superiority of the productive factor (land) and therefore the cost of commodities is unaffected, be its recipient land-owner or laborer. It is thus to the interests of this class of enterprises, as land-owners, to conceal carefully all details of capitalization and income from their employees; while as producers their interest may lie in the opposite direction so as to improve their labor efficiency by profit sharing. The greater the rent in proportion to the total profit, the more will the former policy outweigh the latter in the practice of an enterprise. As rent is an unearned profit authorized by law, the great land-owners are much less vulnerable to militant unionism than are the illegal monopolists of Class VI. In the United States before the Great War, it was only where the rich landed enterprises employed a large proportion of the voting population and this was well organized —as in the Rocky Mountain mining districts—that they were obligated to pay out any considerable share of their rental profit in the form of higher wages.

*Class V.—Legal monopoly with monopolistic prices* includes three sub-classes of property: (a) Special lands of limited areas so that the world's price for their product can be fixed by any owner who may have acquired control of the bulk of them, for example, the Diamond Trust of South Africa, the Borax Trust of England, and the Henequen Trust of Yucatan. In countries with a protective tariff it suffices for one owner to acquire control of the domestic lands in order to fix prices independent of national competition, for example, the Aluminum Company of America with its ownership of bauxite deposits. (b) Public utilities such as railways and telegraph, telephone, oil, gas, and electric transmission lines. Here, owing to the franchises required and the cost of duplication, an enterprise can largely fix its own prices for service at whatever "the traffic will bear." This condition prevails except at "competitive points," where two or more enterprises may offer the public the same service, and in countries where the rates charged by public utilities are strictly controlled by charter or by government commission. (c) Patents for invention, as granted by the United States, confer a monopoly for the manufacture and sale of the article upon the grantee, and consequently free the latter from competition in fixing his selling price.

From the above, it is evident that the unearned profits of Sub-classes (a) and (b) proceed partly from the legal advantages conferred by the ownership of superior land (mines or rights of way) and partly from the power of charging prices for the output independent of the natural regulator called competition. In Sub-classes (c) the unearned profit proceeds from the latter power, for any reasonable royalty paid to the inventor should be regarded as merely a fitting reward for his services to society. The relation of labor to the enterprises of Sub-class (a) duplicates its relation to those of Class IV in so far as the unearned profit proceeds from superior land; where such profit proceeds from the enterprise's power to fix prices, any share of this obtained by labor will result in a higher price for the output to the consumer whenever such increase will mean more of an annual income for the owner. The first statement likewise holds true in the case of enterprises of Sub-class (c) owning patent rights; so, in both cases, the gain of the monopolist's workmen may mean a loss for the consumers. The public utilities of Sub-class (b) resemble Sub-class (a) in their relation to labor, and have a relation to the public similar in kind but widely different in degree. On American railways a general increase of wages during the Great War has meant the ruin of thousands of investors in their securities, while should the investors be compensated by a corresponding increase of rates for the service, the public must meet the expense in the form of dearer commodities.

*Class VI.*—While artificial or illegal monopolies for the purpose of suppressing competition may be formed from enterprises of Class II or III, as already described; the largest and most profitable ones, like the Standard Oil, the Beef Trust, and the United Shoe Machinery Co., have owed their power chiefly to the ownership or control of monopolies of Class V, by which they gain advantages not enjoyed by their rivals. A recent demonstration of this fact is afforded by the surprising number of independent oil refineries that have sprung up in the United States since the pipe-lines of the Standard Oil group were declared to be common carriers a few years ago.

In normal times, artificial monopolies of temporary nature have been features of the commodity exchanges. These "corners" of the market have also depended for success upon secret alliances with the legal monopolies of Class V, through which they enjoyed special favors, usually in transportation. In wheat, the *coups* are commonly made by speculators controlling a string of elevators closely identified with some railway system.

Between 1914 and 1921, the dislocation of production, caused by the Great War, rendered it easy to corner many commodities that formerly were too plentiful to permit of such an operation. This game became so simple and profitable that few merchants could resist the temptation to take a hand and there was coined a new word, "profiteering" to describe it. The hue and cry due to this merciless mulcting of the consumers drove the politicians nearly frantic, and the profiteers were combatted by remedies as wide apart as jail sentences and overall clubs.

In so far as the unearned profits of enterprises of Class VI are concerned, they accrue regardless of efficiency in labor and there is therefore nothing to be gained directly by the introduction of profit-sharing to balance its cost to the owners, but operating as the latter do in defiance of both the common law against combinations and the Federal Statute against restraint of trade (Sherman Anti-Trust law) many of them realize their political weakness and have been wise enough to pay their workmen the best of going wages so as to avoid strikes and their frequent accompaniment of dangerous investigations of business secrets by meddling politicians.

The above remarks have proved I believe, that labor unions may often increase their members' wages without augmenting either their production or the cost of living. A successful attack on unearned profits by militant unionism will never increase living costs where the profiteers belong to Class IV and seldom do so when they belong to Classes V or VI. Nevertheless, it is evident that the increase of wages gained by labor-unions, through the plunder of monopoly profits, does nothing to abolish the iniquity of private monopoly but merely slightly increases the number of its beneficiaries, Indeed, it tends to aggravate the evil in two ways: first, by enlisting the political support of unionists in defending and extending the plunder of consumers by monopolists as is glaringly visible in the case of tariff favored manufacturers and building contractors; and second, by encouraging the turning of union organizations into selfish labor-monopolies as unscrupulous and predatory as their monopolistic employers.

The most successful modern leaders of the unions are those who best understand how to create and maintain a labor-monopoly and discipline it into a militant organization for use against employers.

For this purpose there are four favored schemes which are: 1, a limitation of the number of apprentices so that only a few favored youths can learn the trade; 2, a high fee for membership so that rural or foreign artisans, already instructed, will find difficulty in entering the city union; and 3, a contract with all employers to establish the "closed shop" so that non-unionists cannot obtain employment; and 4, the prescription of non-unionists as "scabs" as much beyond the pale of decent society as ever were heretics during the sway of the Spanish Inquisition. Like their capitalist models, the labor-monopolists also limit the output. Instead of speeding up production because of high wages, they often follow the policy of slowing down. Thus certain bricklayers who formerly laid 800 bricks a day when getting four dollars are now allowed by their union rules to lay only 500 in return for a double wage. They work on the purely selfish principle of "a maximum of pay for a minimum of work" and the inevitable result of this is to make commodities scarce and dear. All this tends to impoverish the bulk of the working classes who are outside of the unions, as well as the millions of the middle class of small farmers and merchants, who must gain their living in a fiercely competitive market.

Not satisfied with their gains as industrial monopolists the American labor-leaders have had much success, since 1914, in fishing in the troubled sea of national war politics. It is said that during this period Samuel Gompers was the only outsider, besides Sec'y Tumulty, who was permitted to visit President Wilson without being announced, and this privilege proved very costly for the federal taxpayer. In the war shipyards the union exactions soon raised the cost of shipbuilding to several times the normal rate. The union loot of the railways began with the passage of the Adamson Bill in December, 1916, which, under the guise of an 8-hour law, raised the wages of train hands by 25%. In 1917, the railways were first federalized and then mac-a doodled, which meant a year later that the annual average wage had been advanced beyond $1400 as compared with less than $700 before the war, while a host of useless employees had been given jobs. In spite of the fact that the macadoodling had been supplemented by a large increase in freight and passengers rates, it caused an annual deficit of more than $500,000,000 which had to be met by the tax payers. Nevertheless, Gompers was not satisfied and in the spring of 1920 demanded a new railway scale of which the minimum rate for the cheapest section hand would be $2,500 yearly; but fortunately for the nation, the election results of that autumn scotched this new raid on the treasury.

Having demonstrated, I hope, the damage to free institutions presented by labor unions as now conducted, it remains to inquire: Is there a practical remedy? In reply I can suggest two: one economic and the other political. The economic remedy, the *Single Tax*, (4) will extinguish labor monopoly, not by direct action but by rendering it absurd. It will destroy capitalistic monopolies by cutting off their foundation, the monopoly of natural resources, so that the labor unionists who strive for unearned wages can then only get them by direct plunder of their fellow citizens, as consumers or taxpayers. Moreover, the present political predacity of union leaders cannot long prosper after the inauguration of the second remedy of *Proportional Representation*. (5). Under the present system of geographical representation, each congressman is elected from a single district and he must therefore placate all the organized minorities of his electorate or see his more complaisant opponent get their support and be elected. Under proportional representation, on the contrary, no minority could elect more congressmen than the voters it controlled in proportion to the total. With the new system, therefore, a minority organization like the American Federation of Labor could not longer intimidate a majority of the Congress, as it did in forçing the passage of the Adamson Bill, for its membership numbers 8% of the total vote and could therefore control only a like part of the nation's representatives. Such a Congress in the future, also might be safely trusted to manage public utilities like railways, efficiently and economically, a thing that could never be expected of a Congress chosen by the present system.

REFERENCES

1.—"Industrial Democracy at Wappinger Falls," *Literary Digest*, March 6, 1920, p. 115.

2.—"Tell the Truth," *The Outlook*, January 28, 1920, p. 148.

3.—"Political Economy," by J. E. Symes, on p. 5, defines Land as: "Such material gifts of nature as can be monopolized."

4.—"Principles of Taxation," by C. B. Fillebrown.

5.—"Proportional Representation," by J. H. Humphreys

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# Only Supposedly Deserved

Very little knowledge of conditions is needed to assure Clevelanders that wages are not all that has gone up in connection with the building and owning of homes. Desirable lots cost much more than they did, bringing very good profits to those who bought them several years ago, profits supposedly deserved byreason of shrewdness, taxpaying, selling ability and so on. Lumber, brick, cement, heating apparatus, roofing and other materials come somewhat high, we believe, with deliveries not always satisfactory, but no doubt those concerned can give plausible explanations of all that. Rates of interest on loans to home buyers, requirements as to paying off some of the principal twice a year, even bonuses demanded as fees for renewing mortgages, represent conditions unlike the old and, while doubtless legal, might well be subjects of investigation. Taxes also are higher than formerly and no small part of the home buyer's tribulations.

Mere inquiries or surveys are not perceptibly helpful, at best. If we are to have one in this field, it ought at very least to be trustworthy in sponsorship and unlimited in scope. Publicity apparently intended to put the whole burden on building trades workers is of no use, if only because the public is too well informed to be so deceived.

—*Cleveland News*.

TO appropriate ground rent to public uses by means of taxation (i. e. by the machinery which we now use to levy and collect taxes— Editor) would permit the abolition of all the taxation which now presses so heavily upon labor and capital.—Social Problems, by Henry George, page 209. Doubleday Page, edition.